

ANNUAL MINISTRY AND BUSINESS PLAN

2019 to 2020



Lutheran Church Extension Fund

> where investments build ministry

Dear LCEF employees and stakeholders,

The following pages contain the *2019–20 Annual Ministry and Business Plan*. While the Lord has richly blessed Lutheran Church Extension Fund (LCEF) for forty years, it is critical that each year we reconsider the opportunities the Lord is placing before us and how we best steward the resources entrusted to us for the sake of building up the Kingdom of God.

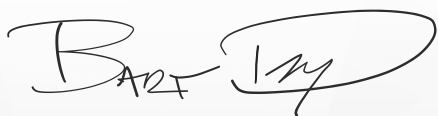
Over the past year, the LCEF board of directors have reconsidered the mission, vision and core values of the organization. The mission articulates the unique purpose for the existence and efforts of LCEF. The vision is a snap shot of the future in the hearts and minds of the leaders; a future that will not fade away. The core values are the abiding shared principles of the culture which inspire the personal involvement of all connected to LCEF. Finally, the board has put forth two targets, for which LCEF must make significant impact, in order to effectively pursue our mission. While there are echoes of the past, the board has certainly charted a new course for the future.

Inside these pages you will also find three objectives as developed by LCEF senior leadership. These objectives enable us to put the mission, vision, core values and targets into operational objectives and tactics that shape our daily work. Corporate, divisional and individual goals will be aligned with the objectives outlined here. It is critical to the ongoing relevance and sustainability of LCEF that every employee understand where we are going and their role in achieving success and growth.

It is equally as important for LCEF stakeholders, whether investors, borrowers or ministry support service clients, to understand where we are going. This will assure LCEF remains faithful to the work the Synod has given us to do while holding us accountable to both the targets and objectives outlined here. The success of LCEF is measured far beyond dollars and cents. LCEF must serve the changing needs of the Synod's congregations, schools, organizations and workers as they carry out the sacred vocations entrusted to them.

As a follow up to this *Annual Ministry and Business Plan*, I will publish a bi-annual stakeholder's letter. In this letter I will provide updates on the work and how successful we are in achieving our goals. LCEF desires aggressive growth that better positions us to serve the changing needs of the Synod. My first letter will talk more about that growth and will share the achievement of key success indicators along the way. May the Lord continue to richly bless our work. Thanks be to God. He does all things well.

Peace,

A handwritten signature in black ink, appearing to read "Bart Day", with a large, stylized flourish at the end.

Rev. Bart Day
President and CEO
Lutheran Church Extension Fund



MISSION

The mission of Lutheran Church Extension Fund is to support The Lutheran Church—Missouri Synod by ensuring that financial resources and related services are available now and in the future.

VISION

Growing Ministry Opportunities.

VALUES

In Christ ... Be. Pursue. Inspire. Endure. Learn.

In Christ ...

- Be. Faithful
- Pursue. Excellence and Innovation
- Inspire. Belief through Partnerships
- Endure. Balancing Resources and Risk
- Learn. Continually

TARGET OUTCOMES

1. STRATEGIC PARTNERSHIPS

LCEF grows the impact of ministry through existing and new partnerships by the alignment and the leveraging of LCEF's strengths in organizational and business leadership to better the stewardship of God's resources.



2. FINANCIAL STRENGTH

LCEF provides ministry support and financial services around the world by aggressively growing assets and the impact of ministry.



CORPORATE GOALS

1. Fund \$205 million in new loans.
2. Increase notes and support dollars payable to \$1.694 billion, a 3% net growth, approximately \$50 million.
3. Maintain a Capital/Asset ratio over 12%.

Since 1978, Lutheran Church Extension Fund has had the humble privilege of supporting Lutheran Church—Missouri Synod ministries and her workers in fulfilling their mission of sharing the Gospel.

Thanks to our faithful investors, we've provided thousands of church workers, congregations, schools and organizations with the resources they need to reach more people with the saving name of Christ.

