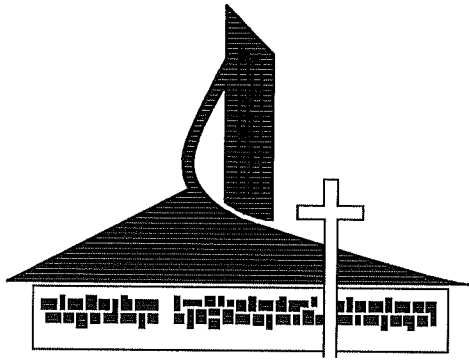


LACE: 35 YEARS OF GRACE



CHALLENGES AND OPPORTUNITIES 1985 - 1995

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Church History 331B
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LACE : 35 YEARS OF GRACE
CHALLENGES AND OPPORTUNITIES, 1985-1995

There are at least two ways of dealing with a new set of circumstances. One way is to see the challenging new situation as a problem. Beset by worry and self-pity, the affected person throws up his hands in a gesture of "What shall I do?" The other approach is to view the changing circumstances as an opportunity rather than a problem, facing it with the confidence that God will provide a solution to the problem.

The latter mindset has been evident throughout the history of the Lutheran Association for Church Extension, Inc. (LACE). The organization has been faced with a number of changes and challenges in its recent history. LACE has received an ever-increasing number of loan requests. The administration of the home office had grown to the point that it could no longer be handled by its part-time staff. Office space able to accommodate its equipment and staff was sorely needed. But all of these challenges can be met happily, realizing that they are the byproducts of a thriving corporation.

Under the hand of God and through the faithful labor of many dedicated pastors and lay people, LACE has grown by leaps and bounds since its modest beginnings thirty-five years ago. The corporation now has four workers on staff: Executive Director Leon Brands, office manager Roland Bode, secretary Cindy Hein, and computer consultant Rev. Paul Kuske. Pastor Kuske, recently retired from the ministry, was the second president of LACE and one of its founding fathers. All staff positions except the executive director are presently part-time positions.

I interviewed my grandfather, Mr. Roland Bode, for some of the information contained in this paper, but for the most part he deferred to Mr. Leon Brands, who has been LACE's executive director for the last four years. I also interviewed Rev. Herbert Lichtenberg, pastor of St. John Ev. Lutheran Church, Milwaukee, who represents LACE in the Southeast Wisconsin District.

The formation and early history of LACE has been covered quite thoroughly in *Growing and Giving : A History of LACE From 1960-1985*, by John D. Kuske. It is not the intent of this author to cover that period of history again. The past shall still be taken into account, however, as this paper considers the progress of LACE in the ten years following that history. This paper shall consider the continued grace which God has shown LACE in the challenges and opportunities he has sent their way from 1985-1995.

It is helpful for the reader to learn or review the workings of LACE in order to fully understand and appreciate the history of the past ten years.

HOW DOES THE CORPORATION GET ITS CAPITAL?

Simply, it gets funds from members of the WELS and ELS through the sale of LACE certificates. People may choose to invest in either regular or designated certificates. By purchasing regular certificates, the investor permits LACE to loan the money wherever it chooses. Designated certificates, formerly known as the "ear-marked loan,"¹ are restricted to a particular project--normally, the project currently undertaken by the investor's home congregation or a neighboring congregation. Relatives and friends

¹ John D. Kuske, *Growing and Giving : A History of LACE From 1960-1985*, p. 3.

living in other states may purchase designated certificates on behalf of congregations in states where LACE is not registered to sell certificates.²

Certificate sales in the year ending June 30, 1995 totaled \$2.76 million. This figure includes \$1.9 million in new sales. The balance is from renewals of certificates which had reached their maturity. One of LACE's continuing goals is to get its investors to see that their money can still be put to use by other congregations once the immediate need of their congregation has been met. During this same fiscal year LACE paid out slightly less than \$800,000 to investors who chose to discontinue their investments.³

