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 loans 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)
- Low Interest Insurance Loans (INS)
- 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.
- For congregations of all sizes, low interest loans for projects that prevent insurance losses.

The Synod has a limited supply of JMM funds. Careful stewardship of these funds is required in order 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 exemplary Mission Giving histories. (See Section V)
- 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, Insurance 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 is able to 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 original application, attesting that proper approval has been obtained.

All **ORIGINAL** 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 type and size 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 telephone 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	½% Loan Request
Conversion of Line of Credit to Amortized Loan	½% Loan Balance
Renewal of Amortized or Line of Credit Loan	¼% Loan Balance
Green Loans, New Muzzy Amortized, Line of Credit, or Insurance	$250.00
Conversion of Muzzy Line of Credit to Amortized Muzzy Loan	$250.00
Review of Muzzy Amortized Loan	$150.00
All Loan Modifications	$500.00

[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

Mission Giving Considerations

The Presbyterian Church (U.S.A.) relies on the connections between congregations, presbyteries, synods, and the General Assembly to nurture and support each other's mission, and to make possible much work that would be beyond the resources of any one body. Synod of the Pacific supports the connectional church by providing loans and other financial services at favorable rates and terms, and by being a net funding resource to our churches and presbyteries. At the same time, the Synod relies on the connectional church for operating funds in the form of per capita contributions from presbyteries. Because of the importance of this connectional cycle, priority in the loan approval process will be given to those churches with good Mission Giving histories. Churches with good Mission Giving histories may also be eligible for discounts of up to 0.75% on interest rates. For more details on these discounts, please refer to "Rates and Terms."

Churches are encouraged to give 10% of their Current Operating Budget[4] to Presbyterian General Mission.

For the purposes of loan applications, all General Mission giving that is remitted through the Presbytery or Synod, toward projects of the Presbytery, Synod Partnership or General Assembly, are considered. This includes the following:

- GA and Presbytery/Synod Unified Giving
- Per Capita Apportionments
- Directed Giving (to within-budget projects)
- Special Offerings
  - Peace and Global Witness
  - One Great Hour of Sharing
  - Theological Education Fund
  - Pentecost
  - Christmas Joy
  - Presbyterian Disaster Relief
- Extra Commitment

Loan Portfolio Diversity

In order 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.

lthough 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

In order 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 have a variable interest rate which is typically set ¼% higher than the Amortized loan rate. A discount off this rate of up to 0.75% is available based on **Mission Giving** history.

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.).

[6] *Authorized Signors* for loan transactions are named on the loan application, and may be changed by the Clerk of Session on church letterhead. The Synod will abide by any additional draw restrictions imposed by the church. In the absence of other instructions, draw requests can be made by phone, fax, mail, or e-mail.

Amortized Loans

Amortized loans have a variable interest rate with a fixed monthly payment for each term. A discount off this rate of up to 0.75% is available based on **Mission Giving** history.

Amortized payments (interest and principal) are required on a monthly basis.

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 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 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 3.50%, with a maximum amount of $150,000. Green loans over $50,000 may be amortized up to a maximum of 15 years. Amortization for loans of $50,000 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 the physical and/or auditory accessibility. Other projects can include deferred maintenance such as roofing, water heaters, piping, electrical, painting, parking lots and similar projects.

Green Loans do not qualify for Mission Giving discounts. In the event of delinquent payments, a late payment penalty of $25 per month will be charged.

James M. Muzzy Loans

Muzzy Line of Credit Loans

Interest rates are fixed. Rates are set 1/4 % higher than the Muzzy Amortized loan rate. A discount off this rate of up to 0.750% is available based on **Mission Giving** history.

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

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.).

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. A discount off this rate of up to 0.75% is available based on **Mission Giving** history.

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

Insurance Loans are given at 2.0% interest rate with a maximum amount of $50,000. The maximum amortization is 10 years. Insurance loans may be used for the purpose of insurance mitigation, asbestos abatement, mold and mildew removal and removal of lead paint hazards.

Insurance Loans do not qualify for Mission Giving discounts. In the event of delinquent payments, a late payment penalty of $25 per month will be charged.

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, Mission Giving discount, and other terms will be reset according to the loan policy then in effect.

VIII. MISSION GIVING DISCOUNT

The Presbyterian Church (U.S.A.) relies on the connections between congregations, Presbyteries, Synods, and the General Assembly to nurture and support each other's mission, and to make possible much work that would be beyond the resources of any one body. Synod of the Pacific supports the connectional church by providing loans and other financial services at favorable rates and terms, and by being a net funding resource to our churches an Presbyteries.

At the same time, the Synod relies on the connectional church for operating funds in the form of mission giving and per capita contributions from churches. Because of the importance of this connectional cycle, priority in the loan approval process will be given to those churches with good Mission Giving histories. Also, churches with good Mission Giving histories may be eligible for discounts of up to 0.75% on interest rates.

