An Interview with Tom Locke

FRANK ANSWERS TO FAIR QUESTIONS

WHY IS THE TEXAS METHODIST FOUNDATION'S FINANCIAL STRENGTH SO IMPORTANT?

Like everything we do, the answer to that question starts with our core purpose – "to empower the Church in the achievement of her God-appointed missions" – and how that purpose is played out through our core values of servanthood, integrity, and competence.

Simply put, our mission is best achieved from a position of financial strength. The Foundation's culture that embodies our core purpose and values is most effectively lived out under the umbrella of strong financial integrity. We want the Texas Methodist Foundation to excel not only in our values but in our value as well.

SO, HOW DO YOU MEASURE FINANCIAL STRENGTH?

Going back to my experience in banking, I consider five critical areas examiners use to appraise financial strength:

- **Capital adequacy** – Our Undesignated Endowment of approximately $14 million protects Methodist Loan Fund (MLF) investors from risk of loss should we ever suffer a loss on a loan (which, to date, we have not). The income from these funds also gives us a funding source to continually grow our ministries in response to the changing needs of the Church in a constantly changing world.
- **Asset Quality** speaks to the quality of our loan portfolio. Our underlying goal of long-term vitality for the churches we serve and their fulfillment of God's dreams is reflected in the way we do loans. While our staff conscientiously strives to be helpful, they understand that the best way to serve – and to develop and honor a long-term relationship – is by sometimes saying "no." Because of that understanding, plus the skills accumulated in becoming the largest lender to United Methodist churches in the country, we are very comfortable with the quality of our loan portfolio. Even in this comparatively difficult economy, we are not seeing any substantial increase in risk within our loan portfolio.
- **Management** – Many of our Foundation senior executives and employees within the loan department come from banking backgrounds. Recently I was amazed to learn that the three senior staff members of the loan department have 75 accumulated years of lending experience and the average for the entire loan department is 18 years! David McCaskill, senior vice president of loans, is a former national bank president and examiner, and he, Robert Hoppe and Carol Nelson have developed a tremendous understanding of the financial profiles of the churches we serve.
- **Earnings** – As with any organization, we understand the need to maintain a balanced budget and to generate net revenue sufficient to support growth in assets and increasing ministries. We have a long history of being consistently successful in both areas.
- **Liquidity** – As a non-insured financial institution, we understand the importance of honoring our cash-flow needs, including expected and unexpected withdrawals from MLF investors. In addition to our own conservative forecasting of future cash flows, we maintain a $20 million line of credit with a local bank which we believe more than adequately covers unanticipated needs for cash.

HOW DO WE SET MLF RATES?

MLF rates are determined based on a combination of two objectives: our desire to be extremely competitive in our rates to investors; and our desire to charge as low a rate as possible to borrowers. The difference between what we earn and what we pay provides roughly 85% of our net operating revenues. Given our spotless loan collection history and our not-for-profit status (exempting us from taxes, fees, and shareholder returns), we can operate on a much narrower margin than a for-profit institution.

SUMMARY COMMENTS

In closing, let me stress again the critical significance of financial integrity. Maintaining a solid financial footing allows us to best build the resources necessary for the accomplishment of God's dream for humanity – which is, ultimately, what this enterprise is all about.

11709 BOULDER LANE, SUITE 100, AUSTIN, TEXAS 78726-1808 ■ PHONE: 512/331-9971 ■ TOLL-FREE: 800/933-5502 ■ EMAIL: TMF@TMF-FDN.ORG ■ WWW.TMF-FDN.ORG