



An INTRODUCTION TO CONDUIT LOANS *by Timothy Stoltzfus*

The names and details in the following story are fictitious, but the account is intended to be representative.

After sending in their home loan application to the Anabaptist Financial (AF) office, Matthew and Helen eagerly awaited a reply. Following five years of marriage, circumstances required them to move, and they decided it was time to purchase a house. Though they had been saving to buy a place of their own, they didn't have quite enough for a 15% down payment on the small property they had found for sale. Matthew and Helen were disappointed when the AF loan officer called to inform them that their application was declined. They still had several options: they could try to find a cosigner for the loan, or seek a private loan with a lender.

Unknown to Matthew and Helen, a few brothers in their home church learned of their predicament, and one of them called AF to discuss the possibility of providing a private loan to Matthew and Helen from his investment account at Anabaptist Financial. After a few minutes of conversation with the AF Office, he realized that his wish could come true. This individual then called Matthew and Helen and offered them the possibility of a private loan through Anabaptist Financial. Within a few days, the necessary details between borrower and lender were agreed upon, and the paperwork was in place to facilitate the loan. Anabaptist Financial made arrangements with the attorney, wired the funds to

the settlement, and the home belonged to Matthew and Helen.

At Anabaptist Financial, we have the capability to facilitate this type of loan. We call a private loan of this nature a conduit loan because it mirrors a direct pipeline of money from one party to another. Such a loan has many advantages, and is relatively easy to accommodate. The philosophy behind a conduit loan draws deeply on the concept of brotherly mutual aid, the advantages are numerous, and the procedures required to process a conduit loan are not cumbersome.

Historically, Anabaptist people have always done well with helping each other financially; that is a significant part of how we practice brotherhood. This

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financial assistance sometimes involves a private loan between two individuals: an individual who needs funds borrows from another individual, often from his father or another family member. The terms of the loan and interest rate are agreed upon privately, and money is moved from someone who has extra to someone in need. The lender receives an often modest return of interest, and the borrower has funds for his needs.

A conduit loan facilitated by Anabaptist Financial is much the same, with the addition of AF as a third party in the loan arrangement. The advantages for including a third party such as AF in a private loan include the following:

1. Proper Documentation. The Lender and Borrower agree upon the terms of the loan. Anabaptist Financial will draw up written agreements using standard loan documents for both Borrower and Lender to sign. If the Lender desires a mortgage for added security, we write the mortgage document and file it at the courthouse.
2. Servicing. Loan payments are made to the AF office; we provide loan coupons to the Borrower, or he can make his payments by automatic electronic funds transfer. We send quarterly account statements to both Lender and Borrower.
3. Accountability. Although the Lender provides the funds for the loan, AF relates directly with the Borrower. We contact the Borrower if a payment is missed.
4. Relationship. At times when a person lends money to a friend or family member, the relationship between Lender and Borrower is negatively affected. A third party can help soften that tension, and create space and comfortableness.
5. Anonymity. If you want to extend a conduit loan to someone you know, but would like to do so anonymously, AF can process the loan

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GIVING IN THE USA

The beginning of a new year is a good time to reflect on life, to offer thanks for what has been, and to make plans. Have you and your family reflected on the important milestones passed over the last year? What did the LORD do for you in 2009? What are you praying about in 2010? Before you read on, perhaps you should stop, take a few moments, and answer those three questions.

Because of the type of work we do with individuals, families, and charities, we are blessed to have a bit of an “inside view” of how God is working through His people and finances to do Kingdom work. In 2009, God blessed us with a growing number of opportunities to learn and serve. Here are a few of the milestones reached in the past year. In 2009, the Foundation...

- Accepted its fourth gift of real estate for charity, which was also the first gift of real estate with an attached life estate provision. This means that the donor will continue to occupy the property until death, although the tax benefits of the gift apply now. At the donor’s passing, the Foundation will assume possession, sell the property, and distribute the proceeds to benefit a variety of charities. Our four separate gifts of real estate have involved two personal residences and two farms. These gifts have been completed in three different states.
- Opened its first Charitable Gift Fund accounts in Indiana and Virginia. While the majority of our gift fund clients are still located in Pennsylvania, it has been enjoyable to expand that service to families

elsewhere. We currently have gift fund clients in 8 states.

