I. PREFACE

In late 2002, the congregation of Christ Evangelical Lutheran Church in Pacific Beach (CELC) voted to approve the sale of the Diamond Street parsonage (1108 Diamond St, San Diego, CA 92109) and distribute a portion of the proceeds to create an equity reserve fund "to assist a future pastor in the purchase of a home." This fund was initially envisioned as a renewable "equity sharing relationship" between CELC and the pastor. Given the cost of housing in San Diego and the challenges facing a pastor to build equity in a property, this updated housing reserve policy allows for three (3) options (detailed on subsequent pages) for the use of these funds by the current and/or a future pastor:

A. Equity-sharing arrangement for the purchase of a single-family[1] residence as the pastor's home

B. Equity-sharing arrangement for the purchase of a single-family rental property for investment purposes

C. Loan arrangement for the purchase of a single-family residence as the pastor's home, the purchase of a single-family rental property for investment purposes or the purchase of a vacant lot (appropriate for the future construction of a single-family residence)

This policy is designed to establish parameters for a contractual agreement between CELC and a pastor. Such a contract will also include standard contractual provisions, such as contract is entire agreement, handling of any amendments, indemnification, binding on successors, severability, any disputes settled through mediation or arbitration, etc. In all cases, CELC interests will be protected through title, lien, insurance and other contractual provisions. Other terms not considered in this policy may be negotiated, subject to joint approval by the CELC council and the pastor. This policy is also designed to ensure the eventual return of the funds to CELC including applicable earnings, thus allowing an ongoing housing reserve fund for future pastors as needed.

This policy would apply only to a full-time pastor. However, should a full-time pastor elect to use one of these options and later change to a part-time arrangement, CELC reserves the right to terminate the agreement within six (6) months of the pastor entering part-time employment status, if needed to accommodate the housing/economic situation of a new full-time pastor.

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[1]A single-family residence or rental property is defined as a single-family house, condominium or townhome.

In the event a pastor initially accepts a call with housing in the Tourmaline Street parsonage (1227 Tourmaline St, San Diego, CA 92109) included and later elects to access the housing reserve fund and vacate the parsonage, the pastor's compensation package shall be reassessed (using the Evangelical Lutheran Church in America-Pacifica Synod Clergy Salary Range Development Worksheet in effect at the time) to include updated data for all factors included on the worksheet (e.g., median single-family home price, years of experience, longevity in current call, years of related non-pastoral experience, furthered education, etc.) to create a salary range per the worksheet for a mutually-negotiated salary. (Any proceeds from the subsequent rental or sale of the Tourmaline Street parsonage are assets of CELC and there shall be no distribution to the pastor.)

Note: Should the Tourmaline Street parsonage be vacated, the finance committee and church council must verify current tax laws that may pertain to rental of the property beyond a certain period of time. It is understood that failure to do this (and to conform to legal requirements) could jeopardize the church's non-profit status and/or lead to other legal and financial penalties.

II. Option 1 – Equity-sharing arrangement for the purchase of a single-family residence as the pastor's home

The policy for this option requires the following conditions which would be included in a formal contractual agreement:

A. Both parties to the agreement must seek independent legal advice.

B. Any property to be covered by such an agreement must be approved by the pastor and church council (or through a church council approved team of 3-5 members representing church council that can make a rapid decision) prior to purchase.

C. An appraisal of the property conducted by a certified person who is mutually agreed upon by pastor and CELC Council or its designees will be required to provide an impartial assessment of the property value.

D. A property inspection report conducted by a certified person acceptable to CELC council will be required and shared with pastor and CELC Council or its designees to ensure mutual acceptance of the property prior to approval of the use of housing reserve funds.

Option 1 continued

E. Allow the use of 90% of the housing reserve account as CELC's equity investment, reserving a portion for CELC professional fees (i.e., CELC legal fees and a share of closing costs based on equity share of the purchase price) required to create the agreement.

F. The pastor would be responsible for most purchase costs such as: escrow fees, share of closing costs, share of appraisal and property inspection report (based on equity share of the purchase price).

G. The pastor would be responsible for most ongoing maintenance and usual housing costs, such as: routine maintenance and repair[2], utilities, property taxes, other governmental taxes and fees, insurance with CELC named as a beneficiary (i.e., fire, liability, flood, earthquake), any homeowner's fees, etc.

H. CELC would share equity at a percentage of the total initial sales price of the property with possible adjustment for any improvements made. Improvements[3] would be negotiated with CELC, allowing CELC these options:

1. Share the cost of improvements that would likely increase the basis of the property and the sales price by the time of the projected sale (or transfer to the pastor) at the same percentage as the initial equity share percentage.

2. Decline to invest in the property, allowing the pastor to make improvements with the equity share adjusted based on the increase in the basis of the property and the sales price by the time of projected sale (or transfer to the pastor). Establishment of the equity share adjustment shall be made with a pre-improvement and post-improvement evaluation of the value of the dwelling conducted by a certified appraiser mutually agreed upon by Pastor and council or its designees. Evaluations shall be conducted as close to the dates of beginning and ending construction as possible.

