



Church Loans Policy and Guidelines

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CHURCH LOAN POLICIES AND UNDERWRITING GUIDELINES

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I. Purpose

The Southern Baptists of Texas Foundation (“Foundation”) provides credit facilities to churches whose doctrinal beliefs and congregational practices are in agreement with the Baptist Faith and Message 2000.

II. Scope

The Church Loan Policies and Underwriting Guidelines govern the administration of the Church Loan program offered by the Foundation. The following credit policies and underwriting guidelines shall be reviewed annually and approved by the Foundation’s executive board and shall serve as a guideline for the Foundation’s lending practices. Exceptions to the provisions herein will require the approval of the Foundation’s Loan Committee and shall also be reported to the whole board of directors in regularly scheduled meetings.

III. Responsibility

The Foundation Loan Committee (“Loan Committee”) is a standing committee of the Board of Directors (“Board”) created to fulfill the responsibilities of the Board related to the Church Loan program. As a standing committee, they shall report to the Board and only discharge those responsibilities specifically assigned to them by the Foundation Loan Committee Charter.

The Loan Committee acts as a fiduciary, and as such is responsible for directing, monitoring, and evaluating church loans as defined within the scope of this policy.

IV. Target Market

Lending Area: The Foundation’s loan activity will focus on churches domiciled in Texas. When possible, loan requests from churches outside of Texas will be referred to the appropriate Baptist Foundation located in the same state as the potential borrower and any involvement of the Foundation would be orchestrated in concert or participation with the originating Baptist Foundation. Any participation in credit originated at a sister Foundation will be subject to the same policies and underwriting guidelines detailed herein, and will be subject to the same credit approval process.

V. Credit Approval Process

Loan Committee: The Foundation board shall establish a committee of not less than five or more than seven members to oversee the credit approval process of all loan requests. The Loan Committee shall consist of the Executive Director of the Foundation or any qualified full-time Foundation employee so designated, the CFO of the Southern Baptists of Texas Convention and three to five members of the Foundation's Board of Directors. The Loan Committee shall operate in accordance with the following protocol:

1. Loan Committee meetings will be conducted on the third Thursday of each month, or on an "as needed basis" provided adequate notice is given to allow members at least 24 hours to review applications. Given the geographic diversity of the board and the expanse of the state, participants can engage either in person at the Foundation offices or by phone. A quorum must be present in order to effect any approval of credit.
2. The Loan Committee may elect in certain situations to include the entire Board of Directors in the approval process should they deem that inclusion preferable (large loan requests, controversial borrowers, extraordinary circumstances, etc.) This determination shall be made by the committee at their sole discretion. Otherwise, approval autonomy is vested within the Loan Committee function and shall be by verbal ballot after presentation of the credit to the committee in a form and substance suitable and sufficient to position the committee to make an informed credit decision. While unanimity is strongly desired, no more than one vote in the negative shall be allowed in the approval process of any credit.
3. Detailed minutes of Loan Committee meetings shall be recorded by an elected secretary and a Loan Committee report shall be offered to the full board as part of the overall Board's normative meetings.
4. In order to maximize efficiency, the Loan Committee may authorize the Executive Director and the CFO of the Southern Baptists of Texas Convention with individual lending authority of up to \$150,000 each and \$300,000 collectively. Loans made for the sake of expediency or efficiency must comply with all underwriting criteria and shall be detailed to the full Loan Committee at the next available meeting.

VI. Lending Guidelines

Minimum Eligibility

1. **Written Budget.** Churches applying for loans must have a written budget plan which is adopted annually by congregational action and must evidence a consistent and prudent pattern of church financial operations.
2. **Incorporated.** Churches applying for loans must be legally incorporated in the state of Texas or sponsored by a legally incorporated entity.
3. **Empowered.** Churches applying for loans must be authorized in accordance with the church's polity mechanisms and no loans will be funded without Foundation exposure to the appropriate circle of church leadership overseeing financial and administrative issues.

VI. Lending Guidelines (cont.)

4. **Location and Need.** Churches applying for loans must be located in communities which represent opportunities for building and maintaining a church. In all cases, the borrower shall comply with city, county and state fire codes and building regulations.
5. **Denominational Loyalty.** Churches applying for loans must be loyal to the denomination as evidenced by affiliation, fellowship and cooperation with the Southern Baptists of Texas Convention. A consistent and regular contribution to the Cooperative Program is expected and required of all borrowers.
6. **Completed Application.** Churches applying for loans must submit a completed application using Foundation forms and include supporting documentation as detailed in Exhibit A attached hereto. In some cases, applicants may submit only the financial information requested in order to determine if they meet the basic lending requirements prior to submitting the full application. No application fees will apply to borrowers who complete and submit requests in accordance with the requirements detailed in Exhibit A. An application or consulting fee shall apply to those borrowers who require Foundation's assistance in preparing and completing the required documents necessary to make a formal loan request. That fee shall be set and agreed upon by both parties and shall vary depending upon the assistance needed. In no event shall an application fee exceed a maximum of \$750.00.

