

## Report of the Church Growth Fund, Inc.

The Reformed Church in America Church Growth Fund, Inc. (CGF), is a non-profit corporation that functions under the supervision of the Reformed Church in America (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, which provides grant funding to church plants. In the fiscal year ending September 30, 2020 (FY20), the CGF contributed \$441,000 for church plant grants.
2. Next Generation Missional Engagement Fund, 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. In FY20, the CGF contributed \$50,000 to this fund.
3. Flourishing Churches Grant Program, which provides grants for facility improvements to economically challenged RCA congregations whose ministries are thriving. In FY20, the CGF contributed \$300,000 for this program.

More specific information on CGF loans and how to invest in savings certificates is available on the CGF website at [www.rca.org/cgf](http://www.rca.org/cgf). The audited financial statement may be found on the RCA website at [www.rca.org/finance](http://www.rca.org/finance).

### Assets

In FY20, assets increased by \$2.2 million (2.78 percent) to nearly \$83 million. CGF assets at the end of FY20 consisted primarily of loans of \$59.3 million and cash and investments of \$24.5 million. Loans during FY20 decreased by \$3 million (4.8 percent) as the CGF funded \$5.2 million in new loans to ten RCA congregations and related agencies, while receiving \$8.4 million in loan principal payments from existing borrowers.

When the COVID-19 pandemic began in March 2020, the CGF offered all of its borrowers the option of loan payment relief to help them through a difficult time. A total of 51 loan modifications to 41 borrowers were made as a result of this offer. Despite the pandemic, the overall financial health of CGF church borrowers remains strong. 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 the end of FY20, the CGF had savings certificate investments of \$34 million representing a slight increase of \$760,000 (2.26 percent) over the previous year end. In FY20, the CGF received \$7.5 million in new savings certificate investments, 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 27 states, which are listed on its website at [www.rca.org/cgf](http://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 FY20, the CGF showed net earnings of \$2.2 million before making discretionary contributions to the GSC for church ministry grants, a slight decrease of \$98,000 (4.25 percent) from the previous year. Net earnings after grant contributions were \$1.4 million, a decrease of \$118,000 (7.7 percent) from the previous year.

The difference in earnings in FY20 compared to FY19 were primarily a result of (a) a decrease in loan interest due to a decrease in average loans outstanding, (b) an increase in interest expense due to an increase in deposits and an increase in the average cost of funds, (c) an increase in contributions and bequests due to a large bequest received and the receipt of a grant from the GSC as part of the PPP loan program, and (d) a decrease in operating expenses due to fewer employees for a portion of the year and reduced travel due to the pandemic.

### **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 over \$6.5 million to support the RCA church multiplication initiative, from which 392 church plants were approved, with the majority of them receiving grant funds to help start their ministry.

The CGF also continued its annual support for the next generation, providing financial assistance to RCA youth for mission trip experiences. Since the inception of Next Generation Engagement in 2015, the CGF has been its primary financial supporter, making contributions totaling \$450,000. Since the program has been in place, 2,421 young people have benefitted from scholarships awarded.

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. To date, 24 RCA congregations have been grant recipients.

In total, the CGF contributed \$791,000 in FY20 to fund RCA ministry grants.

## Financial Strength

A measure of financial strength of an entity is its level of net assets, also known as capital or equity. As of September 30, 2020, the CGF had net assets or capital of \$48,357,704. 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.

<b>Financial Highlights</b>	<b>FY 2020</b>	<b>FY 2019</b>
Total Assets	\$82,981,397	\$80,740,353
Net Assets (Capital)	\$48,357,704	\$46,939,092
Savings Certificates Outstanding	\$34,428,846	\$33,667,285
Number of Churches with Loans	112	115
Dollar Amount of Loans Outstanding	\$59,327,650	\$62,328,504
Number of Loans Funded in Year	10	26
Dollar Amount of Loans Funded in Year	\$5,205,239	\$8,203,235
Net Earnings Before Ministry Grants	\$2,209,612	\$2,307,621
Contributions to GSC for Ministry Grants	\$791,000	\$771,000

## 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, Next Generation Missional Engagement Fund scholarships, and the newest program, which is to provide grants to flourishing but financially challenged churches in need of building renovation for ministry.

