

ITEM A.106
FOR ACTION

<i>FOR PRESBYTERIAN MISSION AGENCY EXECUTIVE DIRECTOR'S OFFICE USE ONLY</i>			
X	A. Finance		E. Corporate Property, Legal, Finance
	B. Justice		F. PC(USA), A Corporation
	C. Leadership		G. Audit
	D. Worshiping Communities		H. Executive Committee
			J. Board Nominating & Governance Subcommittee
			P. Plenary

Subject: Presbyterian Church (USA) Investment and Loan Program, Inc. Report to the 221st General Assembly (2014)

Recommendation: That the Presbyterian Mission Agency Board receive and forward to the 221st General Assembly (2014) the report of the Presbyterian Church (USA) Investment and Loan Program, Inc.

Vision and Mission Statement

In gratitude for God's abundance,
 The Presbyterian Church (U.S.A.) Investment and Loan Program, Inc ("PILP")
 promotes the growth of the Presbyterian Church (U.S.A.)
 Bringing together the visions of church developers
 and
 the resources of Presbyterian investors and financial partners.

PILP offers investments providing a competitive financial return plus the opportunity to participate in the expansion of the Church through Presbyterian congregations, governing bodies and mission agencies. PILP offers loans to Presbyterian congregations and middle governing bodies to purchase, renovate and expand worship and mission space and to promote the growth of the Church. Guided by the best practices of the financial industry, PILP is committed to faithful stewardship of the resources entrusted to us for the support of the mission of the Presbyterian Church (U.S.A.).

PILP began 2012 with a disbursed loan portfolio of \$79.8 million and an additional \$12.1 million in commitments pending close and construction loans not yet disbursed. At the end of 2013 PILP had a disbursed loan portfolio of \$75.9 million and an additional \$8.9 million in commitments pending close and construction loans not yet disbursed. That represents a decrease of 7.1% over the two-year period. We experienced a decrease in demand, especially for larger loans. We had several loans refinanced away from PILP (\$9.4 million) including several loans that refinanced prior to congregations leaving the denomination. We lost several loans to banks offering a longer term lock-in of low interest rates. In 2012 PILP disbursed \$13.5 million in new loans from investor funds; in 2013 PILP disbursed \$9.3 million. We began 2012 with \$94.9 million in investments from individual Presbyterians, Presbyterian congregations, mid-councils and General Assembly agencies. We ended 2013 with \$95.5 million in investments. With surplus cash to lend, we attempted to maintain our investments at \$95 million and have not needed to offer promotional rates.

In 2013 PILP experienced our thirteenth consecutive year with an annual surplus. It is essential that PILP generate surpluses to assure investors of the strength of our program, to meet regulatory requirement to be profitable three out of the most recent past five years and to provide capital for future expansion of the program. The combined surpluses from 2012 and 2013 have helped us toward our goal of building our capital adequacy beyond the 5% required by regulators. At the end of 2013, PILP had \$8.2 million in unrestricted net assets.

PILP's investment products are securities regulated under The Uniform Securities Act which is administered state-by-state. The North American Securities Administrators Association establishes program guidelines for denominational investment and loan programs. At the end of 2013 PILP met or exceeded all of the guidelines. PILP is expected to maintain a capital adequacy ratio of net worth to total assets of 5%. At the end of 2013 our capital adequacy ratio was 7.9%. PILP is expected to maintain a liquidity ratio of liquid assets to Term Notes and Denominational Account Receipts ("DARs") of at least 8%. At the end of 2013 our liquidity ratio was 32.1%. PILP is required to limit senior secured debt to no more than 10% of total assets. At the end of 2013 PILP had no senior secured debt.

Some commercial lenders may offer low rates or waive certain fees, but PILP is the only lender we know, who gives money back to borrowing congregations. Through the "Get the Point" program, borrowing congregations earn rebates based on supporting investments. For 2013 PILP returned \$326,608 to borrowing congregations, bringing the total returned to congregations since the inception of the rebate program to \$2.8 million.

PILP provides consulting services to congregations and presbyteries to help them develop the appropriate size and timing for construction plans. We explore fundraising, financing opportunities and requirements for capital projects. Each congregation benefits from the PILP staff's experience in working with hundreds of congregations.

Demand for new construction loans has decreased in 2012 and 2013. In 2013 we began the process of transferring the ministry of the Church Development Corporation, an Investment and Loan program of the Synod of Mid-America, to PILP. We are continuing to refinance the loan portfolio of the Synod of the Northeast as their loans mature. These transfers are being implemented at the request of the synods. PILP has maintained careful underwriting standards, believing that relaxed standards do not benefit the lender or the borrower. We maintain a review process for all lending relationships and work intentionally with middle governing bodies, who guarantee our loans. This process has resulted in a loan portfolio that is the envy of most lending institutions. At the end of 2013, PILP had five 30-day or longer delinquencies. These delinquencies have been resolved.

