CHURCH INVESTING

A Guide to What You Should Know

Investing as a Church

If your church has money you do not need to use right away, such as money from the sale of property or a reserve that you do not anticipate using immediately, then you can invest those dollars. By establishing an investment trust with Northwest Baptist Foundation, you can invest in the way that best suits your needs. Through a trust, a church can invest in the Foundation's loan pools, the fixed income pool, the equity pool, or a combination of these pools. Each type of investment is described in this brochure.

Why Invest in Loans?

An investment in loans brings a financial return to the investor, and that return typically is predictable and stable. This investment is about much more than a financial return, however. The investing church earns income while using its money to help other local expressions of the Body of Christ. The borrowing churches and ministries, in turn, use the loans to expand their work, and their payments go back to other churches (the investors) rather than to a bank. Additionally, if a borrower faces a challenge during the life of its loan, such as a change in its leadership or financial circumstances, the Foundation comes alongside the borrower to try to help. Because we emphasize Kingdom commitment and Biblical stewardship, our investors empower the Foundation to encourage and assist ministries in ways that other lenders cannot.

What are Loans through the Foundation?

The Foundation originates loans to evangelical churches and other ministries through its loan program. The loans are secured by a first position lien on collateral (real estate) that the Foundation's Board deems acceptable. For a standard loan, the value of that collateral must be at least 25% higher than the total loan amount. Loan applications are approved by Foundation staff, the Church Loan Committee of the Foundation's Board of Directors, or the full Board, depending on the amount borrowed. Staff review each borrower's annual financial reports and update the Board to consistently monitor each loan.

Loan Structure

Loans terms are 180 months or less. Interest rates are based on the Federal Reserve Statistical Release H.15 as published on the 15th day of the prior month (base rate) plus a margin determined by a health credit score. Borrowers may select from certain Treasury Constant Maturities rates as the base rate. Interest rates are reviewed and may be adjusted on the applicable anniversary of the loan. Except for construction and bridge loans, all loans require monthly payments of principal and interest. Borrowers can make additional principal payments without penalty.

Loan Pools

The Foundation manages two pools (groups) of loans. One pool is made up of standard loans to churches. The other, the Ministry Loan Pool, is a mix of loans to ministries like Christian schools plus church loans with some non-standard conditions. The Ministry Loan Pool includes loans that carry more risk but also may bring higher returns. Churches can choose to invest in one or both of these pools. Money invested in a loan pool is not held in cash but is invested in multiple borrowers. For that reason, withdrawals require advance notice (as defined by the trust agreement), and there may be unusual economic conditions that make it temporarily impossible to liquidate (or "cash out") dollars invested in a loan pool.

Important Investment Considerations

Church and ministry loans are suited for investors who plan to remain in a loan pool over time. If your church invests in a loan pool but later anticipates needing cash within the next six months, Foundation staff can assist you with creating a plan to shift your investments to make cash more readily available. We want to maximize your investment returns while tailoring your investment strategy to meet your needs.

Investment trust statements are sent quarterly. Online account access is not available at this time, but Foundation staff are glad to speak with you by phone.

Risks

Loss of money is a risk of investing. An investment is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any governmental agency. The risks associated with investing in loans can increase during periods of economic instability. Certain risks associated with investing in loans are:

Credit risk. There is a risk that a borrower will fail to make payments when due.

Concentration risk. Investment in loans without diversification makes you more susceptible to loss if something happens that negatively affects loans more than the market as a whole.

Geographic risk. A natural or man-made disaster could occur and adversely affect the economy of the area or the operations of a church or ministry in which you are invested.

Interest rate risk. In a rising interest rate environment, the opportunity cost of holding a loan may increase. There may be times when the rate of return for another type of investment is higher than the return on loans.

Liquidity risk. Loans are illiquid. While the Foundation typically can liquidate shares in a loan pool when an investor wants to "cash out," in some circumstances we cannot. During unusual conditions or events, the Foundation's Board may place temporary limits on disbursements from trusts invested in a loan pool.

Management risk. The portfolio of loans is actively managed and depends heavily on the judgment of Northwest Baptist Foundation staff and Board members to assess each borrower's ability to repay.

Mortgage Related risk. At times (especially during periods of falling interest rates) borrowers may prepay loans. This can result in invested dollars being reinvested into other loans with lower rates of return (i.e., lower interest rates) or remaining in cash if other loans are not available for immediate reinvestment.

Fixed Income Pool

Like the loan pools, the fixed income pool is designed for churches seeking income more than growth. Principal (the amount originally invested) may fluctuate with changing market conditions but generally with much less volatility than equities. This pool invests in a mix of bonds, notes, and mutual funds. Investments in this pool are more liquid than those in the church loan pools, meaning that a church can "cash out" its investments more quickly.

Equity Pool

This pool is designed for churches seeking investment growth rather than current income. This pool invests primarily in mutual funds but may hold some real estate. As with the fixed income pool, investments are more liquid.

How Northwest Baptist Foundation is Compensated

The Foundation charges a Trust management fee based on the following schedule:

- The fee is based upon the market value of the assets in the trust.
- The current rate is 1.25% for the first $500,000 of assets; 1.00% for the next $250,000 of assets; .85% for the next $250,000 of assets; and .75% for all remaining assets managed in each trust.
- MINIMUM FEE: Each trust is subject to an annual minimum fee.
- Trust management fees are computed based upon the appropriate annual rate(s) but are assessed on a monthly basis at the beginning of each month. The fee assessed for each month is based upon the market value of assets at the start of the month and pro-rated for the number of days in that month. No fee is assessed for a month in which the trust had no assets as of the first day of the month. Trusts terminating during any month will not receive any

adjustment of a management fee for the portion of the month following the termination date.

A Snapshot of an Investment Trust at Work

Baptist Church sells a piece of land for $500,000. The church plans to construct a new building in a few years but is not ready to start the project yet. Rather than leaving the money idle, the church wants to produce immediate income to use for ministry while preserving the value of the original investment. Baptist Church creates an investment trust with the Foundation.

For three years, Baptist Church invests in loan pools. The church earns steady, predictable income to use for its operations and outreach, and the members appreciate that Baptist Church is supporting other ministries. When the church's current building needs some repairs, the church talks with Foundation staff and liquidates a small portion of its trust to free up cash for the work. The relationship between Baptist Church and the Foundation also opens the door for Foundation staff to assist the church in other ways, such as answering questions about administrative and financial issues and helping the church update its bylaws.

As the time nears for its building project, Baptist Church shifts its investments. By moving funds to the fixed income and equity pools, the church creates more liquidity, meaning that it can more easily withdraw large amounts of cash as needed.