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ARIZONA CORPORATION COMMISSION

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SECURITIES DIVISION
1300 West Washington, Third Floor
Phoenix, AZ 85007-2996
TELEPHONE: (602) 542-4242
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April 17, 1997

B. Rupert Koblegarde, Esq.
510 Mayer Building
1130 S.W. Morrison Street
Portland, OR 97205-2275

RE: Church Extension Plan, Vision Unsecured Promissory Note Program/No-Action
Request
A.R.S. § 44-1843(A)(6)

Dear Mr. Koblegarde:

On the basis of the facts set forth in your letters of February 20, 1997, and March 17, 1997, and in reliance upon your opinion as counsel, the Securities Division will not recommend enforcement action for violation of the Securities Act of Arizona should the transaction take place as set forth in your letter.

As this position is premised upon the facts set forth in your letter, it should not be relied on for any other set of facts or by any other person. Please also note that this position applies only to the registration requirements of the Act; the anti-fraud provisions of the Act continue to be applicable.

In addition, please note that A.R.S. § 44-1843(B) provides for a two hundred dollar filing fee within thirty days after the first sale of the securities in this state.

We have attached a photocopy of your letter. By doing this we are able to avoid having to recite or summarize the facts set forth therein.

Very truly yours,

A handwritten signature in cursive script that reads "Victor Rodarte".

VICTOR RODARTE
Acting Director of Securities

VR:ec
Attachment

B. RUPERT KOBLEGARDE
ATTORNEY AT LAW
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1130 S. W. MORRISON STREET
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March 17, 1997

BY FAX. FAX NUMBER (602) 594-7414

Elizabeth Cottor, Staff Counsel
Securities Division
Arizona Corporation Commission
1300 West Washington, 3rd Floor
Phoenix, Arizona 85007-2996

Re: Church Extension Plan ("CEP")/
Vision Unsecured Promissory Note Program

Dear Ms. Cottor:

The purpose of this letter is to answer questions raised regarding the definition of certain terms and the rationale for exemption of CEP's Vision Unsecured Promissory Note Program.

Your first question was to ask for our definition of the term "other exempt organizations" as used in my February 20, 1997 letter. My intention in using that term was to comply with (1) the Guidelines for General Obligation Financing by Religious Denominations, and (2) the actual existing and contemplated future activity of CEP. Please refer to page 1, the introduction, of Guidelines for General Obligation Financings by Religious denominations. A copy of page one is enclosed for your convenience of reference. Under Section I. A. 1. entitled "Application" the term "related organizations" of the DENOMINATION refer to *related religious organizations* of various affiliated churches. My intended definition is the same, i.e. related religious organizations. Regarding CEP's actual and contemplated activities, since CEP's inception in 1952, CEP has restricted its activities to Assemblies of God Churches and related religious organizations. Almost all of the activity has been directly with churches, either directly or through various District Councils. Some activity has also been carried on with the actual District Councils, and schools or other related religious organizations operated by either the churches or the District Councils. CEP has never and does not ever contemplate issuing securities that are made liens upon revenue producing property subject to taxation, nor has CEP ever nor does it contemplate ever engaging in, controlling, financing or lending money to other entities that engage in the construction, operation, maintenance, or management of retirement homes and other properties that are described in said Section 44-1843(A)(6).

Referring to Marsha Karp's March 13, 1997 letter to you, the first paragraph is fairly accurate. As indicated above, the term "other exempt organizations" is defined in the General Guidelines, and that's the definition intended. The activities Marsha Karp described in her first paragraph fall within the definition in the Guidelines, i.e. "related religious organizations" -- which was my intent, and which also conforms with the actual activities of

Elizabeth Cottor, Staff Counsel
Arizona Corporation Commission
Page Two
March 17, 1997

CEP. However, in her second paragraph, she was giving you information that had no relevance whatsoever to CEP's operations or any entity that CEP loans money to. The benevolent child care / placement homes referred to and the retirement complex referred to are separate entities that are affiliated directly with the General Council of the Assemblies of God. CEP has never loaned nor does it intend to loan money to the General Council of the Assemblies of God. In fact, the General Council of the Assemblies of God has its own financing program that is copied after CEP's program. In the early years of CEP's operation, it was limited first to the state of Oregon, then to the west coast. During those years, in order to assist churches in the east, the General Council started its own program, patterned after CEP's program. The General Council continues to operate its own program separate and apart from CEP's program.