LACE has engineered some resourceful ways to help people invest. For example, some Individual Retirement Accounts (IRAs) allow owner-directed investments. Perhaps the most inventive method to invest in LACE is by borrowing against the cash value of one's life insurance policy. Life insurance policies, except term and group policies, have a cash or loan value. This amount may be borrowed, usually at a very favorable interest rate. The insured then invests what he has borrowed from his life insurance policy in a LACE certificate. The benefits for the insured will not change. Upon death, the insurance company will pay the full policy value, less the value of the loan. Redeeming the LACE loan would then give the investor's family the remaining policy value, if they wished. In this way, the funds can be put to LACE's worthwhile use, rather than the use of the insurance company.⁴

² See **Registration**, p. 8f, for the California issue.

³ *National Offering Circular*, p. 14.

⁴ *Where Can We Find the Resources For Investments With LACE?*, LACE publicity material, Jan. 1996.

HOW DOES THE CORPORATION HANDLE ITS FUNDS?

That question could be answered simply by, "Very well," but the question deserves a more detailed explanation. The primary use of funds is for loans to churches, which is the reason LACE was founded. But for the sake of financial stability, funds need to be dispersed. For this reason, LACE keeps between three and five percent of its assets on reserve.⁵ A portion of this reserve is kept in accounts which can easily be accessed should the need arise. This liquid reserve constitutes the second portion of LACE's assets. Thirdly, sometimes the corporation has money which is not presently on loan to any congregation. Some of its reserves are invested in securities and other investments of slightly higher risk, in order to generate a greater return for its investors, and a lower rate to congregations. These funds are known as deep reserves. Deep reserve funds would only be touched in an emergency, for instance, in the event that many investors at once should choose to withdraw the principal amount of their investment.⁶ On these moneys LACE generally earns significantly more interest than a simple bank account would accrue. Examples of deep reserves include government securities, treasury certificates and corporate debt instruments. Through careful investing, LACE earned a return of 4.67 percent on the investment of its reserve funds last year.⁷

The corporation is regularly audited by an independent Certified Public Accountant to make sure the records are in order. LACE also receives advice on how to put its cash reserves to the best possible use.

⁵ Brands interview.

⁶ Bode interview.

⁷ *National Offering Circular*, p. 14.

REPAYMENT

It seems rather obvious that LACE would not be able to function without congregations repaying their loans. The organization does not exist to make gifts that will not be repaid. Standard repayment schedule is one percent of the principal amount per month. In this way, repayment should occur in twelve years. In the repayment process, one of the many advantages of LACE becomes apparent. LACE is much more understanding about late or missed payments than are public financial institutions. Problems in this regard have been few and far between. Exercising patience and persistence, LACE has never had a default on a loan in its entire thirty-five year existence. What a blessing this has been! With the basic workings of LACE freshly in mind, we turn our attention to the years 1985-1995.

IT KEEPS GROWING...AND GROWING....

LACE has undergone a constant process of expansion during the last ten years. The corporation has kept growing to meet the needs of the established churches in the WELS and ELS. This growth can be seen in three principal areas: finance, geography, and organization.

The primary measurement of the strength of a financial organization is the amount of resources or capital it controls. LACE has experienced tremendous growth in the amount of the finances it handles. As of July 12, 1985, LACE had loaned \$4.8 million to congregations since its founding. This is a significant amount of money. But God did not stop there; he has continued to bless and multiply LACE's operating capital. As of

January 1996, LACE had loaned over \$16.1 million, and had nearly \$12 million *currently* invested in WELS and ELS congregations. Some may suppose that this growth is little more than inflation. To be sure, building costs have risen steadily, so naturally the amount which congregations ask LACE to provide has increased as well. Even after inflation is taken into account, one who examines the balance sheets cannot help but see the hand of God in such exponential growth. WELS and ELS investors have supported LACE with their savings as they never have before. This growth in financial strength has meant that despite the shrinking value of the dollars it controls, LACE has been able to meet *almost all* of the requests for assistance that it receives.

