

Dear Friend in Christ,

Allow me to provide you, our partners, an update as Lutheran Church Extension Fund (LCEF) has closed our fiscal year. Much has changed since the last time we communicated—dramatically.

In January's bi-annual shareholder letter, 2020 was shaping up to be another banner year for LCEF. Loan projections were high; markets were rallying. We'd successfully raised \$100 million in new investments to meet demand; and because we saw so much potential still on the table, the LCEF board of directors and senior leadership set goals to aggressively grow LCEF.

We were eager to be a catalyst to ignite the congregations, schools, agencies and workers of the church. We wanted to encourage them to dream beyond conventional paradigms to impact the world with the Gospel of Jesus Christ. The momentum was building.

In our 2019-20 Ministry and Business Plan we declared three objectives:

- **Increase Agility:** Prepare for and adapt to internal and external change as we embrace the evolving needs of our customers and adjust to new leadership within the organization.
- **Seek Partnership:** Develop a greater partnership with The Lutheran Church—Missouri Synod (LCMS) entities, the districts and offices of the Synod, building upon synergies and strengths of the organizations in support of ministries we commonly serve.
- **Balance Risk:** Ensure continued financial and operational health of the enterprise, having resources available in support of ministries and partner churches of the LCMS today and in the future.

Out of our peripheral, there was talk about a virus in Southeast Asia slowly making its way to the U.S. Once here, it crippled the economy in less than two months as COVID-19 spread in major cities and shut down entire states.

We didn't see this coming; nobody did. LCEF put our objectives and goals aside to pivot and re-focus on the task at hand. In fact, we did not sit on our hands and wait for the people and their needs to come to us. We went to them. We formed a COVID-19 Response Team (CRT) to seek out the needs of our borrowers. The CRT was given broad authority to provide remedies as necessary.

We reached out to our borrowers, listening to their concerns about the challenges they would face in the months ahead. In response to those conversations, we learned we needed to offer unique remedies to address specific needs. These solutions for borrowers included full payment deferrals, interest-only payments, emergency loans and lines of credit.

Doing our part, we agreed to defer \$5.47 million in payments. As of June 30, 2020, 229 loans with outstanding balances totaling \$318.7 million had received \$3.51 million in principal and interest deferrals, with an additional \$1.96 million deferred between July and September. These actions allowed our borrowers time to financially stabilize in a period of uncertainty, and as of August 24, 168 of those

loans (\$200 million in balances) are able to return to payments. That is God's merciful favor on our church and her work.

Because of our gracious investors, we were able to do so much more, including:

- Granting \$25,000 to Concordia University, Wisconsin, as their 3D Printing Lab focused on closing the gap in the personal protective equipment shortage facing first responders and healthcare workers in the early days of the pandemic.
- Sending online streaming kits—tripods, cameras, earbuds—to 165 churches in early April ahead of Easter services.
- Offering more than \$60,000 in LCEF gift cards to food pantries, employment support ministries, families in need and others negatively impacted by the pandemic.
- Hosting an educational webinar series in collaboration with subject matter experts focused on early childhood centers, online giving and the SBA Payment Protection Program loan.
- Offering assistance for all ministries that took advantage of an LCEF COVID-19 remedy to discuss concerns, assess opportunities and build long-term plans.
- Providing over 20 "Ministry Moments" videos designed to move ministries forward according to God's will. Topics included "Leading Out of Crisis," "Congregation Giving," "Simple Prayer" and "Engaging Members in a Crisis."
- Reaching out to churches to tell them about online giving options through Joyful Response®, an e-tithing and e-tuition payment tool for LCMS congregations, schools and Recognized Service Organizations (RSOs). Over 125 organizations have taken advantage of this opportunity since March.
- Donating \$1 million, through the Synod's Soldiers of the Cross—Amplified program, to the 35 LCMS districts for their church workers with unmet financial needs stemming from the pandemic.

Furthermore, LCEF fulfilled our commitment to the 2019 Kaleidoscope Fund recipients. Sixteen elementary schools received a total of \$832,135 in grants to support initiatives involving faculty enrichment, curriculum development and facility improvements. An additional ten schools participated in launching new endowments to support their long-term stability. Each school was asked to raise \$25,000 with full matching funds coming 50% from the LCMS Foundation and 50% from LCEF; three schools have raised the necessary funds so far. This is a testament to God's goodness and the men and women who hold LCEF up with their constant prayers and generosity.

To say this year has been a rollercoaster would be an understatement, but God continues to shower His blessings upon us. Some of us held our breath as we closed the books at the end of the fiscal year (June 30). Six weeks prior, I would never have believed the results; it didn't seem achievable. Despite all of the challenges of 2020, I can share we finished the year in the black with \$3.6 million in net income.

In addition:

- Our capital-to-asset ratio was at the target of 12%.
- We surpassed our 3% net investment growth goal, achieving 7.5%, amounting to \$122 million in new assets. And let me add, contrary to how we've raised capital in the past, we raised these much-needed dollars not with a promotion, but with a simple appeal to our partners, who responded generously. Thanks be to God.
- New loans climbed to \$201 million, just shy of the \$205 million goal.

