Synod of the Pacific

Loan Guidelines

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I. INTRODUCTION

The Synod of the Pacific has an extended history, dating back to the 1950's of lending to member churches, presbyteries, and constituent organizations within its bounds. In the late 1980's the Synod established the Investment Service so that churches/organizations could deposit their funds for a high yield return while funding the Loan Service. Today each of these programs stand at approximately $36 million dollars in assets/liabilities.

The Synod's Investment and Loan Services is also underwritten by a bank line of credit which insures continual liquidity for investors and available funds for lending.

The Synod of the Pacific's Loan Service provides flexibility, and an understanding of Presbyterian Church needs and operations that cannot typically be found with commercial lenders.

So why does the Synod of the Pacific have a Loan Service? The primary purpose is to provide capital funding for member congregations and specialized ministries, presbyteries, and constituent organizations. Such purposes include:

- Purchase of property and/or church buildings
- Church construction and renovation
- Capital debt refinancing or consolidation
- Permanent amortized financing
- Low interest loan to improve the energy efficiency of the church/organization

The secondary purpose of the Loan Service is to support Presbyterian programs by returning the majority of its net service revenue back to member presbyteries as Mission Partnership Funds. This revenue is a major source of funding for mission programs and allows the Synod of the Pacific to be a net resource contributor, rather than a net resource user.

The Synod of the Pacific provides loans from two fund sources, each of which offers several types of loans:

- SYNOD INVESTMENT AND LOAN SERVICE FUND
    - Amortized Loans (AMOR)
    - Secured Lines of Credit (SLOC)
    - Unsecured Lines of Credit (ULOC)
    - Low Interest "Green" Loans (GRN)
- JAMES M. MUZZY LOAN FUND
    - Muzzy Amortized Loans (JMM)

- Muzzy Line of Credit (MLOC)
- Equity Share Loans (EQU)

The primary purpose of the James M. Muzzy Revolving Loan Fund is to provide capital funding for congregations with special financial needs. Such purposes include:

- For congregations up to 125 members, new church developments, racial/ethnic congregations, and churches with special financial needs, loans for capital projects and purchases, and debt refinancing.
- For congregations up to 250 members, loans for funding of equity sharing agreements.

The Synod has a limited supply of JMM funds. Careful stewardship of these funds is required to meet the needs of these congregations both now and in the future.

Oversight of all loan services rests with the Synod of the Pacific through its Mission Finance Committee. The Mission Finance Committee periodically reviews the policies and procedures and recommends necessary changes to Synod.

II. AVAILABILITY AND ALLOCATION OF FUNDS

If the Synod experiences an excess of demand over resources, priority will be given to the following loan types:

- Construction loans and other forms of short-term financing over long-term mortgage loans.
- Small loans over large loans.
- Loans to churches with a history of Investment Service deposits. Churches are especially encouraged to deposit their building fund revenues as they are received.

III. APPLICATION FORMS

Application forms are available on our website (www.synodpacific.org), by request from the Synod office, or from presbytery staff.

The following forms are available:

FORM	PURPOSE
A	New Loan requests from Churches (Line of Credit, Amortized, and Green)
B	New Loan requests from Presbyteries
O	New Loan requests from Affiliated Organizations
R	Renewal of existing Line of Credit (for additional 2 years) Renewal of existing Amortized Loan (for additional 5 years) Conversion of Line of Credit to Amortized
S	Supplemental Loan Application
M	James M. Muzzy Loan requests (Amortized, Line of Credit, and Equity Share)
V	Review of terms for existing James M. Muzzy Loans

When you submit your application, you will be required to provide supplemental documentation, such documentation includes, but is not limited to:

- Current and Prior Year annual budget.
- Prior Year Balance Sheet and Revenue/Expense Statement.
- Current Year interim Balance Sheet and Revenue/Expense Statement.
- Preliminary drawings, bids, and estimates (only as applicable)

IV. APPLICATION AND APPROVAL PROCESS[1]

Initial informal consultation with the Presbytery and Synod as to affordability of the project and the availability of funds is recommended.

Loan Applications Forms are posted on the Synod website at www.synodpacific.org, under the Loan Section, or may be obtained by contacting the Synod's Loan Coordinator. It is imperative that all areas of the application are completed so that the Synod can obtain the best picture of the financial health of the church/organization.