Option 1 continued

I. During the term of employment, the pastor may elect to buy out CELC at any time according to the percentages of equity shares at the time of the buyout. However, a buyout must assure a return to CELC of at least 100% of its equity contribution(s).

[2]Per the IRS, "A repair keeps your home in an ordinary, efficient operating condition. It does not add to the value of your home or prolong its life. Repairs include painting your home inside or outside, fixing your gutters or floors, fixing leaks or plastering, and replacing broken window panes…However, repairs that are done as part of an extensive remodeling or restoration of your home are considered improvements."

[3]Per the IRS, "An improvement materially adds to the value of your home, considerably prolongs its useful life, or adapts it to new uses. Improvements include putting a recreation room in your unfinished basement, adding another bathroom or bedroom, putting up a fence, putting in new plumbing or wiring, installing a new roof, and paving your driveway."

J. Should the pastor wish to sell the property to a third party or the agreement expires per reasons stated in following number(s) during a low market, both CELC and the pastor would suffer losses based on their equity shares at the time of the sale. However, CELC shall have the right to purchase the pastor's interest in the property before it is offered to a third party.

K. At the point of sale of the property or buyout by the pastor, a minimum of two appraisals will be required to determine market value. If the two appraisals differ in value by more than 10% of the original purchase price, either a third appraisal will be conducted or an amount between the two appraisal valuations will be mutually agreed upon by pastor and CELC Church Council.

L. Expiration of term of agreement:

1. Cessation of employment of the pastor, voluntarily or involuntarily, with or without cause (except in the case of death): 60 days from last day of employment with CELC

2. Cessation of employment of the pastor in the case of death: 270 days from date of pastor's death

3. Upon the termination of the pastor's residence in the property (except in the case of the rental of the property mutually agreed upon by CELC and the pastor) according to the parameters stated in this document under Option 2

4. At the election of the CELC Church Council if the pastor fails to meet conditions of the equity-sharing agreement

5. Upon sale of the property with a change in title ("due-on-sale" clause)

6. At the mutual agreement of both parties

III. Option 2 - Equity-sharing arrangement for the purchase of a single-family rental property for investment purposes
The policy for this option requires the following conditions which would be included in a formal contractual agreement:

Option 2 continued
A. In the case of the purchase of investment property, this option will be made available to a pastor only after completion of at least three (3) years of service at CELC.

B. Both parties to the agreement must seek independent legal advice.

C. Any property to be covered by such an agreement must be approved by the pastor and church council (or through a church council approved team of three to five members representing church council that can make a rapid decision) prior to purchase.

D. An appraisal of the property conducted by a certified person who is mutually agreed upon by pastor and CELC Council or its designees will be required to provide an impartial assessment of its value.

E. A property inspection report conducted by a certified person acceptable to CELC council, will be required and shared with pastor and CELC Council or its designees to ensure mutual acceptance of the property prior to approval of the use of housing reserve funds.

F. Allow the use of 90% of the housing reserve account as CELC's equity investment, reserving a portion for CELC professional fees (i.e., CELC legal fees and a share of closing costs based on equity share of the purchase price) required to create the agreement.

G. The pastor would be responsible for most purchase costs such as: escrow fees, share of closing costs, share of appraisal and property inspection report (based on equity share of the purchase price).

H. The pastor would be responsible for most ongoing maintenance and usual housing costs, such as: routine maintenance and repair[4], utilities, property taxes, other governmental taxes and fees, insurance with CELC named as a beneficiary (i.e., fire, liability, flood, earthquake), any homeowner's fees, etc.

I. The pastor would be responsible for management of the rental property and net rental income would be distributed between the pastor and CELC according to the equity share percentages. If pastor opts to act as the rental property manager, a mutually agreed upon

Option 2 continued

management fee may be charged. CELC would share equity at a percentage of the total initial sales price of the property with possible adjustment for any improvements made.

J. Improvements[5] would be negotiated with CELC, allowing CELC these options:

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[4]Per the IRS, "A repair keeps your home in an ordinary, efficient operating condition. It does not add to the value of your home or prolong its life. Repairs include painting your home inside or outside, fixing your gutters or floors, fixing leaks or plastering, and replacing broken window panes…However, repairs that are done as part of an extensive remodeling or restoration of your home are considered improvements."

[5]Per the IRS, "An improvement materially adds to the value of your home, considerably prolongs its useful life, or adapts it to new uses. Improvements include putting a recreation

1. Share the cost of improvements that would likely increase the basis of the property and the sales price by the time of the projected sale (or transfer to the pastor) at the same percentage as the initial equity share percentage.

2. Decline to invest in the property, allowing the pastor to make improvements with the equity share adjusted based on the increase in the basis of the property and the sales price by the time of projected sale (or transfer to the pastor). Establishment of the equity share adjustment shall be made with a pre-improvement and post-improvement evaluation of the value of the dwelling conducted by a certified appraiser mutually agreed upon by Pastor and council or its designees. Evaluations shall be conducted as close to the dates of beginning and ending construction as possible.