VII. General Credit Guidelines

1. **Loan to Value:** Loans may not exceed a maximum loan-to-value ratio of 50%. The following guidelines are noted:
 - a. In cases where loan proceeds fund the new construction of incremental square footage, the contract value of the construction shall be included in the market valuation for purposes of computing the applicable loan to value.
 - b. In cases where loan proceeds fund renovation of existing facilities, 75% of the renovation contract amount will be included in the market valuation.
 - c. As used herein, valuation can be established through commercial appraisals or alternative methods acceptable to the Foundation including but not limited to comparable sales, tax assessor values, insurable replacement costs or commercial realtor reports. Alternative valuations will be accepted in lieu of commercial appraisals at the sole discretion of the Foundation.
 - d. In some cases where other financial qualifications are lacking the Foundation may require a commercial appraisal or professional evaluation in form and substance acceptable to the Loan Committee.
 - e. In cases where loan proceeds are used to fund the construction or renovation of a church parsonage, the Foundation, at its sole discretion may elect to increase the maximum loan to value up to 75%.
 - f. In cases where loan proceeds are used to purchase raw land that is not contiguous with the existing church property, the Foundation may elect to increase the maximum loan to value up to 70%.

VII. General Credit Guidelines (cont.)

2. **Debt Service Ratio:** Annual debt payments shall not exceed the lower of 25% of the church's approved budget amount or their average annual budget receipts from the two preceding fiscal year end periods.
 - a. Exceptions to the debt service ratio set forth above may be made in cases where the borrowing church has completed a capital campaign or pledge program for an upcoming period of time so long as the future receipts are dedicated and pledged to service the loan. In such cases where pledge proceeds are received into a designated account dedicated to debt service, the Foundation may consider approving a loan amount whose underlying debt service complies with the 25% debt service ratio plus an additional amount equal to 50% of the total outstanding pledge amounts.
 - b. Any incremental loan amounts approved under the exception clause will require the borrowing church to remit 100% of the received pledge amounts either 1) to the Foundation as a principle reduction of the loan, or 2) to the Foundation to be invested in Church Expansion Term Investments (CET) with those amounts pledged as collateral to secure the outstanding indebtedness.
 - c. If borrower chooses to utilize option 1 in the preceding section, all accelerated principle payments which reduce the outstanding payoff of the church indebtedness ahead of the related amortization schedule are available for re-advancement as per the provisions of the "Re-advancing Prepayments of Principle" provisions detailed herein.
3. **Maximum Debt as a Multiple of Current Year Budget:** Total indebtedness shall not exceed three times the borrower's current year budget unless the borrower has other revenue sources which are unrestricted and available for budgetary use (rents, leases, school, daycare, etc.). In those cases, revenue receipts for those sources are included for purposes of determining maximum debt limits so long as they are received without restrictions.
 - a. In cases where the borrower conducts a capital campaign and designates the future receipt of funds to debt service or to liquidity reserves as required above, 50% of the pledged amounts will be deducted from maximum indebtedness for purposes of this computation provided that such amounts are pledged and administered in accordance with 2b described herein.
 - b. In cases where borrower is experiencing annual growth in budgetary amounts for the previous three fiscal year ends, the Foundation may take into consideration the anticipation of continued budgetary growth for purposes of this calculation. This determination will be made at the Foundation's sole discretion.
4. **Fixed Expenses as a Percentage of Budget:** Fixed expenses, including proposed debt payments, should not exceed 85% of the annual budget.