After completion of an application, congregation and/or session approval is required, and should be obtained in accordance with the Book of Order. The Clerk of Session executes the application, attesting that proper approval has been obtained.

All applications should be sent directly to the Presbytery. Once received:

- The Presbytery must approve the application and co-sign the loan (Guaranty of Debt Repayment).
- The Presbytery must also provide the Synod with a copy of their most recent Annual Audited or Reviewed (*per the Book of Order G-3.0113*) Financial Statements.
- The application must be signed by an authorized officer of the Presbytery Corporation.
- A Financial Plan for funding the project and repayment of all debt will be carefully developed by the Session together with the Presbytery. Once developed, the Presbytery must approve this financial plan.
- Presbytery oversees the project being financed, monitors the financial health of the congregation, and insures that all loan terms, conditions, and covenants are being met.

Ordinarily the Synod will not accept a loan application until it has been reviewed and approved by the Presbytery. However, at the Presbytery request, because of meeting schedules and deadlines, the Synod may consider the loan application concurrent with Presbytery's. The Synod's approval would then be contingent upon Presbytery approval.

The Synod's application approval process varies with the <u>type</u> and <u>size</u> of the loan requested:

- New loans of up to $99,000 and loan renewals up to $500,000 may be approved between regularly scheduled committee meetings by the Loan Coordinator and three Commissioners of the Mission Finance Committee[2]. Such approvals are reported at the next committee meeting and noted in the minutes. ***To be eligible for this interim approval, a loan must meet all standard underwriting criteria and the applicant must not be seeking waivers to any standard loan covenants.***

[1] Simpler rules and procedures apply for loans to Presbyteries. This document is designed primarily for use by congregations and specialized ministries.

[2] There is a subcommittee of five commissioners that are authorized by the committee for these approvals. Any three of the Between Meetings Subcommittee may be asked to approve interim loans.

- All other loans that meet the approved Synod Loan Guidelines are reviewed and approved by the Mission Finance Committee. The Committee shall report all approved loans to Synod at each regularly scheduled meeting[3]. Normally, loan approvals can be obtained in February, May, August, and October. Applications must be received in the Synod office by the 10th of the month prior to their scheduled meeting date (e.g. applications for February's meeting are due January 10th).
- The Mission Finance Committee may convene between meetings by conference call to consider a loan application for approval. In these cases, the applicant must pay all costs of this special session, regardless of the outcome of the process. Such approvals are reported to Synod at the next meeting.

Any waiver request related to financial considerations or construction requirements must be submitted in writing as part of the loan application and must also be approved by Presbytery and Synod.

The Synod Mission Finance Committee has the right to place certain contingencies on any loan approval. These contingencies are placed on the approval to protect the applicant, presbytery, and the Synod. Synod will periodically verify all loan contingencies are in place during the life of the loan. If the contingencies are not being met, the Synod may consider the loan in default and will take any action necessary to correct the default.

Any presbytery that has a member church participating in the Synod's Loan Service agrees to provide the Synod's lending institution with a written guaranty and financial information, as requested.

V. LOAN FEES

The Synod of the Pacific charges an Initiation or Processing fee once the application has been approved. This fee is to help cover the cost of reviewing and processing the applicant's loan. The Initiation or Processing fee also solidifies the commitment between the Synod and the applicant church/organization regarding the loan.

Following is the Synod's fee schedule:

LOAN TYPE	FEE
New Amortized or Line of Credit Loan	0.50% Loan Request
Conversion of Line of Credit to Amortized Loan	$250.00
Renewal of Amortized or Line of Credit Loan$	$250.00
Green Loans, New Muzzy Amortized, or Line of Credit	$250.00
Conversion of Muzzy Line of Credit to Amortized Muzzy Loan	$250.00
Review of Muzzy Amortized Loan	$150.00

[3] A Mission Finance Committee quorum must be present, including a majority of its voting members and representatives of at least three presbyteries.

VI. LOAN UNDERWRITING CRITERIA

Loan Portfolio Diversity

To mitigate the risk inherent with concentrated investments, the total of all loans made by the Synod to any one borrower is generally limited to 15% of available loan funds[5].

