

ITEM A.107
FOR ACTION

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

Subject: Presbyterian Church (U.S.A.) Investment and Loan Program, Inc. Report to the 222nd General Assembly (2016)

Presbyterian Church (U.S.A.) Investment & Loan Program, Inc.
 Margaret Jorgensen, Chair of the Board
 James G. Rissler, President

Recommendation:

That the Presbyterian Mission Agency Board receive and forward to the 222nd General Assembly (2016) the report of the Presbyterian Church (U.S.A.) 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. ("ILP")
 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.

ILP offers low-cost loans for capital purposes to churches, mid-councils, and other organizations within the Presbyterian Church (U.S.A.) (the "PC(USA) or the "Church"). As one of the six agencies of the PCUSA, we are the national lender for the denomination. We fund these loans from two sources, investor funds and endowment funds. The investor funds are raised through the sale of investments called Term Notes and Denominational Account Receipts. These investments provide a competitive financial return plus the opportunity to participate in the development of the Church through the loans ILP issues. Investor-funded loans and the investments themselves are assets and liabilities of ILP.

The endowment funds are the result of donations from generous Presbyterians over many years dating back to 1843 - donations given specifically to support the growth and development of the Presbyterian Church. ILP manages the entire loan process for both the investor-funded loan portfolio and the endowment-funded loan portfolio from beginning to end. However, the endowment funds – both the loan portfolios and the uncommitted funds for each endowment fund - are held in trust by the PC(USA) Foundation or the Presbyterian Mission Agency and sit on their respective balance sheets.

When we refer to our lending for "capital purposes," our deliverance issued at the 207th General Assembly (1995) directed us to lend to Presbyterian Church (U.S.A.) organizations "to enable them to

acquire or improve real property.” We can help fund the purchase, construction, expansion, or renovation of worship and mission space. We can also fund the purchase of unimproved land for the purposes of future construction of Church buildings or for parking areas. Donor restrictions received with the endowment funds have similar restrictions allowing for only capital purpose loans. We cannot extend loans to churches for operating expenses or program or mission purposes; nor can we lend to individuals for any purpose.

Guided by the best practices of the financial industry, ILP is committed to faithful stewardship of the resources entrusted to us for the support and growth of the mission of the Presbyterian Church (U.S.A.).

ILP experienced the most significant year of transition in leadership since its inception during 2015 as the entire senior management changed. James L. Hudson, President and CEO for 11 years retired as of December 31, 2014. After a national search across the denomination, James G. Rissler, former Senior Vice President and COO, was selected to follow the expert leadership of Reverend Hudson. The request for confirmation of Rissler’s election will come to this General Assembly. Lorraine Recchia brought her extensive background in commercial banking to fill Rissler’s previous position. Ben Blake, Vice President Sales and Marketing, retired just three months after Hudson’s retirement after 17 years heading up our sales and marketing efforts. Clare Lewis, formerly of Presbyterian Mission Agency’s Congregational Ministries Publishing, joined ILP to fill this role. It was an eventful year to say the least but one that marked a transition with minimal disruption, that was mostly seamless to our customers.

The last two years (since our reporting to the General Assembly) were as different as night and day for ILP and the investor-funded loans. In 2014, we started off the year with an average amount in the loan pipeline (that is, loans approved but not yet closed and loans closed but not yet fully disbursed) of \$8.9 million (“M”). Much of this pipeline was never realized as actual loans for various reasons. Loan requests withdrawn by churches leaving the denomination due to concerns surrounding General Assembly actions were a large piece of this. A couple borrowers did not draw the full amount of their loans as campaigns and campaign collections were stronger than anticipated – wonderful developments for the congregations. Throughout the first eight months of the year overall loan demand was slow (as it had been for all of 2013), so declines in the pipeline were not being fully replaced. Our disbursements for 2014 hit the lowest point since 1997 at \$3.3 M. Combined with higher payoffs (in part, also due to churches leaving the denomination) of \$11.2 M, the disbursed loan portfolio dropped 10.4% to \$68M, a level not seen since 2009.

