



T E X A S
M E T H O D I S T
F O U N D A T I O N

**BECAUSE OF INVESTORS LIKE YOU, THE
FOUNDATION IS ABLE TO OFFER LOANS TO
GROWING CHURCHES – CHURCHES THAT PROVIDE
SUPPORT AND SOLACE DURING DIFFICULT TIMES
LIKE THESE. ON BEHALF OF THE FOUNDATION AND
THOSE FOR WHOM YOU ARE CREATING A SAFE
REFUGE, WE THANK YOU.**

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TO OUR METHODIST LOAN FUND INVESTORS
TEXAS METHODIST FOUNDATION ISSUES A RESPONSE
TO THE CURRENT MARKET SITUATION

September 30, 2008



A message from the president . . .

Our national economy is on unsteady ground. During the last several weeks, a number of large U.S.-based financial institutions have failed due to losses incurred primarily from risky home mortgages. We understand our investors may have concerns about the financial impact these events might have on their investments here. We have attempted to address those concerns with this communication.

Please know that the Texas Methodist Foundation does not now, nor will ever, engage in practices such as subprime lending and other high-risk transactions that led to these failures.

Your Methodist Loan Fund/Individual Fund (MLF) investment with us is not a bank deposit simply earning a return: it is an investment in ministry backed by the Foundation's exceptional level of financial strength. Strict underwriting and lending policies, implemented by an experienced staff and closely monitored by a highly-qualified board of directors, ensure investments not only positively impact communities but also rest on sound financial management. Those "best practices" support the long-term stability of the fund and the churches we serve, and have resulted in our impeccable track record of never having suffered a loss of principal on a loan we originated.

A key difference between these troubled financial institutions and the Texas Methodist Foundation is this: **ultimately, they work for the benefit of their shareholders; we work for the benefit of God's dreams by advancing the mission of The United Methodist Church.**

If you have any questions or concerns not addressed here, please feel free to call me. In addition, you may view prior communications, unaudited consolidated financials for the current year, audited 2007 financials, as well as a list of our board members at www.tmf-fdn.org.

For the Foundation,

Tom Locke

QUESTIONS AND ANSWERS

What is "subprime lending"?

Subprime lending generally refers to real estate mortgage lending which carries a higher level of risk (such as a lower than desired credit status of the borrower) than more conventional loans and, therefore, carries a higher interest rate and often a higher "loan to value" ratio. Should the borrower suffer financial difficulties and default on the loan, a loss to the lender may occur if the value of the real estate has declined.

Has the Texas Methodist Foundation ever engaged in subprime lending?

No. All of our loans are to United Methodist churches or institutions and are based on the same fair, conservative guidelines we have always employed. Our loan delinquencies remain within their historic range, between 1% and 3%, which is extremely low, and our record of never having experienced a loss of principal on any loan we originated remains intact. In addition, the typical loan in our portfolio carries a balance of approximately 40% of the property value, another healthy indicator of viability.

What has been the effect of this unsteady economy on the Foundation?

As stated above, the high quality of our loan assets is unchanged. The MLF does not invest in mortgage-backed securities, mortgage derivative instruments, or other investments directly affected by declining real estate values, thus the quality of the MLF is unaffected. In addition, our projected net income in our operating budget remains on target.

We have been especially encouraged by the response of several highly respected congregations who have reduced their bank deposits and increased their investments with us in what they feel is a "flight to security."

What other measures has the Foundation undertaken in response to these times?

Understanding that the best antidote to uncertainty is liquidity, we are exercising even more diligence and caution than ever in monitoring our sources of liquidity and assuring more than adequate funds are available to meet anticipated needs. Additionally, understanding the needs of our investors for information about the security of their investments, we are especially mindful of the importance of communicating with you. We will continue to keep you posted by mail and/or email. You may also access all messages via the website or by giving us a call.

HOW ARE THE FOUNDATION'S FUNDS SECURED?

A long history of financial stability – With over \$330 million in assets, we are the largest United Methodist foundation in the denomination. Since our first loan in the early 1960s, our loan portfolio has grown to approximately \$267 million (425 loans), making us the most experienced lender to United Methodist churches in the country.

Strict underwriting guidelines – In addition to securing our collateral position, our primary underwriting guideline has always been, and will remain, the ability of the borrower – through adequate cash flow – to repay the loan.

Undesignated Endowment (capital reserve) of \$13 million – Available to protect investors in the unlikely event such protection is needed, the Foundation's Undesignated Endowment has grown steadily and exceeds the board-determined range for capital adequacy, as shown in the chart below.

Sound management procedures closely monitored by our board of directors – Our statewide board includes professionals from banking, investments, accounting, real estate, information systems and planned giving. The loan committee, executive committee, and entire board exercise strict and constant oversight of Foundation loan activities.

TEXAS METHODIST FOUNDATION

