

# Lutheran Church Extension Fund's Cost of Funds

## What is it?

Simply put, cost of funds (COF) is the interest that a financial institution must pay to its investors for the use of their money to make loans to borrowers.

## How is it calculated?

Lutheran Church Extension Fund (LCEF) determines its COF by calculating the amount of interest paid on each investment and then dividing the total interest paid by the total dollars invested. See the example at the bottom of the page.

## How is COF related to LCEF loans?

Different from other financial institutions, LCEF uses its COF as a basis for setting loan rates. In doing so, LCEF has more control over the rates offered to borrowers.

## How do banks set their loan rates?

Many banks base their loan rates off of external indicators such as the 5-Year U.S. Treasury bill, LIBOR, SOFR or the prime rate. These rates tend to fluctuate frequently, unlike LCEF's loan rates which remain fairly steady over time because they are based on our internal cost of funds.

## As a borrower, what are the benefits of partnering with LCEF vs. a local financial institution?

1. LCEF has served as the financial extension of The Lutheran Church—Missouri Synod (LCMS) since 1978, offering funding and resources in support of the church. Our mission is to support the LCMS by ensuring that financial resources and related services are available now and in the future.
2. A major advantage of having your loan rate based on LCEF's COF is its stability. The COF at LCEF remains fairly stable over time and is not subject to the rapid fluctuations often experienced in the commercial market. Lenders must add a margin to their loans. LCEF adds a "spread" to the COF to determine the actual rate.

### Example:

TYPE OF INVESTMENT	(A) DOLLARS INVESTED	(B) RATE PAID	(C) COST TO LCEF
Demand Account	\$100	1.00%	\$1.00
2-Year Term Note	\$500	2.00%	\$10.00
5-Year Term Note	\$600	2.50%	\$15.00
TOTALS	\$1,200		\$16.00

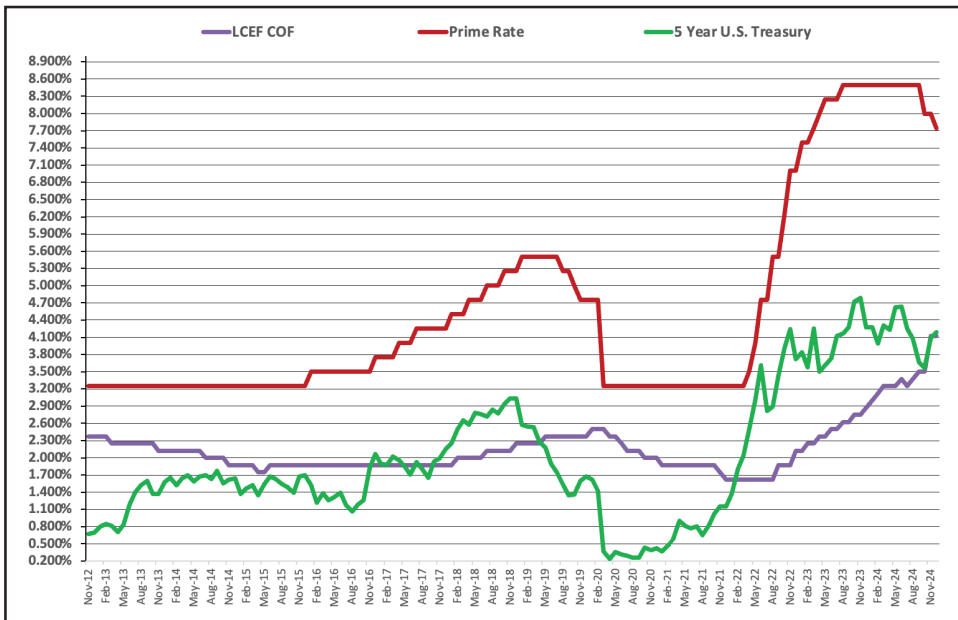
COF equals 2.17% (\$16 divided by \$1,200)

## About LCEF

LCEF is blessed to join with LCMS congregations, schools, Recognized Service Organizations, new mission starts, international ministries, pastors, teachers and thousands of investors who are passionate about ministry! LCEF exists to assist ministries with funding for building, upgrading or remodeling, as well as for rostered church workers to secure housing or home equity loans. These loan dollars are provided through LCEF investments that are offered to individual and ministry organization investors who want to see their investments used to support the growth of the church.

# Cost of Funds Comparison as of December 2024

## Cost of Funds Comparison Nov. 2012 - Current



INTEREST RATE INDICES	LOW	HIGH	RANGE
5-Year U.S. Treasury	0.24% (April 2020)	4.95% (Oct. 2023)	4.71%
Prime	3.25% (March 2022)	8.50% (July 2023)	5.25%
LCEF COF	1.625% (Aug. 2022)	4.125% (Nov. 2024)	2.50%

As shown above, over the past five years, LCEF's rates remain relatively steady while rates based on external indices have wider fluctuations.

When it comes to loans, one difference between LCEF and many financial institutions is that LCEF uses its COF to set loan rates. By tying loan rates to our COF, LCEF avoids volatility in its loan pricing over the years.

These charts show how LCEF loan rates have performed over time vs. bank rates based off of various indices. As the charts indicate, the external indices used by other financial institutions tend to be more volatile compared to LCEF's COF.

Because our COF are based off of rates paid on

deposits, any increases or decreases are incremental, normally changing monthly as opposed to daily with other indices commonly used by other lenders. In addition, because of the size of LCEF's deposit base, the changes are normally very small, most often in increments of 1/8%. This stability provides our borrowers with a better ability to manage cash flows over time.

LCEF's current COF is 4.125% for December 2024.

See [lcef.org/loan-rates](https://lcef.org/loan-rates) for current offerings.



**Lutheran Church Extension Fund**

> where investments build ministry

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LCEF is a nonprofit religious organization; therefore, LCEF investments are not FDIC-insured bank deposit accounts. This is not an offer to sell investments, nor a solicitation to buy. LCEF will offer and sell its securities only in states where authorized. The offer is made solely by LCEF's Offering Circular. Investors should carefully read the Offering Circular, which more fully describes associated risks. Lutheran Church Extension Fund-Missouri Synod, 10733 Sunset Office Drive, Suite 300, St. Louis, MO 63127-1020. 800-843-5233. [lcef.org](https://lcef.org). NMLS #3444. Illinois Residential Mortgage Licensee (MB.0006057). Loans made or arranged pursuant to a California Law License (6037619). For more information on LCEF's lending license go to [lcef.org/state-disclosures/](https://lcef.org/state-disclosures/). 1224L019