On the subject of financial strength, LACE has reached another milestone. It was not all that long ago that LACE resources topped the \$1 million plateau. Just recently, however, LACE has eclipsed that number in a single project. Salem Ev. Lutheran Church in Stillwater, MN applied for and received LACE assistance for a \$1.1 million building project. While this is the first LACE-assisted project to top the million dollar mark, it opens the door to larger and larger loans.

Not only can the growth of LACE be seen on a fiscal balance sheet, it can even be charted on a map. More and more congregations have sought LACE assistance in financing their projects. The organization, which at one time only served Michigan congregations, continues to branch out in service to WELS members in other states. Since July, 1985,⁸ the first loans were made to congregations in Illinois (August, 1985), New Jersey (December, 1989), Indiana (March, 1990), Oregon (January, 1991), New

⁸ This is the last month noted by J. Kuske in *Growing and Giving*, p. 12.

Mexico (September, 1993), and most recently Idaho (June, 1995). This brings the number of states in which LACE has aided congregations from sixteen to twenty-two.

The financial and geographical growth have quite naturally necessitated changes in the administration. However, some administrative aspects remain unchanged. LACE still operates under a Board of Directors.⁹ The Board meets bimonthly for the purpose of approving LACE loans and reviewing and dealing with other matters. As for the membership of the Board, "The bylaws of LACE require that two-thirds of the LACE Board members be WELS laymen with business experience and one-third be WELS pastors."¹⁰ LACE is organized in such a way "in order to balance business and spiritual values."¹¹ The Board consists of laymen with backgrounds in law, banking or business to ensure that the corporation runs efficiently and practices wise stewardship of its financial resources. The Board includes WELS pastors so that the corporation remembers that its reason for existence is not to make a profit, but to aid in Kingdom work through its loans to congregations.

The work had steadily grown to the extent that a director had to be hired. Up to this point, LACE had been managed well by those long familiar with its workings. Pastor Scheele had passed the mantle of leadership to Pastor Kuske. Both of these pastors served in the parish ministry while at the same time directing the affairs of LACE. Fifteen years after Pastor Kuske took the lead, it was time for the corporation to grow by adding a new position. Mr. Roland Bode, a retired school teacher and representative for Aid Association for Lutherans, became the first home office executive director. He served in

⁹ See Appendix A for current listing.

¹⁰ *National Offering Circular*, p. 3.

¹¹ *Initial Information Handbook*, p. 2.

this capacity from 1982 to 1992. It was in 1992 that circumstances, detailed later, necessitated a full-time executive director, who would also be its first leader from outside the organization. Brands, who had formerly served seventeen years as a Lutheran elementary school teacher, was informed by his pastor that the Board was looking for a full-time director. Brands has^d some experience in computers, finance and management, but feels that his experience in the work of the church prepared him best for his position as executive director.¹²

The growth of LACE can also be charted by the amount of office space it has occupied over the years. The LACE business office was located for a long time in the basement of the Bode home, on West Genesee Road in Saginaw. Then in the late 1980s the office moved a few blocks, into a basement room at Michigan Lutheran Seminary (MLS). When the Board of Directors made the decision to hire Brands, it made sense to rent office space as well. The MLS quarters were not large enough to accommodate the expanded staff and equipment that had become necessary. So the “headquarters” was again moved. LACE now makes its home in an office large enough to suit its present needs. The building is located on the corner of Genesee and Bay Road in Saginaw.

REGISTRATION

In May of 1965, the Internal Revenue Service declared that moneys given to LACE were tax-exempt.¹³ Because LACE is a non-profit organization, it is exempt from regulation by the federal Securities and Exchange Commission (SEC). Unfortunately,

¹² Brands interview.

¹³ John D. Kuske, *Growing and Giving : A History of LACE From 1960-1985*, p. 5.

it is they are still required to register with the Corporate Securities Bureau of each state in order to sell certificates because LACE certificates fall under the legal definition of securities. The states wish to safeguard their people from fraudulent investment companies. This means that LACE must be registered with the Corporate Securities Bureau in each state where they have investors.

