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ARIZONA CORPORATION COMMISSION

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SECURITIES DIVISION
1300 West Washington, Third Floor
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March 20, 1996

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

RE: Church Extension Plan, Lifeline 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 letter of February 27, 1996, 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, appearing to read "Dee Rid dell Harris".

DEE RIDDELL HARRIS
Director of Securities

DRH:jb
Attachment

B. RUPERT KOBLEGARDE
ATTORNEY AT LAW
510 MAYER BUILDING
130 S. W. MORRISON STREET
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February 27, 1996

FEB 28 1996

Leslie R. Block, Esquire
Associate General Counsel, Securities Division
Arizona Corporation Commission
1300 West Washington, 3rd Floor
Phoenix, Arizona 85007-2996

Re: Church Extension Plan : Lifeline Promissory Note Program

Dear Mr. Block:

This letter is a supplement to the other letter of this same date regarding CEP's Church Certificate Program. In each case I am responding to your February 13, 1996 letter to Marsha Karp, of Church Extension Plan. For your convenience of reference a copy of that letter is now enclosed. You have requested a complete factual and legal analysis outlining each transaction, and a legal opinion as to why those transactions are exempt under A.R. S. §44-1843(A)(6). You have also requested a check in the amount of \$200.00 for each transaction, made payable to the Arizona Corporation Commission.

Church Extension Plan has two types of transactions, one involving Church Certificates and the other one involving promissory notes called "Lifeline." Therefore, I am submitting two letters, one for each transaction. This letter covers CEP's Lifeline Promissory Note Program.

In connection with CEP's Lifeline Promissory Note Program, following is the information requested:

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 41 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 1,337,000; the total adherents in the United States is approximately 2,271,700.

- B. The Program: The Lifeline 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 must be supported by the purchase of Certificates equal to at least 50 percent of the requested loan; (b) the issuance of Lifeline Promissory Notes, which are offered to the Assemblies of God constituency, and are not limited to members and friends of the specific congregation seeking a specific loan. Lifeline Promissory Notes are secured under a pooled arrangement and a Trust Indenture, described below.
- C. The Securities -- Lifeline Promissory Notes: The Lifeline 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 security for Lifeline Promissory Note holders is provided as follows: pursuant to a Trust Indenture, CEP assigns to the Trustee, as security for the repayment of the Notes, first deeds of trust and first mortgages on Church properties. See "Trust Indenture" described in the following paragraph.
- D. Trust Indenture: Each Note is secured by and subject to all of the terms, conditions and restrictions of the Trust Indenture between CEP and Alex

Christy, Attorney at Law, Trustee, dated October 1, 1987 (the "Indenture"), a copy of which is on file at CEP's office and is available upon request.

The Indenture provides for the assignment from CEP to the Trustee of first deeds of trust and first mortgages on Church properties as security for the repayment of the Notes. The legal remedies and rights of holders of the Notes are restricted to the remedies and rights as set forth in the Indenture. The Indenture limits the aggregate unpaid balance of all outstanding Notes subject to the Indenture to 90 percent of the unpaid balance of the security assigned to the Trustee. It also requires that the unpaid balance of the security so assigned (the notes receivable from Churches to CEP secured by trust deeds and mortgages), including accrued and unpaid interest, shall at no time be greater than 75 percent of the estimated or appraised value of the Church properties to which the trust deeds and mortgages apply.

Events of default under the Indenture include CEP's failure to make any payment of principal or of interest on any Note within 30 days after it is due, failure to perform any other obligation imposed by the Indenture where such failure is not corrected or correction commenced within 30 days after receipt of notice from the Trustee, or CEP becoming insolvent, having a receiver appointed or commencing bankruptcy proceedings. Events of default also include CEP being in default in the payment of either interest or principal of any certificate, note or other similar evidence of indebtedness upon which CEP is an obligor, either primary or contingent, unless there is a good faith reason for not making such payment, such as a disputed claim.

In the event of default, the Trustee may initiate proceedings, judicial or otherwise, to enforce the rights of the Trustee and the rights of Note holders under the Indenture. In such event the Trustee, if such is deemed by the Trustee to be appropriate for the protection of the Note holders, may proceed to sell the security for the benefit of the Note holders. The Trustee shall be required to sell the security if the holders of the majority of the principal amount of the Notes then outstanding so request.

- E. Limited Class of Investors: The class of potential investors for the Church 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 organization affiliated with the Assemblies of God.

- F. Use of Proceeds: Proceeds received from the issuance of the 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.
- G. The Transaction: The 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 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 Promissory Note refers to the Trust Indenture which is summarized above. 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 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. For example, if an individual 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 Lifeline Promissory Notes. The Church Certificates are described in a separate letter.
2. Legal Opinion as to why Lifeline Promissory Note Transactions are Exempt: Lifeline 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 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."

Leslie R. Block, Esquire
Arizona Corporation Commission
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- 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 Lifeline 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 Lifeline Promissory Note transactions are exempt under A.R.S. §44-1842(A)(6).
3. Fee: The requested fee of \$200.00 is enclosed for the Lifeline Promissory Notes transaction (part of the \$400.00 check, the remaining \$200.00 being for the Church Certificates transaction, which is covered in a separate letter of this same date).

If any additional information is needed or if you have any questions please let me know. Thank you for your assistance and cooperation.

Sincerely,


B. Rupert Koblegarde

BRK/mf
Enclosure

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