Activity in loan demand began to pick up during the fall of 2014. We began to see more construction projects, both expansion and renovation, as this increase in activity continued through 2015. Additionally, we worked with several churches, and one camp and conference center, on refinancing their current commercial loans. Some moved to ILP to find better interest rates, some were facing banks that were decreasing their exposure to non-profit lending by creating unfavorable terms, and we had two that found value in borrowing from the denominational lender as a way of doing mission – their loan interest dollars would go back into a program to fund Presbyterian church growth. Although we lost one sizable loan due to a church leaving our denomination, activity surrounding churches seeking dismissal appeared to be waning throughout the year. We ended 2015 with record loan disbursements of \$23.6M, easily clearing the bar set in 2009 at \$15.7M. Even with slightly higher than normal pay downs/payoffs, our year-end disbursed loan portfolio grew to \$80.5M, an 18.4% growth rate.

The endowment-funded loan portfolio did not experience this wide swing in activity over the past two years. The endowments fund the smaller projects, the smaller loans. These size projects are not as vulnerable to economic swings as the larger projects that are funded by investor funds. However, the endowment-funded loan portfolio did have the impact of churches leaving the denomination and the

general slowdown in loan activity that had occurred up until the fall of 2014. Although loan activity has picked up, it has still not recovered to the levels seen prior to the financial crisis of 2008/2009. During the five years up through 2009, average annual endowment disbursements were \$15.2M. Since 2009, the average has dropped to \$9.5M. The loan portfolio has declined steadily during this time dropping to \$75.7M by the end of 2015. The increased activity during 2015 did eventually show as the portfolio experienced a \$500 thousand increase during the fourth quarter of the year.

Throughout both 2014 and 2015 ILP was able to generate a surplus, something achieved for the past fifteen consecutive years. This is very important to our regulators. As we are not a commercial bank, we are not subject to oversight from federal regulators. However, we are reviewed on an annual basis by state regulators that generally use the North American Securities Administrators Association Statement of Policy as guidelines for their oversight. Generating a surplus is one of the primary guidelines. In addition to meeting the regulatory requirement, surpluses help assure investors of the strength of our program, help provide capital for future expansion of the program, and help raise our capital adequacy ratio (another regulatory item). The combined surpluses from 2014 and 2015 have helped us toward our goal of building our capital adequacy beyond the 5% required by regulators to the 10% level. At the end of 2015, ILP had \$9.5M in unrestricted net assets which supported a capital adequacy of 9.3% - up from 7.8% two years ago.

ILP's investment products are securities regulated under The Uniform Securities Act which is administered state-by-state. The North American Securities Administrators Association (mentioned above) establishes program guidelines for denominational investment and loan programs. At the end of 2015 ILP met or exceeded all of the guidelines. In addition to the capital adequacy previously discussed, ILP 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 2015 our liquidity ratio was 25.8%. Another primary guideline is the limitation of senior secured debt to no more than 10% of total assets. At the end of 2015 ILP had no senior secured debt.

Our low-cost loans have low interest rates, no application fees or points, and no prepayment penalties but we also offer an opportunity that no other lender we know has, the opportunity to get back some of the interest paid. Through the "Get the Point" program, borrowing congregations earn rebates based on supporting investments. For 2015 PILP returned \$304,829 to borrowing congregations, bringing the total returned to congregations since the inception of the rebate program to \$3.4 million. This is \$3.4 million that went right back into the mission and ministry of the congregations and thereby lowered the effective interest rate on their loan.

Equally important to the loans we offer is the consulting services we provide. We have issued over a thousand loans to Presbyterian organizations – the vast majority to churches - over the years. We have gained a wealth of knowledge over this time. Working with congregations and presbyteries to help them determine the appropriate size project and loan amount, cash flow requirements and debt service capabilities, can help avoid pitfalls. We work with the congregation to determine the best loan package for their project. Our goal is to help the congregation avoid a future situation where the debt service for a loan has any negative impact on their ability to fulfill the mission and ministry of their church.

Upon the request of their Board and synod, in late 2012 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 ILP. They felt that services were being duplicated and if ILP could service the borrowing needs of the synod, they would be able to use their resources for other programs. The majority of the loans have been refinanced. We are hopeful that the transfer will be complete by the end of 2016.

The 221st General Assembly (2014) had a tremendous amount of interest surrounding the fossil fuel issue. As a positive step in responding to the General Assembly's fossil fuel concerns, congregations and mid-councils can implement capital improvements focused on reducing energy use through energy efficient upgrades to congregational facilities, such as renewable energy sources and other green initiatives.