K. During the term of employment, the pastor may elect to buy out CELC at any time according to the percentages of equity shares at the time of the buyout. However, a buyout must assure a return to CELC of at least 100% of its equity contribution(s).

L. Should the pastor wish to sell the property to a third party or the agreement expires per reasons stated in following number(s) during a low market, both CELC and the pastor would suffer losses based on their equity shares at the time of the sale. However, CELC shall have the right to purchase the pastor's interest in the property before it is offered to a third party.

M. At the point of sale of the property or buyout by the pastor, a minimum of two appraisals will be required to determine market value. If the two appraisals differ in value by more than 10% of the original purchase price, either a third appraisal will be conducted or an amount between the two appraisal valuations will be mutually agreed upon by pastor and CELC Church Council.

N. Expiration of term of agreement:

Option 2 continued

1. Cessation of employment of the pastor, voluntarily or involuntarily, with or without cause (except in the case of death): 60 days from last day of employment with CELC

2. Cessation of employment of the pastor in the case of death: 270 days from date of pastor's death

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room in your unfinished basement, adding another bathroom or bedroom, putting up a fence, putting in new plumbing or wiring, installing a new roof, and paving your driveway."

3. At the election of the CELC Church Council if the pastor fails to meet conditions of the equity-sharing agreement

4. Upon the sale of the property with a change in title ("due-on-sale" clause)

5. At the mutual agreement of both parties

Option 3 - Loan arrangement for the purchase of a single-family residence as the pastor's home, the purchase of a single-family rental property for investment purposes or the purchase of a vacant lot appropriate for the future construction of a single-family residence. The policy for this option requires the following conditions which would be included in a formal contractual agreement:

A. In the case of the purchase of an investment property, this option will be made available to a pastor only after completion of at least three (3) years of service at CELC.

B. Both parties to the agreement must seek independent legal advice.

C. Any property to be covered by such an agreement must be approved by the pastor and church council (or through a church council approved team of three to five members representing church council that can make a rapid decision) prior to purchase.

D. Allow the use of 95 % of the housing reserve account as a loan, reserving a portion for CELC professional fees (probably only legal fees) required to create the agreement.

E. The pastor would be responsible for all costs and expenses associated with the purchase and care of the property, such as: appraisal, escrow fees, closing costs, routine maintenance and repair[6], utilities, property taxes, other governmental taxes and fees, insurance with

Option 3 continued

CELC named as a beneficiary (i.e., fire, liability, flood and earthquake), any homeowner's fees, improvements[7], etc.

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[6]Per the IRS, "A repair keeps your home in an ordinary, efficient operating condition. It does not add to the value of your home or prolong its life. Repairs include painting your home inside or outside, fixing your gutters or floors, fixing leaks or plastering, and replacing broken window panes…However, repairs that are done as part of an extensive remodeling or restoration of your home are considered improvements."

[7]Per the IRS, "An improvement materially adds to the value of your home, considerably prolongs its useful life, or adapts it to new uses. Improvements include putting a recreation room in your unfinished basement, adding another bathroom or bedroom, putting up a fence, putting in new plumbing or wiring, installing a new roof, and paving your driveway."

F. Term of loan: To be negotiated with a maximum of 20 years.

G. Interest rate: The interest rate shall be the current rate banks charge for similar loans minus one-half (0.5) percent but not to be less than the Applicable Federal Rate (AFR).

H. Late fee: 5% of monthly payment with a grace period of 10 days

I. CELC note will be and remain the primary note (lien) on the property until it is paid off unless otherwise agreed.

J. Funding to be handled through an escrow company.

K. As California is a "non-recourse" state, an appraisal of the property will be required (unless waived by CELC) and will be an expense of the pastor. Purpose of appraisal is to provide information to church council or its designees as to value of property compared to proposed purchase price in case of loan default.

L. In the case of the purchase of a vacant lot, the pastor is responsible for all development costs.

M. In the case of the purchase of a vacant lot, CELC will require a written statement from a licensed engineer, confirming the property is developable for a single-family residence and including planning-level building costs prior to closing.

N. Expiration of the loan agreement:

1. Cessation of employment of the pastor, voluntarily or involuntarily, with or without cause (except in the case of death): 60 days from last day of employment with CELC

Option 3 continued

2. Cessation of employment of the pastor in the case of death: 270 days from date of pastor's death

3. Upon the termination of the pastor's residence in the property (except in the case of the rental of the property mutually agreed upon by CELC and the pastor)

4. At the election of the CELC Church Council if the pastor fails to meet conditions of the loan agreement

5. At the mutual agreement of both parties

6. At the pastor's discretion with no prepayment penalty

7. Upon sale of the property with a change in title ("due-on-sale" clause)

O. Loan documents would show that proceeds are to be used for the purchase of the specified property and CELC would hold a lien on the property.

Final note: this document was initially created by Julia Dotson and Ron Knopp. Additional input received from Tom Falk and Carl Nelson who are familiar with discussions regarding the Equity Reserve Account over last years. These persons may be able to answer questions should they arise from future council members.