Line of Credit and Amortized Loans

In general, Synod loan approval is based on the ability of the church to pay back the loan. Current debt, payment history, cash reserves, equity in property, income and expenses for the past few years, ratio of debt to income, ratio of debt to membership, changes of membership and revenue over the past few years, presbytery approval and many other

Factors go into making this decision.

[4] *Current Operating Budget* includes all church revenue except revenue related to building campaigns and affiliated activities such as management of a day care center or rental property.

[5] Available Loan Funds are equal to Investment Fund deposits.

Although individual loans may vary depending on these and other factors, there are general parameters for an acceptable loan:

- Applicant church/organization must have at least 10% of total project on hand or already expended on project.
- Total debt payments after financial campaigns completion must not exceed 20% of the Current Operating Budget estimated at the time loan payments commence.
- Normally the average annual giving per family unit (Operations plus Building Campaign giving) should not exceed 6% of the average family income.
- Total loans to property value should not exceed 75%.

James M. Muzzy Loans

Although JMM Loans are designed specifically for churches which have special financial needs, a financial plan for funding the project and repaying all debt on a timely basis will be carefully developed by the session and the Presbytery. Credit standards are a less important part of Muzzy Loan underwriting, but it is necessary for the church to demonstrate an ability to repay the loan as agreed.

VII. RATES AND TERMS

To maintain stability of the Synod's Loan and Investment Interest Rates during periods of frequent fluctuations in the Market, the Synod has moved away from setting its rates based on "Prime Rate". Although the current Prime Rate is taken into consideration, the Synod bases it interest rates on its internal cost of funds.

Synod Investment and Loan Service Loans

Line of Credit loans

The line of Credit loans has a variable interest rate which is typically set 0.25% higher than the Amortized loan rate.

A church may draw on its loan, up to the approved limit, via an authorized signor[6], at any time. No draws are permitted if the loan is beyond term, or if payments are in arrears.

Payment of interest only is required on a monthly basis.

The maximum term for a Line of Credit loan is two years. The term period begins with the first loan draw. At the end of the term a Line of Credit loan must be:

- Paid off
- Renewed for ONE additional two-year term with Synod.
- Converted to a Synod Amortized loan.
- Refinanced though a bank or other lender.

In order to convert a Line of Credit to an Amortized loan, the loan must be in good standing (i.e. payments current, in compliance with Synod loan covenants, etc.).

Amortized Loans

Amortized loans have a variable interest rate with a fixed monthly payment for each term.

Amortized payments (interest and principal) are required monthly.

The maximum term for an Amortized loan is five years. The maximum amortization schedule is 25 years. At the end of the five-year term an Amortized loan must be:

- Paid off
- Renewed for another five-year term with Synod. (The amortization schedule will be five years less than in the previous term. Therefore, at the end of the original amortization period, the loan will be paid off.).
- Refinanced through a bank or other lender.

Amortized loan interest rates float, but payments are designed to remain constant throughout the five-year term. Changes in interest rates will affect how much of each payment is applied to interest, and how much is left to be applied to the principal. Thus, if interest rates drop, the loan will be paid off more quickly than scheduled. If interest rates rise the loan will be paid off less quickly than scheduled. In extreme cases, where interest rates rise dramatically, monthly payments will be increased to prevent negative amortization, which is never allowed.

Monthly payments may be recalculated after a lump sum pay-down of at least 10% of the balance and at the borrower's request. The adjustment will be calculated at the current rate, using the same end date for amortization.

Green Loans

Green Loans have an interest rate of 5.25%, with a maximum amount of $300,000. Green loans over $100,000 may be amortized up to a maximum of 20 years. Amortization for loans of $100,000 or under would be amortized over 10 years. The purpose of Green loans is to fund projects that will reduce the church's carbon footprint while improving the facilities with energy efficient upgrades. Green loans may also be used for ADA compliance and projects for improving physical and/or auditory accessibility. Other projects can include deferred maintenance such as roofing, water heaters, piping, electrical, painting, parking lots and similar projects.

James M. Muzzy Loans

Muzzy Line of Credit Loans

Interest rates are fixed. Rates are set 0.25 % higher than the Muzzy Amortized loan rate.

A borrower may draw on its loan up to the approved limit, via an authorized signor, at any time. No draws are permitted if the loan is beyond term, or if payments are in arrears.

Payments of interest only are required on a monthly basis.