The Presbyterian Investment and Loan Program administers the Church Loan Program, ("CLP") for the Presbyterian Mission Agency Board. CLP is the result of many gifts, campaigns and bequests to the Presbyterian Church (USA) since 1843. By December 31, 2013 the total endowment for church loans had grown to over \$215 million. The Investment and Loan Program has worked with the Presbyterian Mission Agency Board and the Presbyterian Church (U.S.A.) Foundation to develop a capital grant program to supplement the existing loan program. We have worked with the Foundation and the Presbyterian Mission Agency Board to secure funding from the Church Loan Program for the 1001 New Worshipping Communities Initiative and the Mission Program Grants Program for the foreseeable future.

CLP began 2012 with a disbursed loan portfolio of \$102.2 million and an additional \$6.4 million in commitments pending close and construction loans not yet disbursed. At the end of 2013 CLP had a disbursed loan portfolio of \$89.3 million and an additional \$6.6 million in commitments, pending closing and construction loans, not yet disbursed. This represents a decrease of 11.7% over the two-year period. In 2012 PILP disbursed \$7.0 million in new loans from CLP endowment funds and in 2013 disbursed \$11.3 million. The maximum loan from CLP is currently \$450,000. The maximum project in which CLP participates is \$2.5 million. Larger loans are funded by investor funds or participations with synod loan programs or banking partners. Many loan applications received by PILP qualify for funds from both PILP and CLP. These loans are offered to churches as one loan with a blended rate.

Together PILP and CLP represent the Coordinated Loan Program of the Presbyterian Church (U.S.A.) The Coordinated Loan Program is dedicated to providing low cost loans to Presbyterian Church (U.S.A.) congregations and mission agencies. At the beginning of 2012 the base interest rate for loans from investor funds for existing congregations was 4.95% and 4.0% from endowment funds. By the end of 2013 the base interest rate for loans from investor funds rate for existing congregations was 4.45% and 3.5% from endowment funds. We have introduced special interest rates for congregations refinancing loans from commercial lenders. PILP has remained competitive in an interest rate environment that has experienced large decreases in the cost of funds for all lending institutions.

The Program is in sound financial shape. The balance sheet is strong with total assets of over \$104 million. We have received an unqualified audit every year. We have solid relationships with most middle governing bodies and with all of the other General Assembly agencies. We continue to serve a growing number of borrowing congregations. We welcome new individuals, congregations and middle governing bodies into our investment family almost every week. Our hope is that PILP will be the premier provider of financing for capital projects within the PC(USA). We want Presbyterians to think about PILP when it comes to financing a capital project. We will not compromise our underwriting standards to grow the business, but will build the kind of relationships that help congregations determine what they can afford and what they cannot. We are building an investment base of individuals that has a vision of investing for financial and mission return.

We remain committed to promoting awareness of the Program throughout the Church. We will maintain strong and healthy ties with General Assembly agencies and mid-councils. We will continue to build a competent and diverse staff to serve the church. PILP is addressing emerging issues within the Church and the culture. The Program will focus energy on the following areas of activity in 2014:

1. We anticipate that interest rates will increase gradually in 2014. We anticipate that our cost of funds will increase more rapidly than our income from interest on loans. We will manage our interest rates to maintain a margin between our cost of funds and the interest earned on loans of at least 3%.
2. We anticipate that more congregations with existing PILP loans will experience financial pressures in meeting their debt obligations. We anticipate requests for modification of loan terms. We will respond to each request individually, while maintaining our policies

and practices to safeguard the investments that have been placed with us. We will work with congregations and presbyteries to evaluate every option available to maintain debt service payments. We will continue with the regularly scheduled reviews of each loan in our portfolio in an attempt to identify concerns before they become problems.

