

Loan Guidelines and Procedures

I. Purpose

The United Methodist Foundation of New England (UMFNE) supports the mission of the church by providing loans to United Methodist Churches and other Methodist Church extension agencies and organizations (herein called “Applicants”). Loans are conveyed for purchase, construction, expansion, major improvement or for refinancing existing mortgages on churches, parsonages, and mission building sites. Maximum loan amounts, interest rates, and terms are established periodically by Directors and Staff of UMFNE. They are subject to change and Applicants are encouraged to check with UMFNE staff for current loan limits and rates.

1.1 Projects for which loan funds are available:

- A. New congregation’s first unit.
- B. Expansion of church facilities on an existing site.
- C. Major improvement and/or replacement of existing church facilities.
- D. Site purchases including unimproved land for placement of a congregation’s first unit.
- E. Purchase of adjacent land/property for purposes of facilities expansion including increasing parking space for the growing congregation.
- F. Refinancing of an existing loan with banks or other lenders.

1.2 Projects for which loan funds are usually NOT available include ornamental or nonessential projects such as:

- A. Organs
- B. Out buildings for non-direct missionary purpose (e.g. storage, garage)
- C. Landscaping
- D. Interior decorating

Funding for these projects may be included in the requested loan amount so long as the minimum equity percentage (20%) is maintained.

1.3 Priorities for Funding:

When the resources of UMFNE are limited to meet the demand for loan applications, the following priorities are applied:

- A. First Structure for new congregations and parsonages
- B. Renovation and/or remodeling of existing church facilities
- C. Site (Land) Purchases
- D. Other (e.g., refinancing existing loans outside of UMFNE)

II. Loan Application Process

- A. Before submitting application to UMFNE, the applicant must:
 1. Meet all procedures and requirements for local church buildings referenced in Para. 2539, 2540, 2542, 2543, 2544, and 2545 of the 2016 Book of Discipline or as may be amended.
 2. The applicant should contact UMFNE at 800-595-4347 x100 at an early point in the planning stage of the proposed project. A UMFNE staff member will discuss the procedures and obligations involved in making an application for a UMFNE loan.
- B. Loan Application documents are available on the UMFNE Website (www.umfne.org) or upon request of UMFNE staff. Once the completed application is received by UMFNE, it will be processed for consideration by the Loan Officer and foundation directors. Incomplete applications will be returned to the Applicant. To ensure proper time for consideration of each loan, it is requested that completed applications be received a minimum of one (1) month in advance of the need for funds.

III. Legal Requirements

In making an application for a loan, the Applicant must certify that the legal requirements and procedures for disbursement of a loan commitment have been read and understood. These legal and loan requirements and procedures are as follows:

- A. A promissory note setting forth the amount of the loan and the terms of repayment on a form approved by UMFNE's attorneys must be executed and returned to the UMFNE loan staff.
- B. First mortgage covering the real estate of the Applicant shall secure the payment of the note. UMFNE loan staff will provide the appropriate mortgage (if applicable).
- C. A mortgagee's title insurance policy insuring the mortgage as a valid first lien (subject only to the usual utility easements to service the property and existing open roads) is required. The title to the property must be vested in the Applicant in accordance with the laws of the appropriate state (ME, NH, VT, MA, CT, RI). The deed under which the title is held must contain the trust clause as set forth in Para. 2503 of the 2016 Book of Discipline or as may be amended.
- D. A hazard insurance policy, with an extended coverage endorsement containing a mortgagee clause naming the United Methodist Foundation of New England as the first mortgagee and first loss payee in the amount equal to the full insurable replacement value of the improvements on the mortgaged premises is required.

- E. Appraisals are required in connection with loans for the purchase of unimproved land. A physical inspection of the property upon which the construction or renovation may take place when deemed necessary by UMFNE. If tax assessed valuations do not appear to support current value, an independent commercial appraisal may be necessary to determine loan to value requirements.
- F. A statement and pledge by church officials is required. This affirms that with the release of the loan funds, the building can be completed or the property purchased with no additional debt and that no liens for materials provided or labor performed have been filed against the church property.
- G. No further indebtedness of any kind will be incurred during the life of the loan, except with knowledge and written consent of UMFNE.
- H. Para. 2544 #15 of the 2016 Book of Discipline, or as may be amended, recommends that a 'local church not enter into a binding building contract without the contract being properly bonded or furnishing other forms of security, such as an irrevocable letter of credit approved by the conference, district or local church attorney.'

UMFNE requires that the original copy of a 100% performance or completion bond must be furnished by the general contractor retained by the Applicant in cases of construction when the loan is for more than \$75,000. Bonds must be provided by a company holding a certificate of authority issued by the United States Treasury Department as an acceptable surety on federal bonds. It is recommended but not required that the Applicant also secure a labor and material payment bond for the full cost of construction.

- I. Instances where construction has already begun without the Applicant having secured a performance bond, or the contractor is not bondable, and in cases where the Applicant is acting as its own contractor, the Applicant will have to secure a construction loan from a local lending institution, and the disbursement of the loan will be withheld until completion of construction, free and clear of mechanic's liens.
- J. If the monies are to be used entirely as permanent financing (construction completed), a performance bond is not needed, but the mortgagee's title policy must insure against possible mechanics' liens.

IV. Loan Requirements and Procedures

- A. Disciplinary paragraphs concerning requirements for loans are Para. 2539, 2541, 2542, 2543 and 2544 of the 2016 Book of Discipline or as may be amended.
- B. A local church shall not enter into a building contract or, if using a plan for volunteer labor, incur obligations for materials until it has cash on-hand, pledges payable during the construction period, and (if needed) a loan or written

commitment that will assure prompt payment of all contractual obligations and other accounts when due (Para. 2544 #13, or as may be amended).