And because our greatest joy comes from seeing the Church thrive, we are focusing on the core objectives and tactics that will enable our organization to make precious resources available—both today and far into the future.

FINANCIAL STRENGTH AS OF JUNE 30, 2019

\$1.89 BILLION
Total Assets



\$236 MILLION
Net Assets



\$222 MILLION
New Loans
Closed



\$1.59 BILLION
Loan Portfolio



\$1.64 BILLION
Investor Payables
Portfolio



STRENGTH IN NUMBERS

\$17 MILLION
Net Income



\$2.2 MILLION
Earnings to be
Distributed to the
LCMS Member
Districts and LCMS
Ministries



\$962 THOUSAND
Kaleidoscope
Fund Grants



\$650 THOUSAND
Congregational
Rebates



Objective 1

Increase Agility

Through national, regional and district structure, LCEF challenges and empowers its people, processes and technology to discover, engage and address the evolving needs of LCMS ministries and members.

Ministry Clarity

MARKETING, MINISTRY SUPPORT, NATIONAL LENDING

Partner across departments to integrate ministry resources into the marketing plan. The goal is to utilize these resources as a competitive advantage to develop relationships and potential leads for cross promotions and long-term relationships. Integrate ministry resources into the marketing plan.

Regionalization

ACCOUNTING

Enhance financial reporting for the Central, West and East regions.

INFORMATION TECHNOLOGY, MARKETING

Assist with the design, scope, and solution platform for the future development and implementation of LCEF CONNECT, an extranet which will serve all LCEF staff. Development and implementation time frame is dependent on identifying development resources and funding.

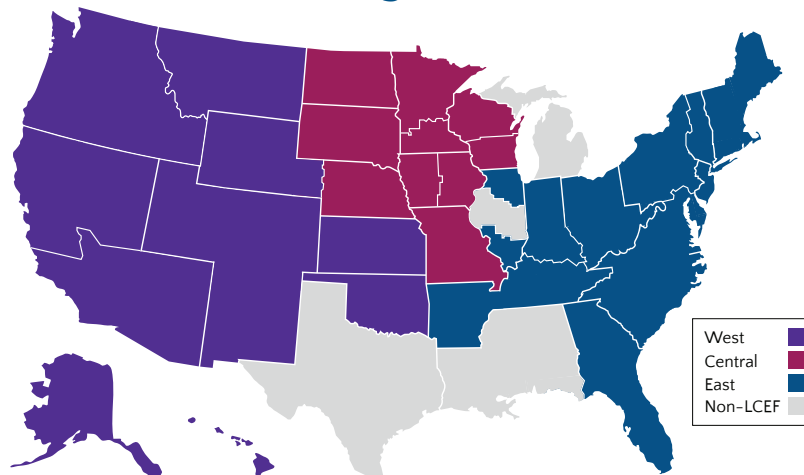
LENDING AND REGIONAL OPERATIONS

We anticipate overall loan production for new money (not including refinances) to be \$205 million, an increase of just over 13% from the fiscal year 2019. Contributing to this number includes:

- National lending
 - \$100 million
- Congregational lending
 - \$80 million
- Rostered Church Worker lending
 - \$25 million

Although we are optimistic and hope to surpass this number in the coming fiscal year, it is often difficult to hit targets precisely as a number of factors contribute to the results of loan demand and closings. Changes in the economy (including interest rate environment), borrower plans, as well as project scope and underwriting factors all contribute to the actual results.

LCEF Regions



MARKETING, ALL DEPARTMENTS

Drive and encourage customer growth and retention initiatives within the organization. Develop marketing plans to improve customer experience that builds trust, engagement and increases our customer's knowledge of the organization's products and services.

Skills/Strengths Assessment of Key Personnel

MINISTRY SUPPORT, NATIONAL LENDING

Regular opportunities for team training with the regional vice presidents (RVP) and the district vice presidents (DVP) will commence.