Structurally, CEP is a separate entity, the members of which are limited to District Councils of the Assemblies of God. This limitation on membership is a requirement of CEP, and not a requirement of the General Council since the General Council is not a member of CEP, and have any control over CEP. The member District Councils in turn are made up by a voluntary association of individual Assemblies of God churches, some of which operate Christian schools and/or home missions outreaches, both related religious organizations, coming within the General Guideline definition of "related organizations."

I do not know why, but when Marsha Karp responded to you, she was responding to what she thought was the question of a description of organizations that are related to the General Council of the Assemblies of God. She then went to her national directory, which listed all of the organizations affiliated with the General Council, and noticed that there was the two benevolent child care / placement homes and the retirement complex. Until now I had never heard of these organizations and CEP has never had any relationship nor does it intend to have any relationship with these organizations. In short, she was answering a question that was not asked - the question being to describe all organizations that have an affiliation with the General Council - when the true question was what we, Church Extension Plan, intended by the term related organizations. In other words organizations related to us and to entities that we make loans to - and not otherwise.

Under A.R.S. Section 44-1843(A)(6) exempt securities are specifically listed, and said Section states that the provisions of Sections 44-1841 and 44-1842 do not apply to any of the following classes of securities: "(6) Securities issued by a corporation organized and operated exclusively for religious, educational, benevolent, fraternal, charitable or reformatory purposes and not for pecuniary profit, and no part of the net earnings of which inures to the benefit of any private stockholder or individual, excluding, however, securities made liens upon revenue producing property subject to taxation, and securities other than pooled income funds or units of pooled income funds under Section 642(c)(5) of the Internal Revenue Code issued by a non-profit organization which is engaged in, intends to engage in, controls, finances, or lends funds or property to other entities engaged in the construction, operation, maintenance, or management of a hospital, sanitarium, rest home, clinic, medical hotel, mortuary, cemetery, mausoleum or other similar facilities."

CEP qualifies as an issuer of exempt securities. CEP meets all of the organizational and operational requirements set forth in the paragraph immediately above. The exclusions set

Elizabeth Cottor, Staff Counsel
Arizona Corporation Commission
Page Three
March 17, 1997

forth in subsection 6, as summarized above, are not applicable to the operations of CEP because the securities do not fall within said enumerated exclusions.

Further, for the reasons stated above, CEP qualifies at the dealer exempt level, under Arizona Rule 104.

Please let me know if you need any more information. Thank you for your assistance and cooperation.

Sincerely,



B. Rupert Koblegarde

BRK/mf
Enclosure

cc: Marsha Karp, Executive Assistant
Church Extension Plan
(with enclosure)

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GUIDELINES FOR GENERAL OBLIGATION FINANCING BY RELIGIOUS DENOMINATIONS

Adopted by the NASAA Membership on April 17, 1994.

¶ 1951

I. INTRODUCTION.

A. Application.

1. The standards contained in this Guideline apply to the offer and sale of debt securities in the form of general obligation financing, such as notes, certificates, or similar debt instruments (herein referred to as NOTES) issued by a religious DENOMINATION, or a national or regional unit thereof or other entity affiliated or associated therewith (herein collectively referred to as a "CHURCH EXTENSION FUND" or "CEF"), the proceeds of which primarily finance or refinance the purchase, construction or improvement of church property and/or buildings or related capital expenditures or the operational needs of various affiliated churches and related religious organizations "related organizations" of the DENOMINATION.
2. While offers and sales not conforming to the standards contained herein shall be looked upon with disfavor, if good cause is shown certain standards of the Guideline may be modified or waived by the ADMINISTRATOR.
3. This Guideline is not applicable to single project financing by individual churches or congregations, which is the subject of a separate Statement of Policy entitled "Church Bonds" that was adopted by the North American Securities Administrators Association, Inc. on April 29, 1981.

COMMENT: General obligation financing by a CEF is different in its purposes and operation than the one-time offering of Church Bonds by an individual church or congregation to finance the construction of a single, specific church building or other related capital improvements, in which all of the securities are repaid within a set period of time. CEF NOTES are sold for various terms and at varying interest rates and the offerings are normally continuous in nature to provide an ongoing source of financing to the various affiliated churches and related organizations. In order to maintain the CEF as a permanent resource for the affiliated churches and related organizations, repayments of principal on loans made by the CEF are continuously reinvested in new loans to affiliated churches and related organizations. A CEF normally is a single purpose organization and has no significant operating activities other than raising funds and making capital loans to its affiliated churches and related organizations. Since the CEF is generally incorporated and operated separately from the DENOMINATION and its

affiliated churches and related organizations, assets of the CEF are used primarily for the purpose of financing building projects for affiliated churches and related organizations. To the extent the CEF is a separately incorporated entity, it normally is not liable for any debts arising from other unrelated activities or programs of the DENOMINATION or its affiliated churches and related organizations. The history of most CEFs reflects an absence of delinquency or default in payments on amounts owed under their NOTES. The primary indebtedness of most CEFs consists of the outstanding NOTES. A significant number of INVESTORS reinvest with the CEF when their NOTES mature. Therefore, the establishment of any special repayment provisions, including a sinking fund or trust indenture, for the purpose of making payments on principal or interest due on NOTES, is normally unnecessary and inappropriate in view of the continuous nature of the offerings and the fact that the funds are not designated for specific capital projects.