- Opened several Charitable Gift Fund accounts for families from Old Order Mennonite groups. These were our first gift funds in those church groups, with all of our previous gift fund clients being from conservative Mennonite or Amish backgrounds.
- Began a micro-finance loans project in Haiti called the Open Hands Fund. Lyndon Swarey is serving a three-year term as our on-the-ground overseer of the Open Hands Fund project in Haiti. We are thankful that the LORD kept Lyndon safe through the earthquake.
- Received its first gift of IRA (Individual Retirement Account) monies. This donor was able to support charity instead of taking his minimum annual distribution, avoided the taxable income, and generously helped our two field-of-interest funds, the Wilderness Camp Project Fund and the Open Hands Fund. IRA gifts cannot be used to support the Charitable Gift Fund but can be used to support field-of-interest funds.
- Saw the Investment Management Agreement (IMA) Program grow to over \$10 million. We consider this to be important because it reflects more than a movement of dollars—it is a practical application of values. Conservative churches and nonprofit organizations are stewards just as individuals are stewards, and they are accountable for where they allow their resources to be used. This \$10 million of investments in the IMA Program represents a significant block of funds that has been pulled out of CD’s at secular financial institutions and shifted over to a faith-based program that benefits the brotherhood.

EXERCISING DISCRETION IN GIVING

Many different organizations appeal to you for financial support. Sometimes, by rearranging your priorities, you can increase your giving. Other times, like in the present economic downturn, it actually hurts quite a bit just to maintain your current level of giving. Not all who appeal for your financial assistance are equally worth, and you need to exercise discretion in your giving.

Recently, one of our new Charitable Gift Fund clients made a year-end contribution to his gift fund, and I was helping him work down the list of charities he was looking to support. As part of this service that we do for our Gift Fund clients, I acquired the audited financial reports for a few of the charities he had been supporting. One of the charities on his list was a nationally-known organization whose mission is Bible distribution. That’s a pretty worthwhile mission, isn’t it? The mission statement does look great, but the research revealed other things that did not seem quite so great . . .

1. This charity spent about 62% of its annual budget for salaries, benefits, and administration. This left only about 38 cents out of every dollar donated for Bible production and distribution.
2. This charity had stockpiled financial reserves of \$467 million. These had evidently been invested in the stock market, because their invested funds had suffered a loss of \$105 million in their last fiscal year.

Personnel are a justifiable expense in any organization (somebody has to do the work) and it does cost money to administer any work (copiers, annual audits, and legal fees do add up), but the

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Tim Thomas	Business Finance
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For Questions Or To Register, Call 800-653-9817, Ext. 0

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donor had not been aware that the charity was only spending 38% of his gifts for actual Bible production/distribution. Nor was he aware that the charity had stockpiled (and lost) many millions of dollars. In this case, the donor exercised discretion and decided to take that charity off his list and to give the funds elsewhere. Putting funds to the best use in God's Kingdom is important, and we are glad to provide background information and research to our gift fund clients when they need it.

Where do you give and how do you know that what you have given will be well used to advance Christ's Kingdom? It has been said that you shouldn't invest in anything you don't understand, and perhaps that should apply to our giving as well. What should we consider in exercising discretion in our giving?

LOCAL GIVING

Giving to the local church or to local charities improves my ability to have personal information about the needs that exist and what is being done with the funds. Sometimes the informal ways that conservative Anabaptists interact with each other can lead to inattention to details or sloppiness, but, if the giving is local, we can monitor that and address it with our brotherhoods.

GIVING TO CONSERVATIVE CHARITIES

Conservative Anabaptist charities exist simply because some needs are better met with a more organized response that is bigger than what one local church can handle. Directing our broader giving through these charities gains the benefits of their organization and economies of scale. Also, we have some confidence that people who share our beliefs and values will be leading the efforts, spending the money, and doing the work. Again, our informal bent can occasionally impact good accountability or raise an IRS compliance issue, but most of our conservative charities are making good-faith efforts to operate properly and are eager to make improvements and to correct any oversight that exists.