The maximum term for a Muzzy Line of Credit loan is one year. The term period begins with the first loan draw. At the end of the term the loan must be:

- Paid off
- Converted to a Synod, Muzzy Amortized loan.
- Refinanced though a bank or other lender.

To convert a Line of Credit to an Amortized loan, the loan must be in good standing (i.e., payments current, in compliance with Synod loan covenants, etc.).

Muzzy Amortized Loans

Interest rates and terms on JMM and EQU loans are flexible. The Mission Finance Committee periodically sets a benchmark rate for JMM loans. Presbyteries may request an interest rate either higher or lower than the benchmark rate.

Amortized JMM loans must be repaid in full within 25 years.

If a JMM loan is approved at the benchmark rate, and the benchmark rate is reduced after the approval, but before initial funding of the loan, the benchmark rate currently in effect at the time of funding will be applied.

JMM loans are funded in a lump sum upon request. Partial draws are only available through the MLOC loan.

JMM Loans have a fixed interest rate and payment for its 5-year term. If the loan amortization is longer than 5 years, it will be reviewed at the end of each term by staff. Monthly payment, interest rate , and other terms will be reset according to the loan policy then in effect.

LOAN DRAWS

Upon completion of the loan documentation process, the loan will be ready for funding. Draws may be disbursed by the following:

TYPE	COST	DELIVERY TIME
ACH	No fee	1 business day

Draws must be requested by one of the authorized persons named on the Corporate Resolution document.

All funds will be sent directly to the church or wired to the church's bank account. No funds will be disbursed should the loan become delinquent or out of compliance.

VIII. PROVISIONS FOR INVESTMENT AND LOAN SERVICE

LOANS LOC & Amortized Loans

There is a 0.50% initiation (commitment) fee for all Line of Credit and Amortized loans. A $250.00 fee will also be assessed on any renewal, conversion, or restructuring of existing debt. The initiation fee is calculated on the approved limit of each loan. The fee is due and payable immediately at the time of loan approval. For conversions or renewals, the applicant may request the initiation fee be rolled into the balance of the loan if it does not exceed the approved loan amount. The Synod reserves the right to charge the fee against the existing loan balance if the fee is not paid within 60 days. Initiation fees are nonrefundable. If the balance of a loan being converted or renewed, or the requested loan amount of a new loan, is reduced by more than 10% within 30 days of approval, the initiation fee invoice will be revised and reissued. For changes of less than 10%, or later than 30 days after approval, no change will be made to the initiation fee.

Monthly interest will vary depending on the daily loan balance, the interest rate in effect, and the number of days since the last payment.[7]

Additional principal may be paid at any time without penalty.

Upon a lump sum pay-down of at least 10% of the balance of an Amortized loan, and at the request of the borrower, the fixed monthly payment amount may be adjusted. This adjustment will be calculated at the current rate and using the same term date for amortization.[8]

A monthly statement will be sent the first week of each month, covering all activity for the preceding month. Payment is due and payable upon receipt. Payments must be received at the designated payment address before the end of that current month to avoid compound interest charges. ***All late payments are a serious concern and may require presbytery intervention.***

If the loan is not drawn on within six months of approval, the loan authorization will be canceled. Extensions may be available, at the discretion of staff, and upon payment of an extension fee (extension fees are calculated as follows: the original initiation fee divided by 6 months, times the requested number months of extension)

The Synod reserves the right to revise its interest rates if it has a change in banking relationships, or an increase in its cost of borrowing. The Interest Rate Committee[9] is responsible for any changes of rates that are necessary between regular meetings of the Synod. Historically, during periods of excess cash or excess demand, interest rates have been adjusted or frozen by a commission, a committee, or the Synod's internal management.

Any Synod loan is made available only for the term of that loan. There is no promise or guarantee that the Synod will be able to either extend or refinance that loan beyond the original term. Extension or refinancing is not an automatic process. There are many factors to consider, including the Synod's availability of funds, the church's financial status, and the church's past compliance with loan covenants.

