

A guide to what you should know before you buy...

CHURCH LOANS



August 2018

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) the Board deems acceptable. The loan amount does not exceed 75% of the collateral value. Loan applications are reviewed by Northwest Baptist Foundation staff, the Church Loan Committee, and/or Board of Directors, depending on the amount borrowed.

Church Loan Structure

Church loans have terms of 180 months or less. The interest rates are reviewed and may be adjusted on each third anniversary of the loan. The interest rate is based on the Federal Reserve Statistical Release H.15 3-year Treasury Constant Maturities Interest Rate as published on the 15th day of the month plus a margin based on the church credit rating. Current loan rates may be found at our website, www.nwbaptistfdn.org. Each loan requires fixed monthly payments of principal and interest. Except for construction and "bridge" loans there is no prepayment penalty.

Purchase and Sale of Church Loans

Church loans are a long-term investment opportunity. In order to invest you must open a trust account with the Foundation. Trust accounts invest in church loans by purchasing a participation interest. You may purchase, redeem or exchange loan participations on any business day by written request; however, church loan availability will determine whether or not your request to purchase or sell can be completed. Large withdrawals may require 30 days advance notice. Cash in your trust may be allowed to accumulate up to 10% of total assets at which time the cash will be reinvested if loans are available. *Withdrawals are limited to one per month.*



Are Church Loans Right for You?

Church loans are acceptable for investors who:

- Want to invest in God's Kingdom
- Want predictable & consistent returns
- Can accept the risks associated with investing in loans secured by real estate

Important Investment Considerations

Investing in church loans is designed for investors seeking monthly income with minimal opportunity for gain or loss of principal. Minimum investment to establish a trust with the Foundation is \$50,000.00. Statements are sent quarterly. Online access to your account is not available at the present time.

Tax Treatment

The interest you receive from church loans is taxable as ordinary income. Distributions from other investments may be ordinary income, capital gains or some combination of both. A 1041(grantor letter) or 1099-Int will be sent to report taxable events.

Risks

Loss of money is a risk of investing. An investment in church loans is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other 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. Risk that the borrower will fail to make payments when due or default completely.

Concentration risk. Investment in church loans may be susceptible to an increased risk of loss due to adverse events which affect church loans more than the market as a whole.

Geographic risk. A natural or man-made disaster could occur in the Northwest geographic region which could adversely affect the economy of the area or business operations of the churches.

Interest rate risk. In a rising interest rate environment, the opportunity cost of holding a church loan may increase.

Management risk. The portfolio of church loans is actively managed and depends heavily on the Northwest Baptist Foundation staff and Church Loan Committee's judgement to assess the church's ability to repay.

Mortgage Related risk. From time to time and especially during periods of falling interest rates, borrowers may prepay loans, which may result in the loan proceeds being reinvested in loans with a lower interest rate or no loans available for reinvestment.

How the Northwest Baptist Foundation is Compensated

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

- The fee will be based upon the market value of the assets held by the trust.
- The rate will be 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; .75% for all remaining assets managed in each single trust.
- MINIMUM FEE: Each trust is subject to a minimum fee of \$125 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 will be assessed for any month if the trust has 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.