BROADER GIVING

I believe that there are many solid Christian (although not conservative Anabaptist) organizations which we can support without compromising our beliefs and values. Sometimes, these organizations are doing important Kingdom work that our own conservative charities cannot yet do as effectively. When you do give at this level, you should accept the responsibility to know what is being done with the funds, what values are held by the organization, and what kind of track record the organization has. If you are careful to do your homework, Kingdom work can be supported here as well. Ω

Amid the current atmosphere of economic uncertainty, Anabaptist Financial has been blessed with strong support from both investors and borrowers. In 2009, we experienced greater growth than in any previous year. Total assets managed increased by \$17.8 million, compared with an \$11.9 million increase in 2008. We opened up 316 new investment accounts and funded 97 new loans in 2009.

Currently, over 800 individuals have invested \$50 million with Anabaptist Financial. These assets have been used to fund 244 loans to individuals, families, and businesses within our conservative Anabaptist communities across 29 states. December was a particularly busy month at the office; we funded 20 new loans and opened 31 new investment accounts.

Anabaptist Financial's plans to receive investments from Ohio are delayed because of state filing requirements we encountered as we began the process of registering. We will not be able to receive funds from Ohio investors this year as earlier projected, but are on track to offer an investment option in Ohio within two years. We have also begun the reg-

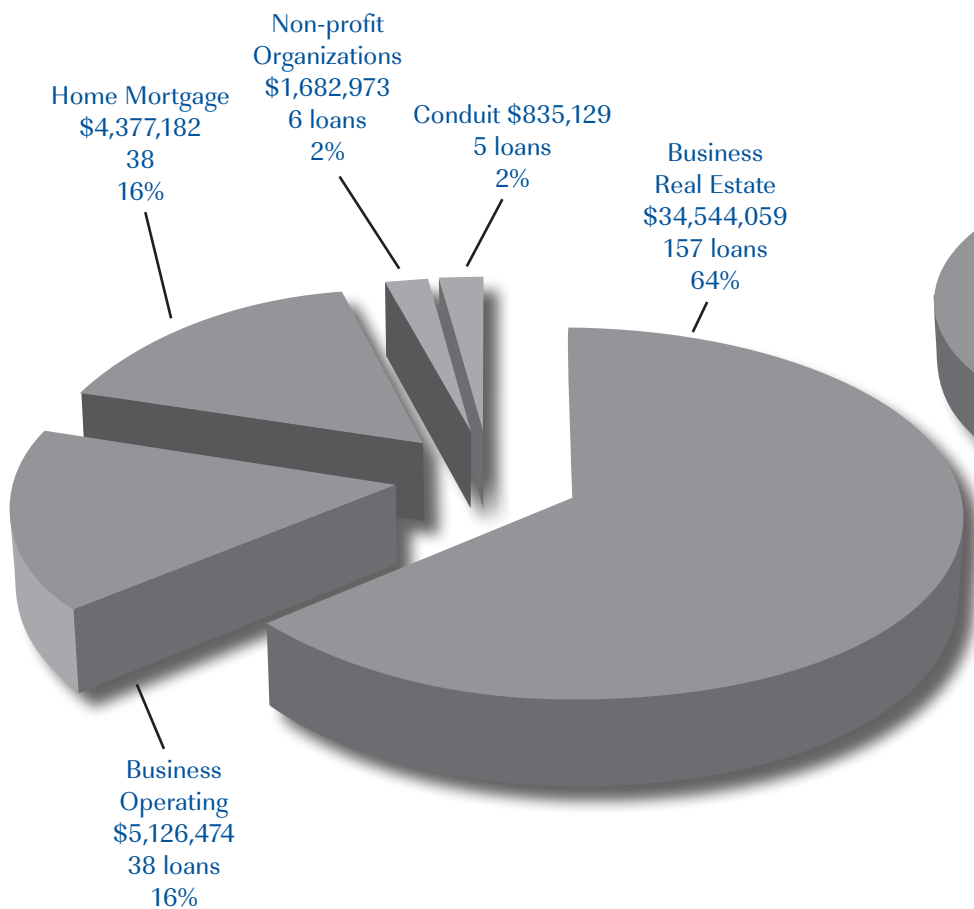
istration process in the state of Maryland, and hope to have the capability to receive investment funds from participants in that state in the near future.