A problem arose in May of 1992. LACE was advised by legal counsel that its sale of certificates prior to that date (1960-1992) did not comply with the securities laws of certain states regarding securities of nonprofit organizations. Upon receiving this advice, LACE immediately ceased sales of certificates in all states. LACE also prepared an offering circular and adopted certain policies and control measures to ensure that its ongoing activities would comply with federal and state securities laws. LACE has implemented office procedures and has reprogrammed its computer software to monitor compliance with laws and regulations in the states in which it offers certificates.

The *National Offering Circular* detailed the respective settlements which LACE reached with two states. On October 7, 1992, LACE paid the Illinois Securities Department \$544 in payment of prior registration fees, interest, and costs for failing to register as an agent. LACE also submitted an affidavit detailing the manner in which it will insure compliance with future registration requirements. Thereupon the Illinois Securities Bureau dismissed all further proceedings against LACE.¹⁴

On April 12, 1993, LACE made an agreement with the Division of Securities and Investor Protection of the State of Florida Department of Banking and Finance, in which LACE admitted to selling certificates to 104 Florida investors while not registered. LACE

¹⁴ *Op. cit.*, p.5.

agreed to reimburse Florida \$2,500 for investigative costs, and in return the Florida Department agreed to approve LACE's application for registration as an issuer/dealer in the State of Florida.¹⁵

Since May of 1992, LACE has been working toward certification by the states where large concentrations of WELS members are located. As of April 1996, ^{it} ^{is} they were certified in fifteen states. Naturally, the regulations vary quite substantially from state to state. Some states have required little more than notification that LACE intends to sell securities there; such a no-fee policy is called "registration by notification."¹⁶ Other states are not so accommodating, and require a substantial fee to register. California is one state with extraordinarily stringent registration requirements, which LACE has not met as of this writing. Accordingly, LACE is not permitted to sell its certificates in California. It still may, and does, lend money to congregations located in California and other states in which LACE has not met registration requirements.

HOW DOES A CONGREGATION GET MONEY FROM LACE?

Pastors and future pastors should be aware of how a congregation taps into the LACE resources. Upon request, LACE will send the congregation a copy of the Initial Information Handbook and a loan application. After receiving the congregation's application, LACE offers its services in planning the various aspects of the program.¹⁷ The congregation's next priority is to determine whether it will employ the Optional Interest Program (OIP) or Standard Interest Program (SIP). If a congregation opts for

¹⁵ *Ibid.*

¹⁶ Brands interview.

¹⁷ See Appendix B for LACE's decision tree.

the SIP, the member loans all receive the same amount of interest. In the OIP, each member determines what rate of interest he/she needs on his/her investment. A ceiling is placed on this rate by the congregation, so that the maximum may not be above two, four, six, or eight percent, for example. The advantage to the congregation is that the lower the average interest requested by the members, the lower the rate of interest on the church's loan.

The ratio of congregational funding which LACE requests in a project is two-thirds congregational to one-third LACE. That means if a congregation is seeking to finance a project with a total cost of \$75,000, members should purchase LACE certificates in the amount of at least \$50,000. The advantage for the congregation in this structure is that the members feel more involved and actively support the project to a greater degree, so the endeavor is not perceived to be merely a project of the church council or a decision of the pastor. This two-thirds to one-third structure is intended to maximize the number of projects LACE can assist, and serves as a general guideline rather than a strict rule. LACE has made exceptions depending on circumstances and supplied as much as 50 percent of the financial resources.

HOW DOES LACE PAY ITS OPERATING EXPENSES?

LACE strives to keep its operating costs at a minimum. But the staff salaries, office rental, and equipment purchase and upkeep all require money. LACE charges seven percent interest on the funds which it contributes. In the hypothetical \$75,000 project listed above, LACE would charge seven percent on the \$25,000 it provides. In addition, it

collects a two percent administrative fee on the amount the congregation supplies. This fee covers the cost of the paperwork involved in confidentially keeping record of each member's investment and interest accrued. LACE also charges a one and one-half percent closing fee on the cost of the entire project. How does the congregation keep track of these fees? It doesn't need to. LACE adds these separate charges to the one percent repayment of the principal which is supposed to be paid each month and rolls them up into one payment due. This way the congregational treasurer only has to write one check each month. The procedure seems to be very sensible and is designed to save the congregation a lot of difficulties due to paperwork, emergency withdrawal, and confidentiality.