Churches are encouraged to give 10% of their *Current Operating Budget* to Presbyterian General Mission. For the purposes of loan applications, all giving that is directed through the Presbytery or Synod Partnership or General Assembly are considered. This includes the following:

- GA and Synod Unified Giving
- Per Capita Apportionments
- Directed Giving (to within-budget projects)

- Special Offerings:
    - Peace and Global Witness
    - One Great Hour of Sharing
    - Theological Education Fund
    - Pentecost
    - Christmas Joy
    - Presbyterian Disaster Relief
- Extra Commitment

Discounts of up to 0.75% off of the standard interest rates for Lines of Credit, Amortized, and James M Muzzy loans are available based on a borrower's Mission Giving History:

10.0% or higher	0.75% discount
7.0% to 9.9%	0.50% discount
5.0% to 6.9%	0.25% discount

Discounts are based on the previous calendar year's qualified Mission Giving, and are calculated by staff as part of the loan approval process based on review of financial statements, Mission Treasury statements, and other sources. The discount is set for the term of the loan, or 5 years, whichever is shorter. Discounts are recalculated at all renewals, conversions, and adjustment periods.

If, at the discretion of staff, the previous calendar year is deemed to not fairly represent the applicant's Mission Giving history, a different calculation period may be used. The Mission Finance Committee reserves the right to review the Mission Giving status of a borrower at times other than those noted above.

Applicants that are not typically mission giving entities, such as presbyteries, camps or conference centers, etc., will receive a discount of 0.50% off the current benchmark interest rate.

IX. 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
Check	No fee	3 – 5 days
ACH	$10.00	2 days
WIRE	$20.00	Same 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.

X. 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 .25% 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 in 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 in order to avoid compounded interest charges. ***All late payments are a serious concern and may require presbytery intervention.***

There is an interest rate penalty for all out of term loans. If a Loan goes beyond term without having been renewed or refinanced, the interest rate will increase by 1%, and by an additional 1% at each anniversary of the end-of-term date.

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 in the event that 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,

[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.

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.

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 \$150,000.

Green loans \$50,000 or more may be amortized over 15 years; under \$50,000 is amortized over 10.

XI. 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 into equity sharing agreements with pastors. Churches can borrow from the Synod and use the funds to enter into 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.

Insurance Loans (INS)

Through the James M Muzzy fund, low interest loans are available to churches for projects that prevent insurable losses. Insurance Loans are available to congregations of all sizes. The major ongoing insurance risk facing churches is loss from fire. However, there are other losses that effect premiums. Examples of qualifying loans include:

- Central Station Alarms
- Automatic Sprinkler Systems
- Locks, safes, and other security or anti-vandalism measures.
- Re-piping, or replacement of mechanical components to avert water damage
- Repair of trip/fall hazards, substandard lighting
- Removal and repair of damaged areas due to mildew or insects
- Removal of hazardous materials (i.e. asbestos abatement, mold and mildew removal and removal of lead paint hazards)
- Other preventative measures

Low interest insurance loans may not be used for earthquake refitting projects and are not available to churches involved in new construction or major renovation projects that require installation of sprinkler systems, re-piping and central station alarms in accordance with code requirements.

Funds are available each year on a first come, first served basis. The maximum total balance of Insurance Loans to any one church at any given time is $50,000.

Other James M. Muzzy Loans

Eligibility

Muzzy loans (other than IN and 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 Insurance or 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.

XII. 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 assure 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.

XIII. 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.

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 <u>Equal Employment Opportunity</u> 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 be 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 <u>Course of Construction</u>[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.

XIV. 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.

XV. SPECIAL PROVISIONS FOR PARTICIPATION LOANS

The Synod may enter into 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.

XVI. 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 the total amount of the loans. All Synod Deed of Trusts must be held in 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).

XVII. LOAN DELINQUENCY, AND RECAPTURE

[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.

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 of 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

XVIII. 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.

Synod of the Pacific

Table of Contents

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.

The Synod's current loan portfolio stands at approximately $24 million dollars and boasts that it has been repaid for every dollar previously lent under the program.

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.

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**
  - Secured Lines of Credit (SLOC)
  - Unsecured Lines of Credit (ULOC)
  - Amortized Loans (AMOR)
- **JAMES M. MUZZY LOAN FUND**
  - Muzzy Amortized Loans (JMM)
  - Muzzy Line of Credit (MLOC)
  - Low Interest "Green" Loans (GRN)
  - Low Interest Insurance Loans (INS)
  - 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.
- For congregations of all sizes, low interest loans for projects that prevent insurance losses, or improve the energy efficiency of the church.

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.