The Presbyterian Church (U.S.A.) Foundation and the Presbyterian Church (U.S.A.) Investment & Loan Program met in 2014 to explore the possibility of encouraging proactive steps within congregations to advance green initiatives. A new loan product was developed named the "Restoring Creation Loan" that is available to churches and other PCUSA organizations for the funding of sustainable energy systems, highly efficient heating/cooling systems, or other improvements aimed at reducing their carbon footprint. This loan can be up to \$600,000 and offers very low rates, easier equity terms, and utilizes the cost savings into the debt repayment plan.

The Restoring Creation Loan was introduced during the second half of 2015. We are still working to get the word out across our denomination but have had many conversations with potential borrowers, received several applications, and have actually closed a few loans. Rather than just responding to borrowing needs from churches and other PCUSA organizations, our goal is to proactively initiate renovation/construction projects that intentionally reduce our denomination's carbon footprint while moving energy savings into mission opportunities.

ILP 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 continues to have low delinquency rates and a very high collection history. At the end of 2015, ILP had no 30-day or longer delinquencies.

ILP continues to be in sound financial shape. The balance sheet is strong with total assets of \$102 million. As mentioned above, our financial ratios are at healthy levels. We have received an unqualified audit every year. We have been approved for the sale of our Term Notes in every state and jurisdiction for every year since we began our general offering of Term Notes. Although the size of our loan portfolio had declined in three of the four years prior to 2015, we generated surpluses every year through close management of assets and liabilities, operating expenses, pricing, and margins.

Our hope is that ILP will be the premier provider of financing for capital projects within the PC(USA). We want Presbyterians to think about ILP first 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 are making it possible for Presbyterians to lend to Presbyterians.

We remain committed to promoting awareness of ILP throughout the Church. We continually work to maintain strong and healthy ties with General Assembly agencies and mid-councils. We continue to build a competent and diverse staff to serve the church. The Program will focus energy on the following areas of activity in 2016:

1. We will continue to develop new avenues to inform congregations and presbyteries of our services. We have encountered many congregations that could have used our consulting services and/or our loan services to improve the management of their capital projects. With the transitional nature of both presbytery and congregational leadership the challenge is keeping our name in front of church leadership.

2. We anticipate that interest rates will increase gradually in 2016. We anticipate that our cost of funds will increase more rapidly than our income from interest on loans. We will manage our costs, interest rates, and margins to help keep loan interest rates as low as possible for our borrowing congregations.
3. We will market the Restoring Creation Loan actively to help initiate capital projects that will improve the energy efficiency of our church buildings and lower the carbon footprint of our denomination.
4. Although fewer than in the past, 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.
5. The Program will continue to transfer the ministry of the Church Development Corporation to the Investment and Loan Program. We are currently administering their \$6 million loan portfolio of 6 loans. We are administering the interest payments, redemptions and reporting to their Board of Directors for the investments they have sold to individuals, congregations and mid-councils. We will continue to work toward refinancing their loans into the ILP 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 ILP Term Notes and Denominational Account Receipts.
6. The staff and the Board will use the 2016 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.
7. The Program will continue to develop more effective use of social networking and other new technologies. We will complete a new branding for better name/logo recognition.
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; reviewing current processes to uncover opportunities to simplify the loan process for our customers and shorten response times.
10. The staff will continue to explore strategic initiatives to fulfill our desire for continued growth in the loan portfolio. 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 and staff will work collaboratively to explore new markets and products to meet changing needs within the Church and the Program.

The Board of Directors of ILP is elected by the Presbyterian Mission Agency Board and is confirmed by the General Assembly. The 2015 Board of Directors included:

Stephen Bacon
Linda Bailey
Kenneth Godshall
Margaret Jorgensen, Chair
Terry W. Nall
Rebecca New
Ronald Patterson
Linda Scholl
Joyce Smith
Josephene Stewart
Connie M. Tubb, Vice Chair
Louise Westfall
Catesby Woodford
Richard H. White
In Yang

The Officers of the Corporation in 2015 were:

James G. Rissler, President and Chief Executive Officer
Lorraine Recchia, Senior Vice President Finance and Administration and Treasurer
Clare Lewis, Vice President Sales and Marketing
Martha E. Clark, Secretary
Michael Kirk, Assistant Secretary
Laura J. Olliges, Assistant Treasurer