BANKS VS. LACE

What is the advantage of LACE over a public lending institution? In some cases, banks won't ^{lend} ~~loan~~ to congregations. On each application, the loan officers of the bank consider the risk of a default on the loan and weigh it against the value of the collateral. Some banks consider congregations poor risks since their collateral, the church building, is not very marketable. Few buyers would be interested in the site, both building and land; most would want the land alone. On such a transaction, the bank could stand to lose money.

This does not mean, however, that public financial institutions will *never* lend to a congregation. In some cases, a public lending institution may be very willing to ^{lend} ~~loan~~ to the congregation, perhaps even at a favorable rate. Brands cited the examples of WELS churches in Fond du Lac and Ft. Atkinson which had long-standing relationships with the

bank. These two congregations actually received a better rate on their loan than LACE would have been able to give.

Each congregation should examine its relationship with the community lending institution. The case may be that the local institution has handled the congregational accounts for many years, or has handled the accounts of many members. Perhaps a congregation member even sits on the Board of Directors at the bank. Brands said that LACE encourages congregations to investigate the availability as well as the rate of a loan from its local banks before it locks into a loan. LACE is certainly not offended if a congregation secures a loan through another agency or institution; it simply seeks to help congregations for which securing or financing a project loan would pose a problem.

Another advantage in using LACE assistance is that there are no added fees apart from those already specified. Many lending institutions require a site inspection or an environmental audit, which may cost five to seven thousand dollars.¹⁸

A “SATISFIED CUSTOMER”

I have met a number of pastors and laymen who have dealt with LACE and call themselves “satisfied customers.” One such pastor is Rev. Herbert Lichtenberg, pastor of St. John Ev. Lutheran Church in Milwaukee. St. John congregation has had two loans through LACE. In 1992, they borrowed \$600,000 to build an addition to their Lutheran elementary school. The following year, they borrowed an additional \$175,000 to purchase the land adjacent to the church, which they needed for parking space. Pastor Lichtenberg estimated that he had been involved with LACE for approximately 17 years. He now

¹⁸ Brands interview.

serves as the LACE contact man for the Southeast Wisconsin District. He publicizes LACE, distributes printed materials,¹⁹ and generally “lets them [pastors and congregations] know I’m here to help.”²⁰ Since he plans to retire from the pastoral ministry this summer, he has trained a member of his congregation to give LACE presentations in the metropolitan Milwaukee area. “With the video and information packet, almost anyone could present the material,” he confides, “but I think it helps that our congregation has had such a positive experience with LACE.”²¹ When he makes a presentation on LACE to a congregation, he tailors the loan information to the congregation by showing how easily the goals could be reached. The following is an example of a customized report, using information from LACE publicity and a fictional congregational situation:

Calvary Ev. Lutheran Church

We need to borrow \$175,000. Our members need to raise at least 2/3 of this amount (\$120,000), which is invested in the LACE Designated Certificate/Optional Interest Program. The cost to Calvary on that portion of the loan is 2% above the average rate of interest paid to the investors in these certificates. LACE lends the remaining 1/3 (\$55,000) at 7% interest.

Calvary has decided to use LACE (Lutheran Association for Church Extension) for funding our project. We will be using their Designated Certificate/Optional Interest Program. We are asking our members to invest in LACE with the investment designated for our program. Members investing in LACE will receive the rate of interest they choose (up to 6%). LACE will lend this money to our congregation, adding 1/3 more from its own coffers.

Total financing need	\$175,000
D C s raised by the congregation	120,000
LACE commitment from its own funds	55,000

¹⁹ For an example, see Appendix C.

²⁰ Lichtenberg interview.

²¹ Ibid.