[7] Monthly interest charge is calculated as follows: (Annual Interest Rate) ÷ 360 × (number of days) × (Principal Balance). If the interest rate or principal balance changes during the month, calculate interest separately on each combination, then add them together. For example, if the interest rate changes from 7.0% to 6.5% on the 12th of June, and the principal balance changes from \$100,000 to \$90,000 on the 27th of June, the calculation of June's interest is as follows: (.070 ÷ 360 × 11 × \$100,000) + (.065 ÷ 360 × 15 × \$100,000) + (.065 ÷ 360 × 4 × \$90,000) = 549.72**.**

[8] Example: A loan with a \$500,000 original amount had a payment of \$3,369, which was based on an interest rate of 5.25% and a 20-year amortization. Now, three years later, the balance is \$452,000 and the current interest rate is 6.0%. The church pays down \$50,000, leaving a balance of \$402,000, and requests a payment adjustment. The new payment would be \$3,148, which is based on a 6.0% interest rate for the remaining 17 years of the original amortization period.

[9] The Interest Rate Committee is comprised of the Chair of Mission Finance, three additional Mission Finance Committee voting members, the Director of Business Services, the Loan Service Coordinator, and the Investment Service Coordinator. Teleconference calls of the Committee are recorded for audit purposes and reported at the next Synod meeting

Green Loans (GRN)

Green Loans are available to help congregations make eco-friendly improvements to their facilities. Other projects can include deferred maintenance. Green Loans are available to any congregation within the Synod bounds regardless of size. Examples of qualifying improvements are:

- Replacing old windows with energy efficient ones
- Converting building heating to solar energy
- Installing energy efficient water sprinklers
- Replacing old toilets with low flow ones
- Other energy saving measures
- Roofing, water heaters, piping, electrical, painting, parking lots

The maximum total balance of Green loans to any one church, at any given time, is \$300,000.

Green loans of \$100,000 or more may be amortized over 20 years; under \$100,000 is amortized over 10.

IX. PROVISIONS FOR JAMES M. MUZZY LOANS

There is a Processing fee associated with all James M. Muzzy loans. This fee will be assessed with all new reviews, conversions or refinancing of existing debt. The Processing fee is a set fee that has been approved by the Mission Finance Committee of the Synod. The fee will be due and payable at the time of the loan application approval. Approved but not yet funded loans will be cancelled if the Processing fee is not paid within 60 days. Processing fees are nonrefundable. The Synod reserves the right, in the case of JMM Reviews, to charge the Processing fee against the existing loan if the fee is not paid within the 60 days. The schedule for James M. Muzzy Processing Fees is as follows:

New James M. Muzzy loan	$250.00
Review of JMM loan	$150.00
Conversion of MLOC to JMM Amortized loan	$250.00

Equity Share Loans (EQU)

The Muzzy fund specializes in loans to churches for the purpose of funding equity sharing agreements. Equity Sharing loans are available to congregations of no more than 250 members, in amounts up to $250,000. Note: The Synod does not enter equity sharing agreements with pastors. Churches can borrow from the Synod and use the funds to enter an equity sharing agreement with their pastor. Please contact Synod loan staff for assistance with all aspects of equity sharing.

A congregation may also use a JMM loan to assist a pastor with housing by purchase or renovation of a manse or offering a second amortized loan. The terms of the arrangement with the pastor are subject to review by the Synod during the loan approval process.

James M. Muzzy Loans

Eligibility

Muzzy loans (other than EQU), are available only to congregations or presbyteries (for use by specific congregations or new church developments). The congregation must demonstrate extraordinary financial need, or fit one or more of the following special situations:

- New church development
- Small church (less than 125 members)
- Racial/Ethnic congregation
- Church with earthquake, flood damage, or similar uninsurable damage

Uses of Funds

Muzzy loans are only available for capital projects, including:

- Site and/or Building purchase
- Building construction or renovation
- Debt restructuring or consolidation

Other Considerations

The availability of other sources of funding must be considered before a JMM loan is granted. The Church Investment and Loan Program of the PC (U.S.A.) offer a number of loans to Congregations. Also, there may be presbytery loan funds available. A JMM loan may be combined with GA, Synod or Presbytery loans in order to create a suitable financial package.

No more than $250,000 in JMM loans may be granted to a congregation at any one time, including JMM loans made to the presbytery on behalf of a particular church, but not including Green loans.

If the building or site is sold before being developed and utilized for the mission program for which it was purchased, or if a portion of the site is sold off as excess property, the Synod will share proportionately with the titleholder in any capital gain or loss.