VII. General Credit Guidelines (cont.)

5. **Liquidity Covenant:** A sufficient level of liquidity must be maintained during the life of all loans to insure borrower's ability to manage unexpected changes in operating dynamics. The amount of unrestricted cash or cash equivalents maintained during the lending period shall not fall below an amount equal to twelve months of the related underlying monthly payment.
 - a. In situations where liquidity does not meet minimum requirements, the Foundation shall require the borrower to enter into a **Cash Sequestration Agreement (CSA)**. The CSA will quantify an amount of unrestricted cash required for credit approval and will also require the pledging of those funds to the Foundation as additional collateral to secure the amounts advanced.
 - b. The CSA will require weekly reporting of all receipts and an incremental amount to be deposited weekly into the borrower's interest-bearing account until minimum amounts of liquidity are sequestered.
 - c. The amount of the required weekly deposits will be computed as follows: Annual debt service times 1.25 divided by 52 weeks. In the case of a calendar year with 53 Sundays, the foregoing computation will be divided by 53.
 - d. Should borrower experience short-term liquidity needs, requests to borrow against cash sequestered balances can be made and will be considered by the Foundation. Advances against such balances will be approved at the sole discretion of the Foundation under terms agreeable to both parties. Interest and transaction charges will apply to all advances. **A portion of the interest charged on advances under this provision will accrue for the benefit of the borrower.** Transaction charges will be to the benefit of the Foundation.
6. **Re-Advancing Prepayments of Principle.** The Foundation charges no prepayment penalty for borrowers who pay their loans down at an accelerated rate. The Foundation documents its loans with a re-advance clause allowing borrowers who prepay or pay down indebtedness at an accelerated rate to request a re-advancement of such amounts. Such requests must be made to the Foundation in writing and will be limited to the principle prepayments in excess of regularly scheduled payments of principle and interest. The Foundation will have the sole discretion over approval of such re-borrowings and the related terms attached thereto.
7. **No Additional Debt.** Other than the two provisions detailed in the foregoing two sections, borrower will incur no additional debt of any kind during the life of the loan without the prior written consent of the Foundation, such consent to be granted or denied at the Foundation's sole discretion.

VIII. Documentation, Payment & Advance Guidelines

1. **Loan Types.** The Foundation will consider first mortgage loans for capital improvements, expansion, new construction, remodeling, renovation, refinancing and asset acquisition of real property. Loan requests to fund operating expenses or budget shortfalls will not be considered.
 - a. Unless otherwise noted, loan requests for raw land will be priced with the floating interest rate option and the loans will be due on the 3rd anniversary of the loan. At the sole discretion of the Foundation, the loan maturity date may be extended to the 5th anniversary of the loan.
2. **Amortization.** No loan shall have an amortization longer than twenty years.
3. **Collateral.** Borrowers must have legal title to all real property serving as collateral and the following items are required in order to perfect the Foundation's lien position:
 - a. **Title Insurance:** The borrower, at their own expense, shall furnish a mortgagee's title insurance policy by an approved title insurance company, insuring good and clear title to property pledged as collateral.
 - b. **Recording:** The borrower shall pay the cost of recording the mortgage/deed of trust, loan document preparation, and all other incidental legal expenses involved in completing credit approved by the Foundation. The Foundation or the respective Title Company overseeing the underlying transaction will be responsible for recording the mortgage/deed and related loan documents with the county recorder in the county in which the borrower's property is located.
 - c. **Insurance:** Borrower agrees to insure all property pledged as collateral in form and substance satisfactory to the Foundation. This coverage will include, but not be limited to, fire, general liability and extended coverage (including flood insurance in cases where collateral is located in a flood zone), and shall further require the Foundation be named as an additional insured and mortgagee on the borrower's policy. In addition, the policy shall contain a loss payable clause to The Southern Baptists of Texas Foundation. Insurance must be with a recognized insurance company satisfactory to the Foundation in an amount sufficient to protect the loan. A certificate of insurance shall be provided to the Foundation at the time of loan closing and at each subsequent renewal over the term of the loan.
 - d. **Main Church Property.** In all cases, the Foundation will require the main church property as collateral regardless of the usage of the loan proceeds requested.

VIII. Documentation, Payment & Advance Guidelines (cont.)

4. **Advances:** In cases where Foundation loans are funding new construction or renovation, borrower shall document the scope of work using the appropriate American Institute of Architects (AIA) contract. Advances will be managed in accordance with the following protocol:
 - a. All draw requests shall be submitted to the Foundation in writing and will be supported by invoices or documentation of specific work performed.
 - b. All draws will be granted for actual expenditures except for deposits on special-order items.
 - c. All draws will be granted in direct proportion to the actual work completed as described in the AIA contracts.
 - d. Draws will be made on a monthly basis unless otherwise approved by the Foundation. In all cases, the Foundation will have up to five (5) business days after receipt of a draw request in which to make inspections and advance funds.
 - e. Small construction projects may use an alternative draw request form approved by the Foundation.
 - f. Periodic inspections of construction projects will be conducted by Foundation or their designee during the construction phase or during an extended renovation. Inspections will be conducted in coordination with the related draw requests submitted by borrower or by borrower's general contractor.
5. **Construction / Renovation Interest Only Period:** New construction, renovation or expansion loans are eligible for an "interest-only" period of time which will coincide with the related construction cycle. During this period the borrower will be charged interest computed on a 365 day basis on amounts advanced. The construction period shall not exceed twelve months and will convert to a long-term amortization upon receipt of a Certificate of Occupancy. If the construction period exceeds twelve months, the interest-only period may be extended at the sole discretion of the Foundation.
6. **Payment:** Monthly loan installment payments shall be accomplished through an automatic bank draft by the Southern Baptists of Texas Foundation on the borrower's account on the first (1st) or the fifteenth (15th) day of each month or the first business day thereafter. For those borrowers who maintain cash sequestration investments at the Foundation, payment can be taken from these balances at borrower's instruction and/or at the Foundation's initiative. If funds are not available for payment on the due date, accrued interest on the unpaid balance shall be included in the amount required to bring the loan current.

