

LOAN APPLICATION INSTRUCTIONS FOR CONGREGATIONS & INSTITUTIONS INVESTMENT FUND

Revised July 2, 2014

INTRODUCTION. A portion of the funds held by the Investment Fund and other funds of The Episcopal Church in the Diocese of Northern California (Diocese) are available for investment in loans to congregations and institutions. Where such loans are to be secured by real property canon law requires written consent by the Bishop and by Standing Committee. This policy establishes a procedure for application and review of proposals for such loans and sets forth standards for their review consistent with the fiduciary responsibility of the Investment Fund Committee and the Board of Trustees of the Diocese and administrative responsibilities of the Bishop and Standing Committee.

PROCEDURE. The procedure involves five steps, as follows.

1. The Parish, Mission, or other applicant shall prepare an application including the content described below and submit it to the Project Review Committee.
2. The Project Review Committee shall review the application and make a recommendation to the Bishop, Investment Fund Committee and/or Board of Trustees, and Standing Committee.
3. The Investment Fund Committee or Board of Trustees shall next review the recommendation, act on the application as an investment decision, and refer its action to the Bishop and Standing Committee.
4. The Standing Committee shall then review the recommendation and action, act on the application as a matter of Diocesan policy and priorities, and refer its action to the Bishop.
5. The Bishop shall review the recommendation and actions, act on the application, and refer the action taken to the Director of Finance & Administration for implementation.

At any stage the applicant may be asked to provide more information or make a presentation in person. For good reason the order of the steps may vary.

COMPLIANCE WITH CANON I. 7. 4 OF THE EPISCOPAL CHURCH:

Before a loan may close the congregation or institution must be in compliance with Title I, Canon 7, Section 4 of the Canons of the General Convention of the Episcopal Church. This canon states that, "All real and personal property held by or for the benefit of any Parish, Mission or Congregation is held in trust for this Church and the Diocese thereof in which such Parish, Mission or Congregation is located." This canon was affirmed by our Diocesan Convention in 2007. Compliance requires a review of the congregation's title documents and possible revision. Please contact the Director of Finance & Administration with questions.

APPLICATION. An applicant seeking a loan from the investment funds of the Investment Fund or other funds of the Diocese shall file a formal application with the Director of Finance & Administration of the Diocese. The application shall contain the following:

1. The size of loan requested and a description of its purpose.
2. A detailed description of the facility to be financed by the loan and a detailed itemization of the all costs associated with the acquisition or construction of that facility, both already incurred and expected to be incurred in the future.
3. A detailed itemization of the sources of funds for the acquisition or construction, including funds on hand, and sources of future funding, including the revenue stream proposed to service the proposed loan.
4. For loans of \$50,000 and above, a five-year business plan (three years if the loan request is less than \$50,000) outlining:
 - a. each program of the applicant, including any new programs to be enabled by the project;
 - b. costs to operate each program, and, if relevant, including increased costs incurred due to increased space/activity level;
 - c. the source and amount of funds to finance operations of each program;
 - d. strategy to achieve growth of the congregation or of individual programs if growth is part of the business plan;
 - e. describe the demographics* of the surrounding area that support growth if growth is part of the business plan; and
 - f. any other information you believe is relevant.
5. The following financial and demographic data for the year to date and each of the past five years for loans in excess of \$50,000, and for each of the last three years for other loans.
 - a. Results of annual campaign and the amount pledged
 - b. Number of pledging units *
 - c. Average Sunday attendance *
 - d. If requested, age distribution of the congregation for loans in excess of \$50,000
 - e. Balance sheets
 - f. Statements of operating income and expense
 - g. Projections of operating income and expense for the life of the loan
 - h. Accounts payable, with aging balances for loans in excess of \$50,000
6. A description of the real property proposed as security for the loan.
7. An estimate of the value of the property proposed as security. See item 5f under PROJECT REVIEW COMMITTEE below.
8. For applications by missions or diocesan institutions, a draft use agreement between the borrower and the title holder to any real property involved in the application, spelling out the relations between the borrower and title holder acceptable to the latter, including appropriate indemnity provisions.