3. We anticipate that additional congregations with loans and mortgage grants will ask to be dismissed from the Presbyterian Church (U.S.A.). We will work with presbyteries to reinforce the language of the loan documentation, including the acceleration clause making the loan due and payable before the congregation can be released. We will work with presbyteries seeking to provide “gracious separation” for congregations wanting to leave the denomination to understand that the mortgage and guarantee remain in place until the loan is paid in full. This will require working with PC (USA), A Corp., the presbyteries and congregations to ensure the repayment of existing loans and to provide the documentation and recovery of the funds provided many years ago through mortgage grants.
4. The Program will continue to transfer the ministry of the Church Development Corporation to the Investment and Loan Program. We are currently administering their \$11 million loan portfolio of 18 loans. We are administering the interest payments, redemptions and reporting to their Board of Directors for the \$21 million of investments they have sold to individuals, congregations and mid-councils. We will continue to work toward refinancing their loans into the PILP portfolio, and we will use the proceeds of this refinancing activity to redeem the Savings Certificates and Stewardship Accounts. We will offer their investors the opportunity to invest the funds from these redemptions in PILP Term Notes and Denominational Account Receipts.
5. The staff and the Board will use the 2014 General Assembly as an opportunity to promote the Program, to further strengthen existing relationships and to establish new relationships among PC(USA) entities, mid-council leaders and congregational leaders.
6. The senior leadership will evaluate and refine the staffing rationale based on staff transitions and shifting workloads that are anticipated in 2014.
7. The Program will continue to develop more effective use of social networking and other new technologies. The Program will roll out a Facebook page in 2014, as a forum for borrowers, the Board and staff to exchange news and ideas.
8. The staff will further develop our consulting role in advising and guiding churches and presbyteries on financial implications of debt financing.
9. The staff will work to strengthen connections between the marketing team and the underwriting team to create a seamless organization for our customers and prospects.
10. The staff will continue to explore strategic initiatives to fulfill our desire for continued growth in the loan portfolio during this protracted slowdown in loan demand. The marketing staff will use leads from the Annual Statistical Reports and conversations with mid-council leadership.

11. Senior leadership will work with the Board of Directors to determine the best structure for Board effectiveness. The Board of Directors will work with the senior leadership to develop a succession plan for replacement of Board members and senior leadership that may result from emergencies or planned events. The Board and staff will work collaboratively to explore new markets and products to meet changing needs within the Church and the Program. .
12. We will develop an investment policy to allow for longer term investments of our net assets.
13. We will collaborate with the other agencies of the PC (USA) to determine the appropriate role for the Program within the 1001 Worshiping Communities initiative.
14. We will collaborate with the other agencies of the PC (USA) to develop a strategy for the Program to begin transferring some to the cost of dependent health care coverage to employees.

The following are just few examples of how endowment and investor funds are helping the church grow:

Neema Community Church, Overland Park, Kansas

Begun in 2003 as a prayer group meeting in an apartment with the participation of only a few African immigrants, Neema Community Church has grown into a vibrant congregation of nearly two hundred souls. Shortly after their formation, Village Presbyterian Church in Prairie Village, generously provided a meeting place for the fellowship allowing them space and time to grow. In 2011, they were officially chartered and began a search for a home of their own. Aided with a loan from the Presbyterian Investment & Loan Program, Neema Community purchased an existing church building which will provide more space for worship, Christian education and outreach ministries to immigrants of all faiths that are new to their area.

neemacommunitychurch.org

Huguenot Memorial Church, Pelham Manor, New York

After contending for years with an antiquated boiler system, numerous broken pipes and resulting water damage, Huguenot Memorial Church began an extensive search for a long term solution. The more they studied the problem, the more serious they became about geothermal as a solution. With member contributions and a loan through PILP, they have completed installation of a geothermal HVAC system utilizing deep underground water pipes that take advantage of the consistent subterranean temperatures to provide warmth in the winter and cooling in the summer. Though expensive to install, geothermal is touted to have the lowest ongoing cost to operate. The church estimates that their energy cost will be cut in half while providing more consistent and comfortable temperatures throughout all of their buildings.

www.huguenotchurch.org

Covenant Presbyterian Church, Lubbock, Texas

For the people who gather in this Lubbock, Texas church, the term, “Covenant” is not just a name but a way of life. After several years of discernment, they set out to live into a larger

vision of God's mission by making their church a more visible, practicing presence of God's kingdom and resource to their community. The church building, last renovated 35 years ago, had not kept pace with their changing ministry. With a new vision of invigorating programs for children, music and creating an atmosphere of hospitality, they have reconfigured existing space, expanded and opened up the gathering area and added classrooms specifically for children ministries. Through the amazing generosity of their members and a loan from PILP, Covenant is embarking on new ministries to reach their community.

www.covenantpresbylbk.org

The Board of Directors of PILP is elected by the Presbyterian Mission Agency Board and is confirmed by the General Assembly. The 2013 Board of Directors included:

Stephen Bacon, Chair
James B. Rea, Jr.
Louise Westfall
Linda Scholl
William Nelson
Joyce Smith
Catesby Woodford
Terry Nall
Samuel McNairy
Margaret Jorgensen, Vice Chair
Linda Bailey
Rebecca New
Josephine Stewart
Connie Tubb
In Yang

The Officers of the Corporation in 2013 were:

James L. Hudson, President and CEO
James G. Rissler, Sr. Vice President Finance and Administration and Treasurer
Ben W. Blake, Vice President, Sales and Marketing
Martha E. Clark, Secretary
Mike Kirk, Assistant Secretary
Laura Olliges, Assistant Treasurer