The secondary purpose of the Loan Service is to support presbytery programs by recycling the majority of its net service revenue[1] *back to member presbyteries as part of the Partnership Pool*[2]*. This revenue is a major source of funding for mission and ministry programs and allows the Synod of the Pacific to be a net resource contributor, rather than a net resource user.*

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 exemplary Mission Giving histories. (See Section V)
- 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 currently available:

FORM	PURPOSE
A	New Loan requests from Churches (Line of Credit and Amortized)
O	New Loan requests from Affiliated Organizations
B	New Loan requests from Presbyteries
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
M	James M. Muzzy Loan requests (Amortized, Line of Credit, Insurance and Green)
V	Review of terms for existing James M. Muzzy Loans

[1] Net service revenues are revenues less all expenses for the Investment and Loan Service.

[2] The Partnership Pool consists of Synod's Services Net Revenue plus any G.A. Allocation plus a percentage of Presbytery Basic Mission.

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[3]

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 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 ensures 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, if the Presbytery requests, because of meeting schedules and deadlines, the Synod may consider the loan application concurrent with the Presbytery. The Synod's approval would then be contingent upon Presbytery approval.

The Synod's application approval process varies with the type and size 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[4]. 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.***

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

[4] There is a pool of five commissioners that are authorized by the committee for these approvals. Any three of these five 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[5]. 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 zoom to consider a loan application for approval. 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 both the applicant 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 who has a member church participating in the Synod's loan service must 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	.50% Loan Request
Conversion of Line of Credit to Amortized Loan	$250.00
Renewal of Amortized or Line of Credit Loan	$250.00
New Muzzy Amortized or Line of Credit Loan	$250.00
Conversion of Muzzy Line of Credit to Amortized Muzzy Loan	$250.00
Review of Muzzy Amortized Loan	$150.00
All Loan Modifications	$500.00

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

VI. LOAN UNDERWRITING CRITERIA

Mission Giving Considerations

The Presbyterian Church (U.S.A.) relies on the connections between congregations, presbyteries, synods, and the General Assembly to nurture and support each other's mission, and to make possible much work that would be beyond the resources of any one body. Synod of the Pacific supports the connectional church by providing loans and other financial services at favorable rates and terms, and by being a net funding resource to our churches and Presbyteries. At the same time, the Synod relies on the connectional church for operating funds in the form of per capita contributions from presbyteries. Because of the importance of this connectional cycle, priority in the loan approval process will be given to those churches with good Mission Giving histories. Churches with good Mission Giving histories may also be eligible for discounts of up to 0.75% on interest rates. For more details on these discounts, please refer to "Rates and Terms."

Churches are encouraged to give 10% of their Current Operating Budget[6] to Presbyterian General Mission.

For the purposes of loan applications, all General Mission giving that is remitted through the Presbytery or Synod, toward causes that are in the mission budgets of the Presbytery, Synod Partnership or General Assembly, are considered. This includes the following:

- GA and Presbytery/Synod Shared Giving
- Per Capita contributions
- Directed Giving (to within-budget projects)
- Special Offerings
  - Peacemaking
  - One Great Hour of Sharing
  - Theological Education Fund
  - Pentecost
  - Christmas Joy
  - Presbyterian Disaster Relief

Giving which is ***not included*** is "Extra Commitment" projects, or support given to local mission, which are worthy causes, but fall outside the scope of the current budget.

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[7].

Line of Credit and Amortized Loans

Although loans may vary depending on church size and other considerations, these are the general parameters for an acceptable loan:

- Applicant church/organization must have at least 10% of total project on hand or already expended on project when applying.
- Total debt payments after financial campaigns completion must not exceed 20% of the Current Operating Budget estimated at the time loan payments commence.

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[6] *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.

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

- 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 many 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". Although the current Prime Rate is taken into consideration, the Synod bases it interest rates on its internal cost of funds.

Line of Credit Loans

The Line of Credit loan has a variable interest rate which is typically set .25% higher than the Amortized loan rate. A discount off this rate of up to .75% is available based on **Mission Giving** history.

A church may draw on its loan, up to the approved limit, via an authorized signor[8], 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 monthly.

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 period 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. A discount off this rate of up to 0.75% is available based on **Mission Giving** history.

Amortized payments (interest and principal) are required on a monthly basis.

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[8] *Authorized Signors* for loan transactions are named on the loan application, and may be changed by the Clerk of Session on church letterhead. The Synod will abide by any additional draw restrictions imposed by the church. In the absence of other instructions, draw requests can be made by phone, fax, mail, or e-mail.

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

Interest rates float on Amortized loans, 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 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.

James M. Muzzy Loans

Muzzy Line of Credit Loans

Interest rates are fixed. Rates are set 1/4 % higher than the Muzzy Amortized loan rate. A discount off this rate of up to 0.750% is available based on **Mission Giving** history.

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

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.).

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. A discount off this rate of up to 0.75% is available based on **Mission Giving** history.