B. Definitions.

1. ADMINISTRATOR—The official or agency administering the securities law of a state.

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February 20, 1997

Marsha Karp,
Assistant to the President for Administration
Church Extension Plan
P.O. Box 12629
Salem, Oregon 97309-0629

Re: Church Extension Plan / Vision Unsecured Promissory Note Program
Factual and Legal Analysis of Each Transaction /
Opinion Regarding Exemption

Dear Ms. Karp:

As requested by you, I am enclosing herewith a factual and legal analysis outlining each transaction in CEP's Unsecured Promissory Note Program ("Vision"), and my legal opinion as to why those transactions are exempt under A.R.S. §44-1843(A)(6).

For ease of reference I will label the various elements covered, as follows:

1. Factual and Legal Analysis Outlining the Transaction:

- A. The Issuer: The Issuer is Church Extension Plan (CEP) an Oregon non-profit corporation, religious. CEP is located at 3995 Hagers Grove Road S.E., Salem, Oregon 97301-6189, telephone (503) 399-0552. It was incorporated as a non-profit corporation in Oregon on February 11, 1952. From 1950 to the date of incorporation, the Certificate-based church loan program that eventually became CEP was operated by the Assemblies of God, Oregon District, as a part of that organization.

CEP is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended ("Code"), is not a "private foundation" under Section 509 of the Code, and is organized and operated exclusively for religious and charitable purposes. No part of CEP's net earnings inures to the benefit of any person, private shareholder or individual. As a non-profit corporation, CEP has no shareholders.

CEP is a corporation controlled and operated by its members. The members consist of 55 District Councils of the Assemblies of God. Each member District is a separate non-profit organization which oversees the various individual

Assemblies of God ministers and Churches in its District. CEP offers its services to all Assemblies of God Churches in the United States and Puerto Rico. The Assemblies of God Fellowship consists of individual independent Churches voluntarily associating together as members of District Councils. In most cases District Council boundaries correspond to state boundaries. The National Headquarters of the Assemblies of God Churches are located in Springfield, Missouri. The total membership in the United States is approximately 1,354,300; the total adherents in the United States is approximately 2,300,000.

- B. The Program: The Unsecured Promissory Note Program ("Program") was designed to allow CEP to borrow funds from private sources to help finance CEP's operations, including financing for Assemblies of God Churches. CEP provides low-cost loans to Assemblies of God Churches for the purposes of purchasing real estate for Church buildings, and building, equipping, expanding or otherwise improving Church facilities. The money CEP loans to Churches comes primarily from two sources: (a) the sale of Church Certificates to members and friends of the congregation seeking the loan; each loan is generally required to be supported by the purchase of Certificates equal to between 25 percent and 60 percent of the requested church loan; (b) the issuance of notes, which are divided into two categories: (i) Lifeline Promissory Notes which are secured under a pooled arrangement and a Trust Indenture; and (ii) Vision Unsecured Promissory Notes, which are the subject of this letter. All promissory notes, both Lifeline Promissory Notes and Vision Promissory Notes, are offered to the Assemblies of God constituency, and are not limited to members and friends of the specific congregation seeking a specific loan.
- C. The Securities -- Vision Unsecured Promissory Notes: The Vision Unsecured Promissory Notes are evidences of indebtedness issued by CEP to purchasers/investors. Purchasers/investors are limited, as explained below; the Promissory Notes are not offered to the general public. The Notes have various maturities, most being for between 2 years and 5 years, and interest rates vary depending upon the maturity date and the then prevailing market rates. There is no established market for trading the Notes; the Notes are non-transferable except by gift or upon the death of the registered holder, without CEP's prior written approval. The Vision Notes are unsecured evidences of indebtedness.
- D. Limited Class of Investors: The class of potential investors for the Vision Unsecured Promissory Notes is limited to persons who are members of, contributors to, participants in the Assemblies of God, Church Extension Plan, or in any program, activity or organization which constitutes a part of the Assemblies of God or Church Extension Plan, or in other Church organizations that have a programmatic relationship with the Assemblies of God or Church Extension Plan. The Notes are not sold nor should they be purchased primarily for investment purposes, but rather for the primary purpose of assisting CEP in accomplishing its primary objective of providing financing to Assemblies of God Churches. The term "Church" also includes schools and other exempt organizations affiliated with the Assemblies of God.