PROJECT REVIEW COMMITTEE. Once the application is complete, the Project Review Committee shall evaluate the application and make a recommendation to the Bishop, Standing Committee, and the Investment Fund Committee of the Board of Trustees, as follows:

1. The Project Review Committee shall consist of a representative of Standing Committee, a representative of the Investment Fund Committee, the Canon to the Ordinary, the Director of Finance & Administration, a representative of the Property Committee, a representative of the Board of Trustees of the Diocesan Corporation, and the Chancellor, and it shall act in consultation with the Bishop.
2. The Committee shall meet, consider the completeness of the application, any initial advice from the Bishop, determine the need, make a request for additional information, and make arrangements to review the application with the applicant.
3. After reviewing the application with the applicant, the Committee shall make a recommendation to Bishop, Standing Committee, and Investment Fund Committee or Board of Trustees, and copies to the applicant and in the case of an applicant mission or institution, a copy to the title holder of any real property involved.
4. An affirmative recommendation shall include a draft loan agreement recommended for adoption by the parties
5. In making its recommendation, the Committee shall consider the following:
 - a. Is the cost of the project reasonable and to what extent is it matched by funding from all sources, including the proposed loan?
 - b. If the loan is to be serviced by the proceeds of capital drives, will the applicant, by the time the loan is closed, have completed a capital drive for the first three years of the loan reasonably yielding a cash flow sufficient to cover debt service?
 - c. Has applicant's revenue for the last five, and particularly for the last three years, covered all applicant's expenditures?
 - d. To what extent can applicant's future revenue be reasonably expected to meet all future expenditures, including debt service, operating expenses of all programs, including reasonably expected cost increases resulting from the project requiring the loan for the next five, and particularly for the next three years?
 - e. To what extent does the applicant's business plan reasonably support applicant's ability to meet debt service and maintain its projected programs for the next five years, and particularly the next three years?
 - f. To what extent is the proffered security sufficient? The Committee may, if it deems it appropriate, require applicant to supply an appraisal of the property or obtain one at applicant's expense.
 - g. To what extent is the loan supported by the strength of the applicant and its leadership and the appropriate financial data and demographics?
 - h. To what extent is the loan consistent with the loan investment policies of the Investment Fund, including policies concerning the availability of loan funds and any policies for allocating investments among various types or sizes of loans?
 - i. To what extent is the loan consistent with administrative policies or priorities of the Diocese, including policies or priorities concerning types of loans or the allocation of lending capacity among current or reasonably anticipated applicant?

6. If, in the absence of established policies or priorities, it appears to the Committee that applications pending or reasonably anticipated may exceed available loan funds, the Committee shall call the matter to the attention of the Bishop and Standing Committee, so that they may set up a process for determining priorities among applicants, and the Committee shall consider those policies and priorities in making its recommendation.

FURTHER ACTION. The Investment Fund Committee of Board of Trustees, in the absence for good reason to the contrary, will act first on the recommendation by the Committee and forward its action to Bishop and Standing Committee for their action. The last to act shall forward the matter to the Director of Finance & Administration to close the loan.

ADDITIONAL LOAN POLICIES

1. It is the policy of the Diocese that real estate loans, absent good reason to the contrary, shall be secured by a first deed of trust and that the priority of the security be evidenced by an appropriate ALTA lender's policy of title insurance procured at the borrower's expense and that the expense of doing so shall be borne by the applicant. Accordingly,
 - a. The Director of Finance & Administration shall notify the applicant of the action approving or denying the loan and submit a loan agreement for adoption by the applicant.
 - b. If the loan is approved, the applicant shall provide the Director of Finance & Administration with a preliminary title report, and take any steps necessary to resolve any title issues.
2. Before the loan can close, the applicant shall bring its articles of incorporation, bylaws, and land title for each corporation or parcel of real property into conformity with Diocesan policy. See the Template portion of the **Property & Risk Management section** of the For Congregations area of the Diocesan Website for forms of articles of incorporation, bylaws, and agreement regarding restrictions of real property.

It is important to contact the Director of Finance & Administration early in the application process to work out a timeline for the various meetings required.

*Information can be obtained from The Episcopal Church Center website at:
www.episcopalchurch.org/page/studying-your-congregation-and-community