X. SPECIAL PROVISIONS FOR SITE OR BUILDING PURCHASE

Title to the property shall be fee simple and entirely without any reversionary interests.

Soil testing must be done before the site is purchased in order to ensure that the selected site is suitable for building.

An environmental audit is required for sites which have been previously developed for the purpose of identifying any potential toxic waste problems.

All properties must be protected by property insurance (full replacement value including at least 25% over building limit for Debris Removal and Increased Cost of Construction due to local ordinances or laws) plus liability insurance (at least 1 million per occurrence, 3 million aggregate) from date of purchase.

XI. SPECIAL PROVISIONS FOR CONSTRUCTION OR RENOVATION

All construction and renovation shall comply with all local building codes and zoning regulations.

The church has a basic mission responsibility to comply with the Americans with Disabilities Act (ADA) accessibility requirements. Emphasis in design and construction must be given to handicapped access including but not limited to: 1) Ramp installations 2) Elevator installations 3) Restroom modifications 4) Parking for the disabled 5) Curb cuts 6) Illumination and sound system modifications.

As part of the church's stewardship of the environment, care must be taken to protect the planet. Buildings must be constructed and maintained with a concern for energy and water conservation. Special care should be taken in the use of toxic materials and in the disposal of asbestos or other toxic wastes. Landscaping should be designed to minimize the use of water and chemicals.

The presbytery shall give assurance that a competent business procedure has been established for the receiving and disbursing all constructions funds. Payment to contractors should be made only as work has been inspected and approved by an architect, engineer, or project manager who is independent of the contractor.

All contractors, architects and engineers must be Equal Employment Opportunity employers.

All contractors must be licensed and bonded. All contractors must carry and provide evidence of liability limits not less than 1 million Dollars. The church shall be named as additional insured on contractor's liability policy. The contractor's liability insurance must not be secondary to the church's own insurance or require the church's insurance to contribute to claims payment.

All contractors must also provide proof of worker's compensation insurance coverage.

All construction contracts must be AIA or DBIA contracts (No custom contracts) and shall carry

a Performance Bond supplied by the contractor. Performance Bonds may be costly (up to 10% of the construction cost), so it is important to include it in the budget from the beginning.

All properties must provide proof of property and liability insurance, with an endorsement for Course of Construction[10] insurance on the project naming the Synod of the Pacific as additional insured.

The architectural/engineering AIA contract (NO custom contracts) shall specify the maximum budget allocation available for construction purposes, and shall state further that should bids received be more than 10% higher than the budget allocation (20% for rehabilitation work), the architect/engineer shall revise the contract documents without additional cost to the church/Presbytery until an acceptable bid is received. Make sure all architectural/engineering firms have Errors and Omission Insurance.

XII. SPECIAL PROVISIONS FOR LOANS OUTSIDE SYNOD BOUNDARIES

Notwithstanding all other sections of these guidelines, when the Synod provides a loan to a borrower outside the geographical boundaries of Synod of the Pacific, the following special provisions apply:

All such loans, regardless of size, must be secured by a first lien Deed of Trust on real property, and be covered by Title Insurance.

In the event of fund imbalances, Loans and Custodial Deposits from outside the Synod will be the first to be blocked.

At the discretion of the committee, subcommittee, or commission authorized to implement special rate and term provisions, such may or may not be applied to loans outside Synod boundaries.

XIII. SPECIAL PROVISIONS FOR PARTICIPATION LOANS

The Synod may enter secured Participation Loans with Presbyterian Investment and Loan Program (PILP), as funds are available. These loans will be underwritten, and approved, following other sections of these loan guidelines and an individual loan will not exceed 15% of available loan funds (Investment Fund deposits).

Synod will have an ownership interest in the loan collateral equal to its participation percentage. Participation Loans can be for a PC (USA) church or related organization property within or outside of synod geographic boundaries. Loan applications from congregations, presbyteries or related organizations within the Synod bounds will be considered before PILP Participation Loans, subject to available funds.

XIV. FINANCIAL SECURITY

All loan proceeds must be used exclusively for their intended purpose as presented in the financial plan of the application.

Every loan will be secured by a Promissory Note signed by two corporate officers of the church, and two corporate officers of the Presbytery.