- All DVP meeting session with Ministry Support.

- All Ministry Support consultant joint training with RVPs and DVPs at LCEF's Leadership Conference.

MINISTRY SUPPORT

Regular training for the part-time consultants, both in-person and via video conferencing will commence on a quarterly basis.

- Part-time consultant training in St. Louis.

Professional sales training for Ministry Support staff, targeting enrollment of initial two staff members during the fiscal year 2020. Additional staff will be enrolled in subsequent fiscal years, as required.

Employee Engagement

OPERATIONS/SPECIAL PROJECTS, ALL DEPARTMENTS

Engage and empower employees with the practice of leadership at all levels within the organization through various means including regular opportunities to receive input on process improvement; a recognition and rewards program that honors performance and spotlights employee engagement; opportunities and resources for employees to develop a career path for growth; ad hoc informal opportunities for peers to share struggles and successes toward teamwork and improvement and a stronger onboarding program for district vice presidents and national office employees. Measures of success will include quarterly employee pulse surveys.

Objective 2

Seek Partnership

Through national, regional and district structure, LCEF expands partnerships with LCMS ministries and members by connecting LCEF resources to ministry needs.

LCMS Foundation

INVESTMENTS/ALCO

Review the various investment funds offered by the LCMS Foundation to determine if they would be an option for LCEF's long-term portfolio.

MARKETING, INFORMATION TECHNOLOGY, ENTERPRISE RISK

Explore opportunities to partner with LCMS Foundation to share potential insights, analytics and resources.

Kaleidoscope Fund

SPECIAL PROJECTS

Explore ways the Kaleidoscope Fund can foster greater partnerships. Provide analysis and recommendations.

Real Estate Resource Center

Create a pilot program to research congregations having excess land to see if opportunities exist to monetize the excess land and flow those funds into their ministry.

Create a strategy to locate vacant land within the path of progress and in advance of the wave of development for future church plants and solicit needs within the districts.

LCEF's deepening connection with Foundry Commercial will be explored and incorporated into the appropriate campus, facilities and other property related situations and processes designed to directly support ministry support services Clarity processes.

INVESTMENTS/ALCO

Review real estate investment options available through Foundry Commercial to determine the risk and reward of investing in this type of investment.

Non-LCEF Church Extension Fund (CEF) Districts

CREDIT & ADMINISTRATION

Discussing with all four remaining CEFs the possibility of sharing financial ratio information from borrowers in their portfolios whereby we would be creating our own comparable database to be used by us to better understand how our loans compare with other loans of similar size and financial strength.

National, Regional & District Alignment

LENDING AND REGIONAL OPERATIONS, MARKETING

Priorities will include the alignment of National Lending with Regional and District personnel in order that LCEF can fully utilize the infrastructure we have in place to allow for additional interactions with schools and social service organizations.

Rostered Church Workers

MARKETING, NATIONAL LENDING

Create and own the customer journey for loan and investment products, listening to customers and educating the rest of the organization on insights and research developed.

INFORMATION TECHNOLOGY, MARKETING, ALL DEPARTMENTS

Enhance current information delivery vehicles (systems and apps) to satisfy the appetite for tracking, analyzing and reporting of key customer data. Enhancements will be based on priorities defined by the business owners.

Synod Leadership

MINISTRY SUPPORT, EXECUTIVE OFFICE, NATIONAL LENDING

Ministry Support will initiate a multi-phase and multi-year process to engage key leaders to address the topic of Synod stewardship. The first step in this process will be to gather a select group from across the country for a symposium to open the discussion.

- Plan the initial workshop: select dates, identify the audience and define the purpose.