In this pandemic year, we crossed yet another significant milestone: \$2 billion dollars in total assets. That's truly amazing. LCEF incorporated in 1978 with a little over \$100 million, which grew to \$500 million in the early 90s and crossed \$1 billion in March of 1999. The continued growth is a testimony to our partners and those we serve. They contribute to our financial strength, allowing us to grow ministry opportunities. The Lord has been nothing but generous to LCEF.

Think about it: in what could have been a down year, LCEF had a tremendous year. In a time of need, we cared for the church and her workers. Not only did we close the books in the black, but to safeguard against future vulnerability, we added \$3 million to the loan loss reserve and are prepared for future challenges to our borrowers. LCEF had a strong year supporting the critical needs of those we serve. The Lord has blessed us.

Providing all this support means there is not enough net income to also make an earning distribution to the Synod and member districts this year. We know these are important dollars allowing our districts to do extraordinary ministry work. While an earning distribution is never guaranteed, we hope you value how LCEF expended those earnings in support of the needs of the church during the pandemic. The remedies we have provided will continue as necessary.

I cannot tell you how proud I am of the LCEF family. Most of our staff is working deployed. Disruption to personal and professional life is a reality for us all. Yet we have banded together during these times to keep our operations moving forward, so your ministry can continue to move forward as well.

Most of you are aware that Concordia University Portland (CUP), by action of its Board of Regents, voted to close its operations at the end of the most recent academic year, due to financial shortfalls. CUP is a major borrower of LCEF with loans secured by first deed of trust liens and an unsecured guarantee by the CUP Foundation. Following CUP's announced closure, HotChalk, Inc., a provider of online education services to CUP, filed suit against CUP and several others, including LCEF. LCEF's position is that HotChalk Inc.'s claims are spurious, and we intend vigorously to defend against them. We will seek recovery of the indebtedness owed by CUP, so those dollars can be used to support new ministry opportunities.

In the meantime, we continue to plan for the here and now as LCEF may again be asked to go above and beyond. We are making a concerted effort to improve the alignment from the highest-level corporate goals down to our individual goals. The 2020-21 Ministry and Business Plan, available in October, will serve as our strategic roadmap holding each LCEF employee—including me—accountable for their part in achieving corporate, division, department and individual goals.

One important point to share is that this year's corporate goals are not financially driven as they were in the past. We will have financial goals where they make sense, just not at the corporate level. Financial

goals at the highest level of our organization limit what we can do. At the heart, the success of LCEF is ultimately measured in more people hearing the Gospel of Jesus and, through the gift of faith, living lives of service to God and neighbor. We are tempted to lose sight of that when we are focused narrowly on financial goals at the highest organizational level.

What are the new corporate goals? They will be fully fleshed out in the new plan, but here is a little insight:

- **Cultivate partnerships:** LCEF cannot be successful alone. Our strengths increase as they are intentionally connected with the strengths of others. Some partnerships are obvious while others are yet to be discovered. Each partnership is special and unique—requiring time, attention and trust. LCEF will cultivate partnerships knowing these grow ministry opportunities.
- **Steward the gifts:** LCEF is privileged to steward gifts we do not own. Much has been entrusted to us. These gifts go beyond financial resources. We recognize these gifts are not our possessions but are to be used in service to God and neighbor. LCEF will steward these gifts for increase, knowing they grow ministry opportunities.
- **Grow ministry opportunities:** LCEF will grow opportunities so that ministries have the financial resources and ministry services necessary to impact their communities. Opportunity abounds. There is much room for discovery as ministries find innovative ways to connect. LCEF will learn, inspire and enable the church to grow ministry opportunities.

The verbs are important: cultivate, steward, grow. They are anchored in Jesus' agricultural parables. He provides the seed, cultivates the field and brings the sun and the rain. He is the steward who offers growth and life. He is the maker and sustainer of all things. The partnerships, gifts and opportunities before us exist and remain within the hand of our gracious God.

I'm excited about the work LCEF is doing right now. It wasn't in our playbook. As every good military general knows, you count the cost before you go into battle; but once you are in the thick of things, you must be nimble and adapt when the time comes. LCEF exists for such a time as this.

Let me close by saying "thank you" to our entire Lutheran family and all our ministries who have endured hardship during COVID-19, stretching and retooling how they work and serve. We love you more than you know. I can honestly say that everyone at LCEF is grateful for the service you provide to your local communities, nation and the world. We continue to pray for you and stand ready to serve in whatever capacity your need demands.

Finally, none of this is possible without our faithful investors and various stakeholders across the LCMS who share our love for Christ. With your continued support, belief and encouragement in what we do, I believe the future is bright for LCEF and the mission we share.

Peace,



Rev. Bart Day  
President and CEO  
Lutheran Church Extension Fund