VIII. Documentation, Payment & Advance Guidelines (cont.)

7. **Supporting Documentation:** In addition to the loan application, the following items may be required from the applicant prior to closing:
 - a. Approved plans and specs by the local building authority.
 - b. Copy of AIA contract with contractor and/or architect.
 - c. Cost breakdown provided in the bid submitted by contractor.
 - d. Project completion schedule provided by contractor.
 - e. Environmental questionnaire completed by borrower.
 - f. Phase I and/or Phase II Environmental Study if required by the Foundation.
 - g. Third Party Guarantee if applicable.
 - h. Transfer of building fund accounts to the Foundation.

IX. Rates & Fees

1. **Application Fees:** Borrowers submitting a complete loan application will not be required to pay any application fees. For many churches, assistance is requested in completing the necessary documents. In those cases where Foundation personnel have to assist, application fees shall be mutually agreed upon but in no case shall exceed a maximum of \$750.
2. **Origination Fees:** All new borrowers will be assessed an origination fee computed as follows:
 - a. For loans \$10,000 to \$500,000: 1% of the loan amount.
 - b. For loans \$500,001 to \$1,000,000: \$5,000 + ½ % of amount over \$500,000.
 - c. For loans \$1,000,001 and up: \$7,500 + ¼ % of amounts over \$1,000,000.
 - d. Notwithstanding the foregoing standard fee structure stated above, origination fees are a matter of loan pricing and will be subject to Loan Committee approval and exception where credit parameters warrant.

IX. Rates & Fees (cont.)

3. **Interest Rates:** The Foundation's Loan Committee establishes interest rates as market conditions dictate. The interest rate charged shall be the rate in effect when the loan documents are executed. Adjustments to, or deductions from, the rate in effect may be approved by the Foundation's Loan and Credit Committee at the time of consideration. Those adjustments or deductions reflect the Loan and Credit Committee's assessment of the underlying credit strength or weakness of the prospective borrower. Borrowing churches will choose from four rate options: A floating rate, a one year fixed, a three year fixed or a five year fixed rate, adjustable on the applicable anniversary date of the option chosen as follows:
- a. The **floating rate** will be set based on the prime interest rate plus an interest premium based on the credit quality. The interest rate will be adjusted whenever the prime interest rate changes.
 - b. The **one year adjustable rate** will be adjusted to the Foundation's annual adjustable interest rate on each anniversary date of the original loan agreement. There will be a 1.5% cap per annual adjustment and a 5% cap over the life of the loan.
 - c. The **three year adjustable rate** will be adjusted to the Foundation's three-year adjustable rate on the third (3rd), sixth (6th), ninth (9th), twelfth (12th), and eighteen (18) year anniversary dates of the original loan agreement. There will be a 3% cap per every 3 year adjustment and a 5% cap over the life of the loan.
 - d. The **five year adjustable rate** will be adjusted to the Foundation's five-year adjustable rate on the fifth (5th), tenth (10th), and fifteenth (15th) year anniversary of the original loan agreement. There will be a 5% cap over the life of the loan.
 - e. In all cases where loan pricing adjusts, the Foundation shall reserve the right to adjust upward or downward the prevailing rates in response to the underlying credit strength or weakness of the borrower as detailed above in section three.

Privacy Statement

The Southern Baptists of Texas Foundation shall rely on only written instructions signed by designated representatives of the Church in regard to any information pertaining to a pending church building loan application or an existing church building loan. Additionally, the Southern Baptists of Texas Foundation shall communicate by telephone, email or any other means of communication only with designated representatives of the Church in regard to all pending church building loan applications in process or subsequent church building loans.

APPENDIX A

CHURCH LOAN APPLICATION CHECKLIST

- Fully completed church loan application.
- Approved Church Budgets for the current year and preceding 3 years.
- Income/Expense Reports for the current year and preceding 3 years.
- Balance Sheet Statements for the current year and preceding 3 years.
- Copies of prior month's bank statements for all accounts.
- Giving Unit Analysis for current year and preceding 3 years.
- Copy of the Senior Pastor's resume.
- Copies of property deeds for all church owned properties.
- If a construction project, a copy of the construction contract and proposed budget along with a copy of preliminary plans.
- If purchasing property, include a copy of the purchase contract.
- Other items deemed necessary for the church loan application approval process.