

Internal Revenue Service
P.O. Box 2508
Cincinnati, OH 45201

Department of the Treasury

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Employer Identification Number:

Date: January 16, 2020

Contact person - ID number:

Contact telephone number:

LEGEND

UIL: 4945.04-04

W = Name
X = Geographic area
y dollars = Amount
z dollars = Amount

Dear _____ :

You asked for advance approval of your educational loan procedures under Internal Revenue Code (IRC) Section 4945(g)(3). This approval is required because you are a private foundation that is exempt from federal income tax.

Our determination

We approved your procedures for awarding educational loans. Based on the information you submitted, and assuming you will conduct your program as proposed, we determined that your procedures for awarding educational loans meet the requirements of IRC Section 4945(g)(3). As a result, expenditures you make under these procedures won't be taxable.

Description of your request

Your letter indicates that you will operate an educational loan program called X.

Your purpose is to provide educational loans.

The purpose of X is to provide student loans to the needy and deserving students residing in Y. Other things being equal, self-supporting applicants are preferred.

X is publicized in the local newspaper.

Students, male or female, with or without a high school diploma residing in Y that have not attained age 23 before August 31 of the school year are eligible for X.

The number of loans made annually is determined based on the number of applicants and the amount required to be distributed under IRC Section 4942. No additional conditions are required to obtain, maintain, or qualify for renewal of a loan.

Loan funds are given directly to the school that each recipient will be attending before the beginning of their fall semester. If a student does not attend the school the loan is paid to, the school will refund the money to you.

Your loan selection committee currently consists of a _____, _____, and _____. Committee members must be from Y. Replacement members are identified and selected by current loan selection committee members.

The loan funds will be safeguarded and administered in a business-like manner. The loan recipient should regard the loan as an obligation that must be met when due. The loan funds are revolving and their benefits are bestowed upon needy students in proportion to the promptness with which that loans are repaid. It is only by adhering to business-like methods and procedures that the purposes of the donations may be most fully and effectively realized.

The maximum loan per student is y dollars per year and z dollars in total. A new application is required each year.

The purpose of the loan is to secure an education in trade, technical, and professional schools and colleges in the United States. A four-year course is not required.

An applicant does not have to be a high school graduate, but such graduation is preferred.

Each applicant who receives funds from you will be required to execute a note bearing interest of % per annum, payable annually. Repayment of the loan in the event of default by the borrower (applicant) must be guaranteed by a responsible individual who certifies his/her agreement to repay the loan if necessary.

Loan recipients shall pay interest on the unpaid principal balance at the rate of % per annum each year beginning November 1st of the first year of the loan and continuing thereafter on November 1st of each year until the loan(s) are due for an amortized repayment of principal. Amortized loans will be payable at the rate of % per annum in monthly installments of \$ (principal and interest) commencing upon the earlier of the following: (1) six months after applicant has completed or discontinues the course of study for which the loan was made; (2) five years after the date of applicant's high school graduation or receipt of General Education Development (GED).

Applications must be submitted by June 15th preceding the school year for which that loan is sought. One reference is also required by June 15th from an unrelated acquaintance from the applicant's home community. Applications received after June 15th will not be considered.

When a student has been approved for a loan by the advisory committee, your Trust Officer continues with the loan arrangements and payments to the students.

If a loan is made to an applicant, the applicant agrees to keep your Trustee informed as to the applicant's progress in school, and, to notify the Trustee of any address change.

You will maintain case histories showing recipients of your loans, including names, addresses, purpose of awards, amount of each loan, manner of selection, and relationship (if any) to officers, trustees or donors to you.

You will arrange to receive and review loan reports annually and upon completion of the purpose for which the loan was awarded, investigate diversions of funds from their intended purposes, and take all reasonable and appropriate steps to recover diverted funds, ensure other loan funds held by a grantee are used for their intended purposes, and withhold further payments to grantees until you obtain grantees' assurances that future diversions will not occur and that grantees will take extraordinary precautions to prevent future diversions from occurring.

You will maintain all records relating to individual loans, including information obtained to evaluate grantees, identify whether a grantee is a disqualified person, establish the amount and purpose of each grant, and establish that you undertook supervision and investigation of the loans.

Basis for our determination

The law imposes certain excise taxes on the taxable expenditures of private foundations (IRC Section 4945). A taxable expenditure is any amount a private foundation pays as a grant to an individual for travel, study, or other similar purposes. However, a grant that meets all of the following requirements of Section 4945(g) is not a taxable expenditure.

- The foundation awards the grant on an objective and nondiscriminatory basis.
- The IRS approves in advance the procedure for awarding the grant.
- The grant is:
 - A scholarship or fellowship subject to IRC Section 117(a) and is to be used for study at an educational organization described in IRC Section 170(b)(1)(A)(ii); or
 - A prize or award subject to the provisions of IRC Section 74(b), if the recipient of the prize or award is selected from the general public; or
 - To achieve a specific objective; produce a report or similar product; or improve or enhance a literary, artistic, musical, scientific, teaching, or other similar skill or talent of the recipient.

To receive approval of its educational grant procedures, Treasury Regulations Section 53.4945-4(c)(1) requires that a private foundation show:

- The grant procedure includes an objective and nondiscriminatory selection process.
- The grant procedure results in the recipients performing the activities the grants were intended to finance.
- The foundation plans to obtain reports to determine whether the recipients have performed the activities that the grants were intended to finance.

Long-term, low-interest loans that private foundations make for educational purposes can be considered grants under IRC Section 4945(g)(3) and Revenue Ruling 77-434, 1977 2 C.B. 420.

Other conditions that apply to this determination

- This determination covers only the loan program described above. This approval will apply to succeeding loan programs only if their standards and procedures don't differ significantly from those described in your original request. The effective date of our approval is April 29, 2019, which is the date your request was submitted.
- This determination applies only to you. It may not be cited as precedent.
- You cannot rely on the conclusions in this letter if the facts you provided have changed substantially. You must report any significant changes in your program to the Cincinnati Office of Exempt Organizations at:

Internal Revenue Service
Exempt Organizations Determinations
P.O. Box 2508
Cincinnati, OH 45201

- You cannot make loans to your creators, officers, directors, trustees, foundation managers, or members of selection committees or their relatives.
- All funds distributed to individuals must be made on a charitable basis and must further the purposes of your organization. You cannot award grants for a purpose that is inconsistent with IRC Section 170(c)(2)(B).
- You should keep adequate records and case histories so that you can substantiate your loan distributions with the IRS if necessary.

Please keep a copy of this letter in your records.

If you have any questions, please contact the person listed at the top of this letter.

Sincerely,

Steve Martin
Director, Exempt Organizations
Rulings and Agreements