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

Insurance Loans are given at 2.0% interest with a maximum amount of $50,000. The maximum amortization is 10 years. Insurance loans may be used for the purpose of insurance mitigation, asbestos abatement, mold and mildew removal and removal of lead paint hazards.

Green Loans have an interest rate of 3.50%, with a maximum amount of $90,000. Green loans over $50,000 may be amortized up to a maximum of 15 years. Amortization for loans of $50,000 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 the physical and/or auditory accessibility.

Insurance and Green Loans do not qualify for Mission Giving discounts. In the event of delinquent payments, a late payment penalty of $25 per month will be charged.

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 usually have a fixed rate and are fully amortized. However, under special circumstances a Presbytery may request an interest only period, or graduated payments.

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

JMM Loans that are made for a term longer than 5 years will be reviewed every 5 years by staff. Monthly payment, interest rate, Mission Giving discount, and other terms will be reset according to the loan policy then in effect.

Mission Giving Discounts

Discounts of up to 0.75% off of the standard interest rates for Lines of Credit, Amortized, and James M Muzzy loans are available based on a borrower's Mission Giving History:

10.0% or higher	0.75% discount
7.0% to 9.9%	0.50% discount
5.0% to 6.9%	0.25% discount

Discounts are based on the previous calendar year's qualified Mission Giving, and are calculated by staff as part of the loan approval process based on review of financial statements, Mission Treasury statements, and other sources. The discount is set for the term of the loan, or 5 years, whichever is shorter. Discounts are recalculated at all renewals, conversions, and adjustment periods.

If, at the discretion of staff, the previous calendar year is deemed to not fairly represent the applicant's Mission Giving history, a different calculation period may be used. The Mission Finance Committee reserves the right to review the Mission Giving status of a borrower at times other than those noted above.

Applicants that are not normally mission givers, such as presbyteries, camps or conference centers, etc. will receive an automatic discount of 0.50%.

VIII. 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
Check	No fee	3 – 5 days
ACH	No fee	2 days
WIRE	No fee	Same 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.

VIV. PROVISIONS FOR LOC & AMOR LOANS

There is a 0.50% initiation (commitment) fee for all Line of Credit and Amortized loans. A .25% 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 in the initiation fee.

Monthly interest will vary depending on the daily loan balance, the interest rate in effect, and the number of days in the month.[9]

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.[10]

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 compounded interest charges. ***All late payments are a serious concern and may require presbytery intervention***

There is an interest rate penalty for all out of term loans. If a Line of Credit or Amortized loan goes beyond term without having been renewed or refinanced, the interest rate will increase by 1%, and by an additional 1% at each anniversary of the end-of-term date.

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)

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[9] 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.

[10] 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.

The Synod reserves the right to revise Line of Credit and Amortized interest rates if it has a change in banking relationships, or an increase in its cost of borrowing. The Interest Rate Committee[11] 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 Line of Credit or Amortized 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.

X. 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.

Green Loans (GRN)

Green Loans through the James M. Muzzy Fund are available to help congregations make eco-friendly improvements to their facilities. 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

[11] 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.

- Installing energy efficient water sprinklers
- Replacing old toilets with low flow ones
- Other energy saving measures

The maximum total balance of Green loans to any one church, at any given time, is $90,000.

Green loans $50,000 or more may be amortized over 15 years; under $50,000 is amortized over 10.

Insurance Loans (INS)
Through the James M Muzzy fund, low interest loans are available to churches for projects that prevent insurable losses. Insurance Loans are available to congregations of all sizes. The major ongoing insurance risk facing churches is loss from fire. However, there are other losses that affect premiums. Examples of qualifying loans include:

- Central Station Alarms
- Automatic Sprinkler Systems
- Locks, safes, and other security or anti-vandalism measures.
- Re-piping, or replacement of mechanical components to avert water damage
- Repair of trip/fall hazards, substandard lighting
- Removal and repair of damaged areas due to mildew or insects
- Removal of hazardous materials (i.e., asbestos abatement, mold and mildew removal and removal of lead paint hazards)
- Other preventative measures

Low interest insurance loans may not be used for earthquake refitting projects and are not available to churches involved in new construction or major renovation projects that require installation of sprinkler systems, re-piping and central station alarms in accordance with code requirements.

Funds are available each year on a first come, first served basis. The maximum total balance of Insurance Loans to any one church at any given time is $50,000.

Other James M. Muzzy Loans

Eligibility
Muzzy loans (other than GRN, IN and 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 several loans to congregations. Also, there may be presbytery loan funds available. A JMM loan may be combined with GA, Synod or Presbytery loans 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 Insurance or 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.

XI. 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 to assure 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.

XII. 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.

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[12] 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.

XIII. 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.

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

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

[12] *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.

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 $500,000 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 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.