INVESTING IN LOANS

A Guide to What You Should Know

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. These loans provide a return for investors while helping local expressions of the Body of Christ expand their work. Additionally, if a borrower faces a challenge, such as a change in its leadership or financial circumstances, the Foundation comes alongside to try to help. Investors partner with the Foundation to encourage the borrowing ministries in ways that a bank or other lender cannot.

Loan Structure

Loan 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.

Purchase and Sale of Loans

Loans are a long-term investment opportunity made through a trust account you establish with the Foundation. Your trust invests in a loan by buying a participation interest. You may purchase, exchange, or sell loan participations on a business day by written request, but loan availability varies and will determine whether and when you request can be completed. Withdrawals of cash require advance notice as outlined in the trust agreement and are limited to one per month. As loans are repaid, your trust may accumulate up to 10% of its total assets in cash before the cash is reinvested in loans.

Important Investment Considerations

The minimum investment to establish a trust with the Foundation is $100,000. Loans are suited for investors seeking steady, regular income with minimal chance for loss of principal. Statements are sent quarterly. Online account access is not available at this time, but Foundation staff are glad to speak with you by phone.

Tax Treatment

Interest income you receive from loans is taxable as ordinary income. Distributions from other investments in your trust may be ordinary income, capital gains, or a combination. You will receive a 1041 (grantor letter) or 1099-Int to report taxable events.

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.

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.

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 single 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

John receives $125,000 from an inheritance. He does not want to make a large purchase with the money but could use some additional income toward his expenses. John creates an investment trust with the Foundation.

For three years, John invests in loans. He earns steady, predictable income with the benefit of knowing that he is helping churches. When his own church's building needs to be remodeled, the church applies for an obtains a loan through the Foundation. John is able to participate in his church's loan through his trust. John continues to receive income from his trust, and his investment supports his church by helping to fund its loan.

Northwest Baptist Foundation
PO Box 822712
Vancouver, WA 98682
360.882.2250
www.nwbaptistfdn.org