Report of the Church Growth Fund, Inc.

Note: Because the General Synod will not meet in 2020, it will not be able to act on any recommendations contained in reports to General Synod 2020, though they remain in the reports for informational purposes. Reporting commissions, agencies, and institutions may submit these recommendations for consideration by the next session of General Synod.

The Reformed Church in America Church Growth Fund, Inc., (CGF) is a non-profit corporation that functions under the supervision of the RCA General Synod. The CGF supports the work of the denomination by making affordable rate loans to RCA churches and related agencies for the purchase, construction, and improvement of buildings and other properties used in ministries. The CGF loan programs offer unsecured loans up to $200,000 and secured borrowing up to $5,000,000.

As a primary source of funding for loans, the CGF sells interest bearing investments called savings certificates. The CGF offers two types of savings certificates:

1. Term savings certificates, which are available in maturities from one to ten years.
2. Demand savings certificates, which allow the investment and redemption of amounts in the certificate at any time (subject to the limits described in the CGF Offering Circular).

As a way to further support the denomination, the CGF contributes a portion of its earnings annually to the General Synod Council (GSC), which awards the funds as ministry grants for three RCA programs:

1. Church Multiplication, from which church plants receive grant funding to cover the cost of expenses.
2. Next Generation Missional Engagement Fund (Next Gen), which provides scholarships to middle-school-age children through post-college young adults to cover part of the cost of mission trips and internships, disaster response work, vision and study tours, and missional training experiences.
3. Flourishing Churches Grant Program, which provides grants for facility improvements to economically-challenged RCA congregations whose ministries are thriving.

More specific information on CGF loans and how to invest in savings certificates is available on the CGF website at www.rca.org/cgf.

Assets

In the fiscal year ending September 30, 2019 (FY19), assets increased by $1,902,356 (2.4 percent) to $80,740,353. CGF assets at the end of FY19 consisted primarily of loans of $62.3 million, and cash and investments of $19.3 million. Loans during FY19 increased by $1.8 million (3 percent) as the CGF funded $8.2 million in new loans to 25 RCA congregations and related agencies while receiving $6.4 million in loan principal payments from existing borrowers.

The overall financial health of CGF church borrowers is strong as the U.S. economy continues its steady growth. This has resulted in few delinquent loans in the CGF portfolio and contributed to the CGF continuing its long history of never having experienced a loan principal loss. We continue to have a few church borrowers that are challenged to repay their loans, and the CGF works in partnership with these affected congregations by restructuring debt repayment terms to ensure viable continuance of their ministries.

Savings Certificates

At year end FY19, the CGF had savings certificate investments of $33,667,285, representing a slight increase of $337,286 (1 percent) over the previous year end. In FY19, the CGF experienced a record $8,817,501 in new savings certificate investment but this was offset by churches redeeming funds to be used for ministry projects. Savings certificate investors continue to recognize the favorable return received on their funds as well as how their investment supports the mission of the CGF. Funds received from investment in savings certificates are used primarily by the CGF to make loans to RCA congregations throughout the United States and Canada.

CGF savings certificates are state-regulated securities. Currently, the CGF is authorized to sell savings certificates in 26 states, which are listed on its website at www.rca.org/cgf. Rates of interest paid on savings certificates, along with other information on the CGF and how to invest in savings certificates, can also be found on the website.

Earnings

In FY19, the CGF showed net earnings of $2,307,621 before making discretionary contributions to the GSC for church ministry grants, an increase of $700,096 (44 percent) from the previous year. Net earnings after grant contributions were $1,536,621, an increase of $715,096 (87 percent) from the previous year.

The higher earnings in FY19 compared to FY18 were a result of (a) unrealized gains of $548,128 in the investment portfolio as both equity and fixed income markets were strong during the year, and (b) increase in loan interest as a result of higher average outstanding loans.

Ministry Grants

In 1999, the CGF began contributing a portion of its earnings to the GSC to be used for grants to new church plants. Since 1999, the CGF has contributed $5.7 million to support the RCA church multiplication initiative with grants made with those funds to 260 church plants. In FY19, the CGF contributed $347,000 for church plant grants.

The CGF also continued its annual support of Next Gen, providing financial assistance to RCA youth for mission trip experiences. In FY19, the CGF contributed $100,000 to Next Gen and also gave $24,000 for scholarships to RCA college students to attend Mission 2020. Since the inception of Next Gen in 2015, the CGF has been its primary financial supporter, making contributions totaling $400,000 with 2,301 RCA young people being recipients.

In FY18, the CGF launched the Flourishing Church Grant Program which provides grants of up to $50,000 to churches for facility improvements necessary to continue and grow already successful ministry. The CGF contributes $300,000 annually for this program. To date, 15 RCA congregations have been grant recipients.

In total, in FY 2019, the CGF contributed $771,000 to fund RCA ministry grants.

Financial Strength

A measure of the financial strength of an entity is its level of net assets, also known as capital or equity. As of September 30, 2019, the CGF had net assets or capital of $46,939,092. This represents the accumulation of earnings and contributions received over its years of operations.

The funds received from savings certificates are used by the CGF primarily to make loans to RCA churches. The ability of the CGF to repay savings certificate investors is related to its level of capital, net earnings, as well as repayment of the loans funded from certificate investment dollars. CGF loans typically are secured by first mortgages on church facilities. Strict guidelines in approving loans are followed by the CGF to make sure congregations can sustain such debt payments. While past performance is no guarantee of future events, the CGF has never experienced a loss of principal on any loan. No CGF savings certificate investor has ever experienced a loss of investment or missed receiving an interest payment.