- LCEF will continue facilitated conversation with the CUS Presidents and their Board of Regents to support a Concordia Consortium model that will encourage greater collaboration between the universities as they identify consortium projects that will necessitate LCEF financial capital and support.
- LCEF will explore with the Council of Presidents how best to “focus on ministry beyond physical structures” identifying two key projects or programs that will best support districts in their mission and ministry work.
- LCEF will continue facilitated conversation with Recognized Service Organizations to provide expanded financial resources that support their work while helping to provide leadership development that will assure the future growth of RSO programs across the Synod.



Objective 3

Balance Risk

Through national, regional and district structure, LCEF maintains optimal organizational health by balancing financial and operational resources with ministry.

Enterprise Risk Management (ERM)/ Process Improvement

ACCOUNTING, ENTERPRISE RISK

In consultation with senior vice president of Enterprise Risk Management, determine the next area for an internal control review. Schedule review with national accounting firm BKD.

ENTERPRISE RISK

LCEF will adopt the NIST Cybersecurity Framework to address and manage cybersecurity risk.

Enterprise Risk will work with the East Region RVP and a subset of the East Region team to examine ways to better deliver support and resources to the DVPs.

FINANCE, INFORMATION TECHNOLOGY

Work with Information Technology to improve the functionality of the LCEF scorecard/dashboard to include data reviewed at the quarterly LCEF board meetings.

FINANCE

Review the components of the distribution of operating results formula to determine if the components are still appropriate.

INFORMATION TECHNOLOGY, CREDIT & ADMINISTRATION

Manage the project to migrate from MISER Branch Automation to the MISER DeskTop teller interface, streamlining current processes with the use of workflows in the loan operations and investment processing areas.

Credit Risk Management

LENDING AND REGIONAL OPERATIONS, CREDIT & ADMINISTRATION

Managing risk to appropriate levels so that ministry growth is nourished is key to fulfilling the core objectives of the organization. Lending and Regional Operations will seek to push the envelope where appropriate and necessary to support and foster an environment of expanding ministry opportunities around the globe.

CREDIT & ADMINISTRATION

Improve the process of analyzing individual credit requests, as well as identification of potential risks within the loan portfolio by segment, geography or loan type.

Fiscal Year 2020 Impaired Loan Metrics are as follows:

Impaired Loans as a percentage of total loans: **x < 4.23%**

Non-Accrual Loans as a percentage of total loans: **x < 4.01%**

Delinquencies as a percentage of total loans: **x < 1.75%**

Returned to performing loan status: **\$8.0 million** (This has been a departmental goal for many years, but is being elevated to a M&BP goal because it distinguishes LCEF from other lending institutions.)

CREDIT & ADMINISTRATION, INFORMATION TECHNOLOGY

Define and develop processes in Loan Vantage for both credit review and loan processing.

Other Risk Items

CREDIT & ADMINISTRATION, MARKETING

Develop and implement a strategy to address depositor investments acquired through district consolidations and encourage reinvestment of the proceeds into LCEF products. (Financial impact: 2,099 notes totaling \$31.6 million of which \$20.9 million is in demand or matured term notes.)

OREO, LEGAL, INFORMATION TECHNOLOGY

By fiscal year-end, have under contract to sell or have sold, 45% of existing OREO portfolio, representing 25% of overall OREO portfolio value.

FACILITIES MANAGEMENT

Continue to drive tenant satisfaction and building improvements and continue to maintain 98% occupancy at 10733 Sunset Office Drive. Complete all approved capital building projects planned and approved for the fiscal year.

MARKETING, ALL DEPARTMENTS

Evaluate the organization's investor payables to fine tune, adjust, remove and add products to best fit the needs of the organization's customers. Market and cultivate deposit funds to meet the loan demand and forecast for the fiscal year 2021.

Current Expected Credit Loss (CECL)

INFORMATION TECHNOLOGY, CREDIT & ADMINISTRATION

IT will clean/prepare data for use by business owners and provide ongoing vendor management and product update implementations.

With IT, Credit & Administration are moving forward to begin the installation and implementation of the software to commence parallel testing for the Allowance for Loan and Lease Losses under CECL by year end.