Be sure that all project costs are included in the price of construction quoted on the loan application worksheet. These include, but are not limited to architectural, construction, required performance/completion bonds and permits, legal costs, utility connection fees, cost of furnishings, and other related costs. It is helpful to have a contingency plan for emergencies of cost over-runs as well. A Plan and Cost Analysis of the project may be required by an entity suitable to UMFNE.

- C. Ordinarily, the maximum loan to an Applicant will not result in annual debt payments exceeding one-third (1/3) of a congregation's annual income and total debt not in excess of three (3) times annual operating income. The ratio of one-third (1/3) for building or debt retirement purposes and two-thirds (2/3) for current expenses and benevolent items is to ensure that the Applicant has adequate funds for its program needs.
- D. An applicant applying for a loan may need to meet one of the following requirements:
 - 1. A capital funds campaign, with sufficient pledges to meet debt retirement for at least the first three (3) years of the loan.
 - 2. Evidence that the debt requirement payments can or will be paid from other named sources for at the least the first three (3) years.

Unless otherwise agreed, newly organized congregations that cannot qualify under the items noted above must have a guarantor for the loan.

- E. As far as it is possible, the Applicant shall have on hand, or in pledges collectable by the time the project is to be completed, a minimum of 20-35% of the projected amount needed to complete the project.
- F. A loan should be repaid in the shortest possible time in order for the Applicant to have sufficient funds for program and mission. Normally a loan is granted for terms of 10 to 20 years. All loans are amortized on a monthly basis including principal and interest.

V. Loan Procedures

- A. All eligible loan applications will be reviewed by the UMFNE Loan Officer with support of other UMFNE staff. Upon completion of our internal review, the application is submitted with recommendation to the appropriate Loan Committee of UMFNE for approval.

- B. Assuming a loan is approved, a letter of commitment, giving the terms of the loan, will be sent to the Applicant. A copy of this letter must be returned to UMFNE, signed by two (2) church trustees with signatory authorization, accepting the terms of the commitment. A loan commitment is valid for a period of three (3) months from the date of the commitment. It may be extended for an additional three (3) months by the Loan Officer upon receipt of written request from the church subject to the then current rate of interest if the rate has changed. The commitment is subject to the church's acceptance of the commitment within ninety (90) days of the date of the letter.
- C. Funds are disbursed once all required documents are signed and returned to UMFNE and post-closing requirements are completed. In cases where loan funds are used to pay for construction, the loan will serve as a construction loan as well as a term loan. During construction, requisitions covering work completed and material purchased will be submitted to UMFNE by the general contractor as approved by the architect and by an appointed official of the Applicant. Each requisition must show a break down among the trades as to the portion of the construction completed to date and the amounts remaining to be paid. Each requisition must call for a ten percent (10%) retainage or holdback and be accompanied by the appropriate releases of liens. Upon approval of the requisition by UMFNE Loan Officer, funds will be disbursed by UMFNE in accordance with existing procedures, within the limitations of the loan commitment.
- D. The final ten percent (10%) of the loan commitment will be retained by UMFNE until the following requirements are met:
 - i. The mortgagee's title insurance policy insures against possible mechanic's liens and materialmen's liens.
 - ii. An affidavit is filed from the contractor to the effect that all material and labor bill have been paid in full, that the contractor has no knowledge of any claims for work performed or material supplied, and that no liens have been filed against the Applicant's property.
 - iii. The architect and the Applicant shall file certificates certifying that the building has been substantially completed according to the plans and specifications and has been accepted by the architect.
 - iv. A certificate of occupancy has been issued by the local authority.
- E. If a construction loan had originally been obtained from a local source and UMFNE took over as lender, we will disburse its proceeds in a lump sum to pay off the construction loan. This disbursement will take place when the following requirements have been met:
 - i. Assurance by the title company that the mortgage held by UMFNE is a valid first lien on the property.

- ii. UMFNE's lien must be superior to a possible mechanics' or materialmen's liens.
- iii. Assurance from the Applicant that construction has been completed and accepted by the Applicant.
- iv. Assurance that there are no outstanding debts connected with the project other than the construction loan.

VI. Repayment of the Loan

- A. Within thirty (30) days following the first distribution of all or a portion of **construction loan** funds, the first payment of interest accrued on that distribution shall be due. Interest on loans begins on the day funds are advanced. Each succeeding month (until the transition to an amortized term loan), accrued interest from the date of first distribution shall be due and payable. Interest is charged only on the portion of the loan funds disbursed.

Note: If the Applicant determines that the full construction loan commitment will not be needed, the Applicant will notify UMFNE in writing. UMFNE will execute the transition to the contractual amortized term loan with principal and interest payments.

- B. Within thirty (30) days following the disbursement of **term loan** funds, the first payment of principal and interest shall be due.
- C. The UMFNE will administer all loan accounts after the loan funds have been disbursed. Each month a loan statement is mailed to the treasurer or other designated agent of the applicant showing the payment amount due.
- D. Payments on principal may be made in advance or in addition to the regular payment without any prepayment penalty. Advance payments are first applied against interest due and then to future principal payments, but the amount of the monthly payments will remain the same. The loan may also be paid in full at any time without penalty.
- E. Each applicant is encouraged to incorporate capital fund campaigns into their overall funding plan. This is especially important for larger construction and major renovation loans to ensure on-going availability of funds to reduce the debt.

Certification

We certify that we have read and understood the attached policies and procedures. We agree to be governed by them in the administration of a loan.

Chairperson, Board of Trustees

Chairperson, Finance Committee

Treasurer

Chairperson, Building Committee

Pastor

Name and Location of the Church

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Area Code and Telephone Number

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Fax Number