Financial Highlights	**FY 2019**	**FY 2018**
Total Assets	$80,740,353	$78,837,997
Net Assets (Capital)	$46,939,092	$45,402,471
Savings Certificates Outstanding	$33,667,285	$33,329,999
Number of Churches with Loans	115	110
Dollar Amount of Loans Outstanding	$62,328,504	$60,523,803
Number of Loans Funded in Year	26	26
Dollar Amount of Loans Funded in Year	$ 8,203,235	$13,327,916
Net Earnings Before Ministry Grants	$ 2,307,621	$ 1,607,525
Contributions to GSC for Ministry Grants	$ 771,000	$ 786,000

Future CGF Activity

The CGF will continue to follow its primary mission of providing affordable rate loans to RCA churches for the purchase, construction, and improvement of buildings used in ministry. The CGF has also set as a goal the ability to contribute increasing amounts to the GSC for ministry grants to support growing church planting initiatives, the popularity and growing number of requests for Next Generation Missional Engagement Fund scholarships, and the newest program to provide grants to flourishing but financially challenged churches in need of building renovation for ministry.

To meet the goal of larger contributions to the GSC, the CGF is focused on growing its loan portfolio as well as its savings certificate program as a way to fund those loans. The CGF will continue to implement marketing programs as a way to create a greater awareness within the denomination of the organization, its loan and savings certificate programs, and the benefits of borrowing from the CGF and investing in its savings certificates.

Proposed Bylaws Changes

The CGF board of directors is recommending approval by the General Synod of two changes to the CGF bylaws.

> **Recommendation**
> To approve the following amendments to Article VIII, Section B of the bylaws of the Church Growth Fund (additions are underlined and deletions are stricken):

> The maximum amount of each loan, the time for which it is granted, the terms of its repayment, the rate of interest to be charged, shall be fixed from time to time as the Board of Directors may deem appropriate. Loans may be made on an unsecured basis, *provided* that the total principal amount of all unsecured loans outstanding to any one borrower does not exceed ~~one quarter of one percent (0.25%)~~ one and one half percent (1.5%) of the total assets of the corporation, and *provided further* that the total principal of all unsecured loans outstanding to all borrowers does not exceed ~~one and one quarter~~ ~~percent (1.25%)~~ two percent (2%) of the total assets of the corporation.

Reasons:
Current CGF bylaws require all loans to be secured by a mortgage or deed of trust on property, with the exception currently being addressed to allow for a limited amount of unsecured loans (loans without collateral). The CGF has received applications from churches which, based upon the term of the loan, an identified and assured repayment source, and the borrower's financial condition, would qualify for an unsecured loan, but the current bylaws limitations on the amount of unsecured loans prohibit such a transaction. As a result, such loans have been made on a secured basis, requiring additional documentation and substantially higher closing costs. If a church can obtain an unsecured loan, the savings in closing costs can be used for ministry.

Recommendation
To approve the following amendments to Article II, Section A of the bylaws of the Church Growth Fund (additions are underlined and deletions are stricken):

> This corporation is the successor in interest to the Reformed Church in America - Extension Foundation, Inc. and the Church Building Fund of the Reformed Church in America; has received and manages their respective assets; has assumed their respective liabilities; may solicit monies from members, agencies, and instrumentalities of the Reformed Church in America by gifts, bequests, grants, and the issuance of notes and other evidence of indebtedness; and may disburse said monies as loans to local churches, classes, and other agencies and affiliates of the Reformed Church in America (RCA) that are (i) constructing or purchasing church buildings, (ii) otherwise improving property that is already owned by them, or (iii) subject to any limitations set forth elsewhere in these bylaws, purchasing land for future use or development by or on behalf of a local church, and may disburse a portion of said monies as grants to the General Synod Council of the Reformed Church in America (GSC) (or any successor to the GSC) that serves as the executive committee of the General Synod of the Reformed Church in America) for the purpose of funding church multiplication (previously known and referred to as evangelism and church development), revitalization endeavors of the Reformed Church in America, and for Next Generation (middle school age through post college young adults) scholarships to fund volunteer opportunities, advocacy experiences, and mission internships.
>
> Exceptions can be made allowing loans to be outstanding and disbursed to churches previously organized as an RCA congregation but currently are no longer associated or affiliated with the RCA.

Reasons:
Based upon current wording in its bylaws, the CGF has required churches with loans to pay off the debt upon leaving the denomination. In recent history, there have been few churches with

CGF loans that have left the RCA, so following the existing bylaws requirement has had a minimal impact on the CGF and the churches leaving.

As a result of disagreement over theological issues, it appears there may be a greater number of churches with CGF loans that will be considering leaving the denomination. Maintaining existing wording in the CGF Bylaws would result in the following issues:

1. A decrease in immediate interest income to the CGF from existing loans being paid off as well as a decrease in future interest income due to the CGF having fewer churches as potential borrowers. Less interest income will cause a decrease in earnings for the CGF. CGF policy allows it to contribute 50 percent of annual earnings to the General Synod Council to be used for ministry grants. A reduction in CGF earnings will result in fewer dollars available for those programs that benefit from this source of funding.

2. Loan terms offered by the CGF to RCA churches are generally more favorable than what can be obtained from other lending sources. There are also places in the U.S. and Canada where local financial institutions do not make loans to religious organizations. This makes the CGF the only borrowing source available. Churches with loans leaving the denomination will have to refinance their debt, if another source can be found, and on potentially less favorable terms. The result is higher monthly payments and less funds available for ministry.