Below is a typical mix of the number and amounts of certificates purchased to meet the congregations DC goal (funds may be obtained from personal savings accounts, insurance policies, personal mortgages, etc.):

Four	\$10,000	\$40,000
Eight	5,000	40,000
Fifteen	1,000	15,000
Thirty	500	15,000
Forty	250	<u>10,000</u>
		\$120,000

FOR WHAT PURPOSES CAN A CONGREGATION GET LACE MONEY?

It should be noted that LACE provides loans to self-supporting religious organizations of the WELS and ELS for any number of material needs: new equipment, real estate or structures for the church or school, renovation of a parsonage or teacherage. LACE moneys have been used to start up preschool and day care programs, renovate and improve buildings, resurface a parking lot, build a storage shed, or purchase equipment. A congregation may use these funds toward a major purchase, such as a school bus, church pews, carpet, or an organ. LACE funds may just as easily be obtained to purchase needed equipment which is much less expensive, but which the congregation can still not afford to buy with the money it has on hand. Such items may include, but are not limited to, a computer or copier. LACE advertises the immediate availability (within one business day) of up to \$25,000, to be loaned at eight percent interest, which should be repaid in three years. A congregation may use LACE money to retire a loan from another source, such as a bank or even the Synod's Church Extension Fund (CEF). The advantage for a self-supporting congregation to pay off a CEF loan with a LACE loan may be a lower rate. In

addition to that possibility, CEF is able to reloan^{and} that money to another mission congregation. As easy as it is to get money from LACE for a myriad of uses, there is a limit to what can be done with LACE money. One restriction worth notice is that LACE does not give loans to meet operating expenses or budgetary shortfalls.

CONCLUSION

In conclusion, LACE has continued to serve our Synod well in the years 1985-1995. Our WELS members should be grateful to the staff, whose work far exceeds the compensation they receive, and also to the Board, who freely give time from their busy schedules to do this auxiliary work. Most of all, God deserves the glory for the wonders he has accomplished through the faith-motivated efforts of his people. The words of Solomon certainly apply. "Unless the LORD builds the house, its builders labor in vain" (Psalm 127:1).