Policy and Procedure Review-Best Practices for Management

ACCOUNTING

Review accounting and disclosure requirements for private equity alternative investments.

ACCOUNTING, FACILITIES MANAGEMENT

LCEF owns the building it occupies and has lease agreements with the tenants of the building. Recently, an accounting standard for losses was updated. This update will be reviewed to determine how it will impact the financial statements and related footnotes of LCEF.

INVESTMENTS/ALCO

Perform a review of the performance of LCEF's long-term investment advisor. Based on the review, determine if LCEF should retain or search for another advisor. Develop an RFP for investment advisors for the long-term portfolio if the review recommends the replacement of current advisor.

Explore alternative investment strategies that include, but are not limited to, private equity, private real estate investment, venture capital and other opportunities as presented. The goal of these investments will be to enhance the *potential* returns to LCEF that will increase our ability to support the ministries of the LCMS.

OPERATIONS/SPECIAL PROJECTS

Add greater management process around policy review updates and acknowledgment.

Growth

MARKETING, ALL DEPARTMENTS

Targets for Investor Payables are critical to the operation of the organization in that they provide the necessary funding to meet anticipated loan demand and liquidity. The FY 2020 corporate goal for Investor Payables, is to grow by a net of three percent (3%) from FYE 2019 to \$1.694 billion. A net increase of approximately \$50 million. In order to achieve this objective, it is anticipated that new deposits and additions to existing deposits will need to be approximately \$150 million. Due to unforeseen withdrawals due to death, need or other reasons, this number may increase or decrease during the year.

BALANCE SHEET
Forecasted Statement of Position (in 000's)

	Forecasted Balance	Financial Plan
Assets	6/30/19	6/30/20
Cash and Investments	\$281,112	\$311,485
Loans Receivable	1,595,417	1,625,297
Less Loan Revaluation Reserve	25,194	26,079
Loans Receivable – Net	1,570,223	1,599,218
Other Real Estate	19,419	14,853
Deferred Charges and Other Assets	11,768	11,768
Total Assets	\$1,882,522	\$1,937,324

Liabilities and Net Assets		
Notes and Support Dollars Payable	1,641,185	1,690,466
Other Liabilities	7,332	7,332
Net Assets	234,005	239,526
Total Liabilities and Net Assets	\$1,882,522	\$1,937,324

Liquidity	17.13%	18.43%
Base Capital to Asset Ratio	12.43%	12.36%

PROFIT AND LOSS STATEMENT

Forecasted Statement of Activities and Changes in Net Assets (in 000's)

	Forecasted Balance	Financial Plan
Interest and dividend income	6/30/19	6/30/20
Interest and Fees on Loans	\$60,320	\$64,364
Loan Interest Rebates	(957)	(976)
Net loan interest income	59,363	63,388
Investments	8,377	8,682
Total Interest and Fee Income	67,740	72,070
Interest on Notes and Support Dollars Payable	31,639	34,003
LOC	124	-
Total Interest Expense	31,763	34,003
Net Interest Income	35,977	38,067
Provision for Loan Revaluation Reserve	115	1,000
Net Interest Income After Provision	35,862	37,067
Consulting Revenue	993	1,391
Operating Expenses	28,635	30,191
Operating Income	8,220	8,267
Other Income (Expense)		
Net Gain/(Loss) on Investments	3,837	(2,500)
Net Lease Income	103	269
Gain (Loss) on Real Estate/Foreclosed Assets	1,090	1,752
Bequests & Other Gifts	1,300	1,300
Grant Expense	(932)	(1,250)
Other Fees and Revenue	22	23
Total Other Income (Expense)	5,420	(406)
Net Income (Loss)	\$13,640	\$7,861
Net Assets at Beginning of Year	222,591	234,005
Distribution of PY Earnings	2,226	2,340
Net Assets at End of Year	\$234,005	\$239,526



Lutheran Church Extension Fund

> where investments build ministry

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