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 choose to invest in the way that best suits your needs. Setting up an investment trust requires a minimum of approximately $25,000, and you will complete a Selection Certificate to direct the investments held by your trust. Through a trust, a church can invest in the Foundation's church 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 Church Loans?

An investment in church loans brings a financial return to the investor, and that return typically is predictable and stable. Because loans help churches in their Kingdom work, however, this investment is about much more than a financial return. When a church invests in a church loan pool, the investing church becomes part of God's work in and through other local expressions of the Body of Christ. Earning a return is one reason to invest, but each investor also gets to join with other believers to glorify God and proclaim Christ in every community served by churches receiving loans. Additionally, if a church faces a challenge during the life of its loan, such as a change in its leadership or financial circumstances, the Foundation seeks to come alongside that church. Because we emphasize Kingdom commitment and Biblical stewardship, investing in loans empowers the Foundation to encourage and assist churches in ways that a bank or other lender cannot provide.

What are Church Loans?

The Foundation originates loans to Northwest Baptist Convention churches and other evangelical churches through its church loan program. The loans are secured by a first position lien on collateral (real estate) that the Foundation's Board deems acceptable, and the value of that collateral must be at least 25% higher than the total loan amount.

Loan applications are approved by Northwest Baptist 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 borrowing church's annual financial reports and provide updates to the Board to consistently monitor each loan.

Church Loan Structure

Church loans have terms of 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 church health credit score. Churches 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. Current interest rates can be found at our website, www.nwbaptistfdn.org. Except for construction and bridge loans, all loans require monthly payments of principal and interest. Churches can make additional principal payments without penalty.

Church Loan Pools

The Foundation manages two pools (groups) of church loans. One pool is made up of multiple loans to churches affiliated with the Northwest Baptist Convention, and one pool is for loans to other evangelical churches that are not part of the Convention. Churches can choose to invest in one or both of these pools. Money invested in the church loan pools is not held in cash but is invested in multiple churches. 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 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 about the next six months, Foundation staff can assist you with creating a plan to move to more liquid investment options, making cash more readily available. The Foundation wants to help your church maximize your investment income while tailoring your investment strategy to your needs.

Investment trust statements are sent quarterly. Online account access is not available, 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 church loans can increase during periods of economic instability. Certain risks associated with investing in church loans are:

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

Concentration risk. Investment in church loans without diversification makes you more susceptible to loss if something happens that negatively affects church 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 in which you have invested.

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

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

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

Mortgage Related risk. From time to time (especially during periods of falling interest rates) borrowers may prepay loans. This can result in invested dollars being reinvested in loans with a lower rate of return (i.e. a lower interest rate) or remaining in cash if no loans are available for immediate reinvestment.

Fixed Income Pool

Like the church loan pools, the fixed income pool is designed for churches seeking income rather than growth. Principal (the amount originally invested) may fluctuate with changing market conditions but generally with much less volatility than with equities. This pool invests in a mixture 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 here are more liquid.

How the 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 held by the trust.
- The 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 single trust.

- MINIMUM FEE: Each trust is subject to a minimum fee of $500 per year.
- 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 in a savings account, the church wants to invest in ways that will produce some 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 the church loan pools. The church earns steady, predictable income and uses some to fund outreach events. The members appreciate knowing that Baptist Church is supporting other churches. 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 some payroll questions and helping the church update its bylaws.

As the time nears for starting 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 for its building project.