Recently the AF Board of Directors approved a limit to the percentage which interest rates can change in a given quarter to one-half of one percent (0.5%); this limit applies to both loan and investment accounts. Although rates are now stable, we believe this measure will provide greater protection for our borrowers and increased stability against interest rate volatility.

At the office, we are constantly seeking to enhance the security and integrity of client information. We have taken additional measures to protect client data, and in addition to our regular backup procedures, we now have a fully automated off-site daily backup of our files and data.

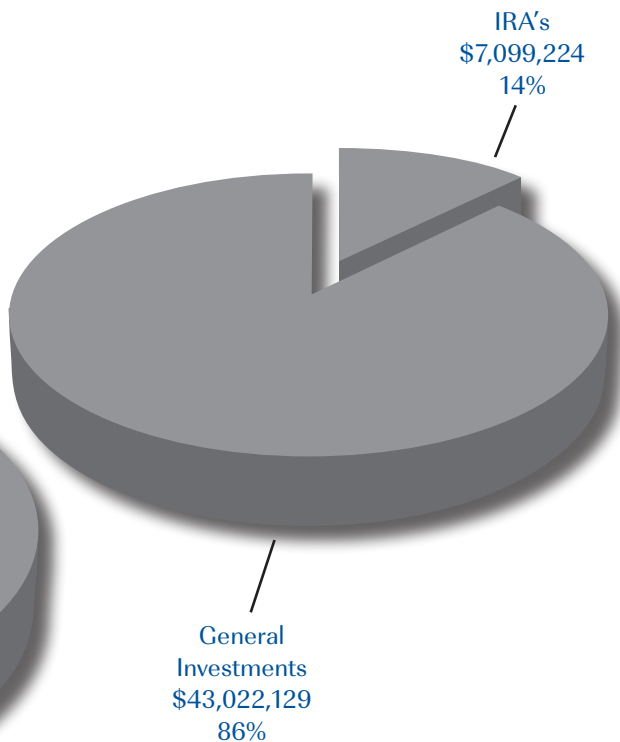
We appreciate clients who take the time to contact us with suggestions and comments. Our goal is to continue providing an efficient investment and loans pool within our conservative churches. Please take a moment to let us know how your experience was with Anabaptist Financial. Ω

Loans by Type



Assets Managed

Total Investments: \$50,121,353



Surviving a Crisis

The following story is a composite of several situations. Names, locations, and other facts have been changed to illustrate and simplify the case.

Henry was jolted awake by the shrilling phone at 1:15 Tuesday morning. “Your plant is on fire!” Throwing on some clothes, Henry sped to the plant. He could see the flames several miles before he arrived at the road block of fire trucks, police, and rescue equipment.

He watched from a safe distance as the flames destroyed buildings, equipment, and paper records—years of work and details. When the flames finally died down, his plant was destroyed, and his business—apparently—in shambles.

Later that day, as he retraced his path home, his mind and emotions were in turmoil from the shock, but he had a plan. At home, Henry went immediately to his file cabinet and removed a large folder marked ‘Plant Emergency.’ A great calmness settled over him as he opened the folder and perused the contents. He found the list of all of his equipment including brand, model numbers, and suppliers. There were detailed prints of the building, and measurements of the locations of all of the equipment. One sheet listed the name and phone number of his insurance adjuster, together with policy number and the amount of coverage. Another sheet gave the names and phone numbers of his employees. How grateful he was that he had not only prepared a plan, but that he had had the foresight to keep a duplicate copy at home in addition to in the plant, where it would now be ashes.