The functional purpose of the CGF is to make loans, and if the ability of the CGF to make loans is diminished, it will lessen its ability to advance its mission. If all churches that leave the denomination would be required to repay their CGF loan upon leaving, it would have a significant impact on the CGF. While the current CGF bylaws state that the CGF makes loans to local churches in the RCA, it doesn't specifically state what happens to those loans when a church leaves the RCA. In recent years, the CGF has had only a few churches with CGF loans that have left the denomination, and in those instances, they have been asked to repay the loan upon departure from the denomination. With the possibility of a greater number of churches with CGF loans leaving the denomination, the CGF has decided to clarify this issue.

The board wishes to amend its bylaws to explicitly allow outstanding loans to a church formerly organized as an RCA church to remain outstanding, and to also allow the CGF to make new loans to former RCA churches.

Continuation of the lending relationship between the CGF and a former RCA church will not be automatic. The CGF has developed a process for borrowers that intend to leave the denomination and desire to continue their loans with the CGF. As part of that process, the church will be required to complete an Application for Continuance of the CGF Loan, which will allow the CGF to do a thorough review of the church's situation before granting continuance. The standards for approval for a loan continuance and new loans to a former RCA church will take into consideration the fact that accountability to a classis will no longer exist for congregations that are no longer part of the RCA.

Both the CGF and churches leaving the RCA will benefit from maintaining a lending relationship.

1. If a significant number of churches leave the RCA, including a number of churches that currently have loans with the CGF, not making bylaws changes like these will result in 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. The CGF typically contributes 50 percent of its annual earnings to the GSC 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. The church that has separated from the RCA will benefit from a favorable rate on its loan. Loan terms offered by the CGF 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 for some churches. If the CGF cannot provide loans to such churches, these churches leaving the denomination will have to either pay back their debt in full or refinance their debt at potentially less favorable terms. The result is higher monthly payments and less funds available for ministry.

It is in the spirit of gracious separation that the CGF wishes to continue making loans to former RCA churches. This will also help maintain the CGF's fiscal health so that it can continue giving ministry grants for church multiplication, revitalization, and Next Gen ministry in the RCA. The CGF board of directors is recommending approval by the General Synod of the following changes to the CGF Articles of Incorporation and Bylaws.

#### **CGF 21-1**

**To amend Sections A and B of Part Second of the Reformed Church in America Church Growth Fund, Inc. Articles of Incorporation and Articles II and IV of the Reformed Church in America Church Growth Fund, Inc. bylaws as follows (additions are underlined and deletions are stricken):**

#### ***Articles of Incorporation***

- A. The purpose of the corporation shall be to support the work of the General Synod Council of the Reformed Church in America ("GSC") by making loans to local churches, organizing churches, classes, and other assemblies, institutions, and agencies (or their corporate affiliates)~~and affiliates~~ of the Reformed Church in**

America (“RCA”) that are (i) constructing or purchasing church buildings for its ministries, (ii) otherwise improving property that is already owned by them, or (iii) subject to any limitations set forth in the by-laws of this corporation, purchasing land for future use or development by or on behalf of a local church, and by making grants to the ~~General Synod Council of the Reformed Church in America~~ GSC (or any successor to the ~~General Synod Council~~ GSC that serves as the executive committee of the ~~General Synod of the Reformed Church in America~~ RCA [“General Synod”]) 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~~ RCA, 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 formerly organized as an RCA local church or collegiate church. The corporation is an agency of the ~~Reformed Church in America~~ RCA, and as such is subject to all provisions of the ~~Reformed Church in America~~ RCA Book of Church Order (as the same may be amended from time to time) applicable to such agencies. The corporation shall function under the ecclesiastical authority of the ~~Reformed Church in America~~ RCA through the ~~General Synod Council~~ GSC.

- B. The 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 current or former assemblies, institutions, and members, agencies (and their corporate affiliates) of the RCA, and instrumentalities of the Reformed Church in America from current or former members of such assemblies, institutions, and agencies or their governing boards, and from current or former donors to such assemblies, institutions, and agencies (or their corporate affiliates) by gifts, bequests, grants, and the issuance of notes and other evidences of indebtedness; and may disburse said monies as loans or grants to the entities and for the purposes set forth in Paragraph A of this Part Second.