- E. Use of Proceeds: Proceeds received from the issuance of the Vision Unsecured Promissory Notes are added to CEP's general funds. Said general funds may be available for operating expenses, and to carry out CEP's primary objective, which is to provide financing to Assembly of God Churches for capital expansion projects.

 - F. The Transaction: The Vision Unsecured Promissory Notes are not available to the general public. See "Limited Class of Investors" summarized above. No general advertising is done. The Program is made known to member District Councils and member churches of the Assemblies of God through one or more mailings; it is anticipated that sometime in the future the Program will be made known to members and friends of the Assemblies of God Fellowship through one or more denominational publications, including "Glad Tidings" published by the Assemblies of God, National Headquarters. When a qualified investor desires to purchase a Note, an inquiry is made to CEP's office in Salem, Oregon and the investor decides how much to invest and for what period of time. A Promissory Note is then issued in exchange for the amount of the investment. Interest may be paid on a monthly or quarterly basis, or accrued and added to principal, at the option of the investor. The Notes are similar to certificates of deposit issued by banks, but are uninsured and are not backed by any government or governmental agency. The proceeds from the issuance of the Notes are used by CEP to help supplement the difference between amounts received from the sale of Church Certificates relating to a specific loan, and the amount of the loan to be made to that specific Church. As indicated above, this difference is made up from primarily two sources, Lifeline Notes and Vision Notes, this letter referring to the Vision Notes. As an example, if an individual Assembly of God Church desires a \$200,000 loan, and members and friends of that Church subscribe to Certificates equal to \$100,000, the difference between the proceeds from the sale of the Church Certificates and the amount of the Church loan, including any additional difference due to the Certificates being financed, is commonly supplied by the issuance of Notes, either Lifeline Promissory Notes or Vision Notes. The Church Certificates and also the Lifeline Promissory Notes are described in separate letters, each dated February 27, 1996, and addressed to Leslie R. Block, Arizona Corporation Commission.
2. Legal Opinion as to why Vision Unsecured Promissory Note Transactions are Exempt: Vision Unsecured Promissory Notes issued by Church Extension Plan are transactions which are exempt under A.R.S. §44-1843(A)(6).
- A. The Law: A.R.S. §44-1843(A)(6) specifically lists "exempt securities" and states that the provisions of Sections 44-1841 and 44-1842 do not apply to any of the following classes of securities: "6. Securities issued by a corporation organized and operated exclusively for religious, educational, benevolent, fraternal, charitable or reformatory purposes and not for pecuniary profit, and no part of the net earnings of which inures to the benefit of any private stockholder or individual, excluding, however, securities made liens upon revenue producing property subject to taxation and securities other than pooled

Marsha Karp
Page Four
February 20, 1997

income funds or units of pooled income funds under section 642(c)(5) of the internal revenue code issued by a non-profit organization which is engaged in, intends to engage in, controls, finances, or lends funds or property to other entities engaged in the construction, operation, maintenance, or management of a hospital, sanitarium, rest home, clinic, medical hotel, mortuary, cemetery, mausoleum or other similar facilities."

- B. The Facts: The Issuer qualifies as an issuer of exempt securities. The Issuer is a corporation organized and operated exclusively for religious and charitable purposes and not for pecuniary profit, and no part of the net earnings of which inures to the benefit of any private stockholder or individual. The exclusions in said subsection (6) as stated above, are not applicable, because the Notes do not fall within said enumerated exclusions. Specifically, the securities are not made liens upon revenue producing property subject to taxation; likewise, the exclusion further enumerated in said section (6) regarding securities other than pooled income funds or units of pooled income funds under section 642(c)(5) of the internal revenue code issued by a non-profit organization, all as set forth in said section (6), is not applicable to CEP's Vision Unsecured Promissory Notes.
- C. Conclusion and Opinion: It is my opinion, as legal counsel for Church Extension Plan, an Oregon non-profit corporation, that said corporation's Vision Unsecured Promissory Note transactions are exempt under A.R.S. §44-1842(A)(6).

If you have any questions on any of this or if you need more information please let me know. If you forward this letter to the Arizona Corporation Commission, as support for claim of exemption, please enclose the appropriate fee of \$200.

Sincerely,


B. Rupert Koblegarde

BRK/mf