Early the next day, his key employees began arriving at his home. The living room became a command center. Using the building blueprints for the size needed, one employee started a search of available buildings in the area, where they could set up a substitute plant and get quickly operating again. Some were phoning vendors in an effort to locate either the same or similar equipment. Another was calling competitors to learn if they had any excess capacity which Henry could use until he could resume operation.

While everyone was galvanizing for action, Henry was studying the dream plan he had developed off and on over the past few years. It outlined a more productive workflow arrangement. His “wish list” of robotic equipment was on it, together with vendor and budget information.

Henry’s wife Heidi meanwhile was using the employee list to call all of the employees, reassuring them that the business was being rebuilt and that each still had a job. She also asked them to join Henry at the community center that evening to discuss what each of them could do until a new plant was ready for operation, and to learn Henry’s plan for their continuing income. A fire was bad enough, but losing his experienced and valuable employees would have been worse. Proactive Henry didn’t want them to begin scattering, looking for another job.

Henry was able to take a breather that weekend and assess their recovery progress. How thankful he was that he had prepared for just such an emergency. In fact, he had started planning for an emergency soon after going into business, and each year he reviewed his “kick start” plan, revising it to reflect changes as his business grew.

No, he hadn’t even considered a fire. It was tornados which usually permanently closed businesses in his area—that and major floods which occurred about every 25 years when the Blue River overflowed its banks and ran 15 feet deep down Main Street.

His brother Sam called him later in the day to commiserate with him. He was more help than Job’s three friends, too. Their conversation drifted to Delaware Custom Products. It too had been a thriving business. But the owner had done no emergency planning, and his plant never reopened after a disaster there—one which destroyed not only his physical plant, but also his business and livelihood.

Sam wisely cautioned his friends: “Don’t let a single blow bring down the whole house; do your emergency planning in advance.”

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Since its inception in 2004, our Board of Directors has maintained two solid commitments: (1) to maintain accountability to our conservative church constituency, and (2) to operate in careful compliance with all applicable state and federal regulations. Both Anabaptist Foundation and Anabaptist Financial maintain 501c3, tax-exempt status with the Internal Revenue Service and undergo annual, independent audits, which are available for public review. Additionally, Anabaptist Financial has operated, from its very beginning, under a prospectus granted by the Pennsylvania Securities Commission, which has given its approval to our investment and loans program. [If you have questions concerning these matters, we would be glad to answer them. Ω](#)

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as described and you can remain anonymous.

The procedure for initiating a conduit loan is quite simple. The Lender opens an investment account at Anabaptist Financial, equal to or exceeding the amount of the conduit loan, and agrees to leave his investment funds at Anabaptist Financial for the length of the loan. The Lender's investment is security for the loan, and he assumes all risk in the event the Borrower is unable to repay the loan. The Lender assigns the term length and interest rate for the loan; the rate of return he receives on his investment account is equal to the interest rate on the conduit loan less a nominal fee which AF accesses for facilitating and servicing the loan. The Borrower pays a one-time loan

origination fee to Anabaptist Financial, which varies slightly depending on the circumstances of the loan.

Conduit loans are an excellent way to help someone start a business venture or purchase a property—someone that is reputable and financially sound, but who may lack the equity position a bank requires, or whose income requires a low-interest rate. A conduit loan is ideal for someone who wants to help a needy family member or church brother with a low-interest loan.

Are there times when a conduit loan is inadvisable? The same prudent lending principles that a financial institution uses to determine whether or not a person qualifies for a loan should also be applied for conduit loans. Will the borrower be able to make his loan payments? Is he borrowing more than

he can realistically be expected to repay? Does he have good character and a reputation for wise handling of finances? Is his business plan sound? These and other considerations are vital when considering a conduit loan to an individual.

At Anabaptist Financial, we recently updated our accounting software to better accommodate conduit loan servicing. We believe that many of our constituents will find conduit loans an attractive option, and are pleased to offer this service. Please contact the AF office if you have questions, or if you would like to initiate a conduit loan. Ω

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