### ***Bylaws***

#### **Article II**

- A. 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~~ current or former assemblies, institutions, and agencies (and their corporate affiliates) of the Reformed Church in America (“RCA”), from current or former members of such assemblies, institutions, and agencies or their governing boards, and from current or former donors to such assemblies, institutions, and agencies (or their corporate affiliates) by gifts, bequests, grants, and the issuance of notes and other evidence of indebtedness; and may disburse said monies as loans to local churches, organizing churches, classes, and other assemblies, institutions, and agencies and (or their corporate affiliates) of the ~~Reformed Church in America~~ RCA, that are (i) constructing or purchasing church buildings for its ministries, (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 ~~General Synod Council~~ GSC that serves as the executive committee of the ~~General Synod of the Reformed Church in America~~) RCA (“General Synod”)) 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~~ RCA, 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 formerly organized as an RCA local church or collegiate church.

- B. The purpose of the corporation shall be to support the work of the ~~General Synod Council of the Reformed Church in America (“GSC”)~~ by making loans and grants to the entities and for the purposes set forth in Section A of this Article II. The corporation shall function under the ecclesiastical authority of the ~~Reformed Church in America~~ RCA through the GSC. The corporation shall have the power and authority to engage in any and all activities and pursuits that are lawful, reasonably related to the purposes set forth in the certificate of incorporation of the corporation, or Section A of this Article II, and not inconsistent with any other provision of these bylaws.

#### Article IV

- A. The corporation shall have not less than six nor more than twelve voting directors, all of whom shall be members in good standing of the ~~Reformed Church in America~~RCA and of at least the minimum age prescribed by the New York not-for-profit corporation law. The precise number of directors shall be determined by the board of directors. The General Secretary of the ~~Reformed Church in America~~RCA shall be an ex officio member of the Board of Directors, without vote but with the right to attend all meetings and to speak on any matter before the corporation.
- B. All voting directors shall be nominated by the General Synod Commission on Nominations from nominees submitted by the board of directors for each board position that is to be filled, and elected by the General Synod. When submitting nominees, the Board of Directors shall endeavor to reflect the diversity of the ~~Reformed Church in America~~RCA. The length, number, commencement date, and calculation of the terms of all directors shall be as provided in the RCA's *Book of Church Order*. All voting directors shall be ineligible for one year after they have served two consecutive terms.

The length, number, and commencement date of the terms of all directors shall be established in a manner that attempts to cause the second term of not more than one voting board member to expire in any one year.

- D. No employee of the General Synod of, ~~the Reformed Church in America ("General Synod"), the General Synod Council ("GSC"), or the Board of Benefits Services of the Reformed Church in America~~RCA who is directly accountable to ~~The Reformed Church in America Church Growth Fund, Inc., the corporation,~~ nor a spouse, parent, sibling, or child of such person, shall be eligible to serve as a voting director.

Some of the proposed changes (e.g., "Reformed Church in America" to "RCA") are included to make things consistent so that entities are referred to by an abbreviation rather than the full name of the entity after the abbreviation has been introduced.

### **Limits Regarding Unsecured Loans**

Current CGF bylaws require all loans to be secured by a mortgage or deed of trust on property with the exception of 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.

Currently, the practice is to calculate the limits for unsecured loans as a percentage of total assets. Going forward, the CGF believes the practice should be to calculate the limits as a percentage of net assets. This is more common in the banking world and will be more consistent with other calculations that the CGF uses and will minimize the fluctuations in limitations. The following is a comparison of the proposed change in limits when calculated using the existing method compared to the proposed change in calculation (using net assets and total assets as of May 31, 2021).

- Total unsecured loans outstanding to any one borrower:
  - Current calculation using 0.25 percent of total assets = \$218,099
  - Proposed calculation using 1.00 percent of net assets = \$500,099
  
- Total principal of all unsecured loans:
  - Current calculation using 1.25 percent of total assets = \$1,090,496
  - Proposed calculation using 5.00 percent of net assets = \$2,500,496

As a result, the CGF board of directors is recommending approval by the General Synod of the following changes to the CGF bylaws (additions are underlined and deletions are stricken):

#### **CGF 21-2**

**To adopt the following amendments to Article VIII, Section B of the Reformed Church in America Church Growth Fund, Inc., bylaws (additions are underlined; deletions are stricken):**

- B. 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 (0.251%)~~ one and one-quarter five percent (1.255%) of the ~~total~~net 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~~ five percent (1.255%) of the ~~total~~net assets of the corporation.**