All loans over $25,000 will be secured by a Deed of Trust. Should a church have more than one loan, if the total amount of indebtedness is more than $25,000, a Deed of Trust will be secured for

[10] *Course of Construction Insurance* is property and liability coverage for the new building or renovation as it is being built. Coverage excludes theft of materials that are not an integral part of the building at the time of the loss.

the total amount of the loans. All Synod Deed of Trusts must be held in a first lien position. Synod of the Pacific will not subordinate its lien position to another entity, except under the following conditions:

- There is a U.S. Government lien or Small Business Administration loan.
- If Presbyterian Investment & Loan Program is the primary or majority lender

All loans requiring a Deed of Trust will also require standard ALTA Title Insurance and if applicable a performance & payment bond.

Synod loans may also be secured by a lien against an investment of equal or greater value. This investment must be maintained until the loan is paid in full.

No additional debt may be incurred, which is not part of the original financial plan, without the written permission of Synod.

All loans shall become immediately due and payable when a congregation sells any portion of any real property on which a Synod loan has been made and or at such time as the borrower is no longer under the jurisdiction of the Presbyterian Church (U.S.A).

XV. LOAN DELINQUENCY, AND RECAPTURE

Purpose

Loan Accounts that are past due represent the single biggest risk to the Synod Loan Service. Even slightly past due accounts must be taken seriously, and substantially past due or non- performing accounts jeopardize the loan service's financial health, our relationship with the Synod's Bank and with our auditors, and our ability to fund new loans.

Congregation, Presbytery, and Synod approvals must be done with the clear understanding that no matter how urgent and worthy a need, a poorly performing loan jeopardizes the Synod's ability to fund all other loans, many of which will be just as urgent and worthy. All approvers must be mindful that all loan security provisions will be enforced, including requiring payments by guarantors and foreclosures.

Strict enforcement of collection procedures is seen as a service to a church and its Presbytery. Every attempt will be made to help a borrower identify and address any financial problems before they are insurmountable, preventing further delinquencies that may require more drastic action.

Any exceptions to this procedure, such as a loan modification request, must be submitted to the MF committee via formal request from the borrower; staff will not accept any verbal/informal requests.

Periodically: All Loans

Monthly:	Provide Loan Aging report to all Presbytery Executives
Quarterly:	Review status of Past Due Accounts at every Mission Finance Committee Meeting
Annually:	Review status of all accounts for possible adjustment to "Write Off for Bad Debt" December 31st, each year
Annually:	Request, collect and review Annual Financial Statements of all loans with balance over $1,000,000 or with more than one past due payment during the previous calendar year

30 days Past Due

- Carbon copy Loan Statement marked Past Due, to Presbytery Executive for information and action.

30 days Past Due Repeatedly

- Send letter of concern with loan statement, copied to Presbytery Executive and Synod Director of Business Services
- Annual review of financial statements

60 days Past Due

All above, plus…

- Letter of concern to Clerk of Session, copied to Pastor, Presbytery Executive, Synod Exec, Synod Director of Business Services, and Mission Finance Committee Chairperson
- Phone contact with presbytery regarding resolution of past due status
- Begin charging interest on past due interest.

90 days Past Due

All of above, plus…

- Phone contact directly with Church Representative regarding non-payment status
- Demand Letter to Clerk of Session, with copies to Pastor, Presbytery Executive, Synod Exec, Mission Finance Committee Chair
- Monthly review of financial statements

120 days Past Due

All of above, plus…

- Written request to Presbytery Executive and Church for consultation within 30 days. Negotiate the following possibilities (not limited to) depending upon the loan type and situation:
  - Formulate official request to Mission Finance Committee for specific forbearance
  - Presbytery to assume payments
  - Alternative funding to cover debt
  - Sale of Assets

XVI. SYNOD RESERVES AND COST OF FUNDS

Reserves

The Synod recognizes that the lending of money necessarily involves the risk that some losses may occur. Therefore, an adequate reserve for losses will be maintained. Loans will be reviewed in accordance with risk factors outlined by Synod's auditors. A reserve equal to approximately one percent of the total outstanding loan balance will be established and adjusted annually.

Synod Cost of Funds

The definition of ***Costs of Funds*** is "The interest cost that a financial institution must pay for the use of money".

The Synod's ***Internal Cost of Funds*** is then the cost of holding money from our depositors. This includes the interest we pay the depositors plus the overhead cost involved with running the Synod Investment and Loans Service