Appendix A

LUTHERAN ASSOCIATION FOR CHURCH EXTENSION, INC.
DIRECTORS AND OFFICERS

Herman K. Weissmann (1975)
President (1995-)
Portage, MI

Richard Yonke (1990)
Vice President
Kalamazoo, MI

Raymond K. Vasold (1985)
Secretary
Saginaw, MI

Robert K. Bublitz (1990)
Chief Financial Officer
Livonia, MI

David Dogger (1989)
Vice President/General Counsel
Saginaw, MI

Leon Brands (1992)
Vice President/Executive Director
Saginaw, MI

Alfred Cereske (1994)
Saginaw, MI

Irvin Haase (1969)
Frankenmuth, MI

Richard Haase (1979)
Jackson, MI

Rev. Edgar M. Herman (1970)
Flat Rock, MI

Lowell E. Kraft (1986)
Pigeon, MI

Rev. James Mattek (1995)
Findlay, OH

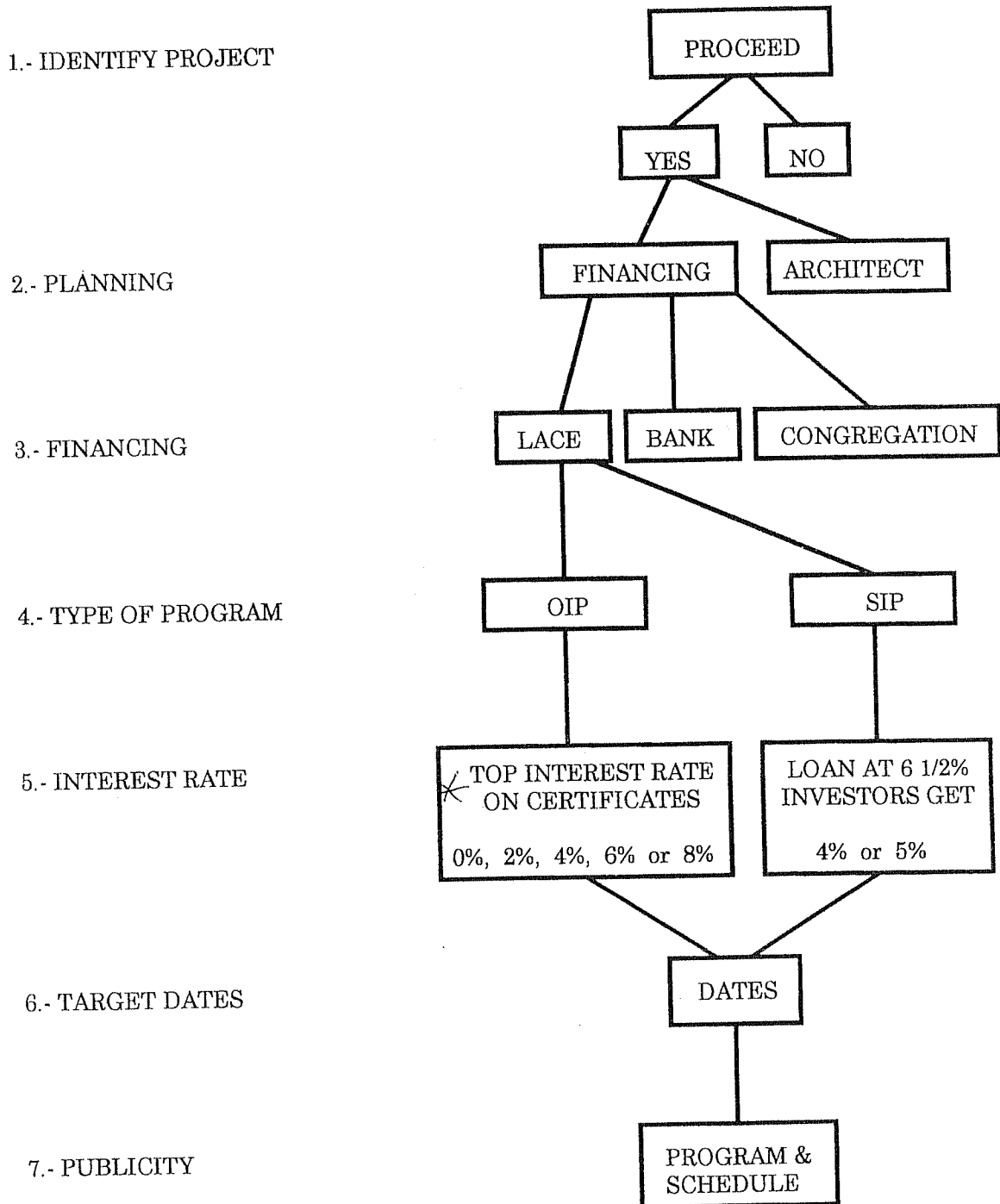
Rev. Richard Starr (1993)
Muskegon, MI

Lawrence Stebbins (1989)
Fruitport, MI

Douglas L. Sweet (1962)
East Lansing, MI

DECISION TREE

Appendix B



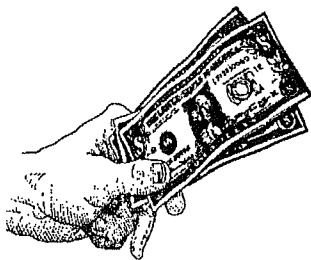
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Planning for.....

Appendix C

PRE-SCHOOL / DAY CARE STARTUP
BUILDING IMPROVEMENTS
STORAGE SHED
PARKING LOT
SCHOOL BUS
COMPUTER
COPIER
ORGAN

LACE CAN HELP!



- * Get up to \$25,000 within 24 hours
- * 8% interest
- * No security needed
- * No closing fee
- * 3-year repayment schedule



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Lutheran Association for Church Extension PO Box 6402 Saginaw, MI 48608-6402

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