



# Loans to Churches

EMPOWERING PEOPLE TO CHANGE LIVES!

## Loan Guidelines and Procedures

### I. Purpose

The Georgia United Methodist Foundation, Inc. (GUMF) supports the mission of the church by providing loans to United Methodist Churches, Districts, Institutions or other church extension agencies (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 the Directors of GUMF. They are subject to change and Applicants are encouraged to check with GUMF staff for current loan limits and rates.

#### **Projects for Which Loan Funds are Available:**

- A. New congregation's first unit.
- B. Expansion of facilities on an existing site.
- C. Major improvement and/or replacement of existing facilities.
- D. Site purchases.
- E. Refinancing of existing loan with banks or other lenders.

#### **Projects for Which Loan Funds Are Usually NOT Available include ornamental or nonessential projects such as:**

- A. Organs.
- B. Bell towers.
- C. Stained glass windows.
- D. Facades.
- E. Landscaping.
- F. Interior decorating.

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

### **Priorities for Funding:**

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

- A. First unit for new congregations.
- B. Renovation and/or remodeling of existing facilities.
- C. Site purchases.
- D. Other (e.g., refinancing existing mortgages, purchase of parsonages and buildings for conferences and city societies).

### **I. Loan Application Process**

- A. Before making application to GUMF, 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.
  - 2. The Applicant should contact GUMF at 770-449-6726 or 877-220-5664 **at an early point in the planning stage of the proposed project.** A GUMF staff member will discuss the procedures and obligations involved in making application for a GUMF Fund loan.
- B. The Loan Application packet will be sent to the Applicant. Once this completed application is received by GUMF, it will be processed for consideration by the Directors of The Fund. **ANY INCOMPLETE APPLICATIONS WILL BE RETURNED TO THE APPLICANT.**
- C. Applications for loans are considered by the Trustees Loan Committee of GUMF at their regular meetings. In order 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 supplied by GUMFs' attorneys must be executed and delivered to the Fund. A **construction loan agreement** will be simultaneously executed if a construction plan is required.
- B. **First mortgage or first deed of trust** covering the real estate of the Applicant shall secure the payment of the note. The attorney representing GUMF will prepare the mortgage or deed of trust.

- C. A mortgagee's **title insurance policy** insuring the mortgage or deed of trust 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 State of Georgia. 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.
- D. A **hazard insurance policy**, with an extended coverage endorsement containing a mortgagee clause naming the Georgia United Methodist Foundation, PO Box 922087, Peachtree Corners, GA 30010, as first mortgagee, in an 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 GUMF. 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 (and signed also by the guaranteeing agent, if one is involved) 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 the knowledge and written consent of GUMF.**

When additional indebtedness is related to the building of a second unit and the additional money is being borrowed from a local lending institution that requires a first mortgage lien, and if GUMF determines that the additional loan will not impair the Applicant's ability to pay The Fund's existing loan, the Fund will agree to share its first lien position with the local lending institution.

- H. Para. 2544 #15 of the 2016 Book of Discipline recommends that a 'local church not enter into a binding building contract without the contractor 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.'

GUMF 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. **In 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 Fund's loan will be withheld until completion of construction, free and clear of mechanics' liens.**

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.
- 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 therefore that will assure prompt payment of all contractual obligations and other accounts when due (Para. 2544 #13).

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, costs of furnishings, and other related costs. It is helpful to have a contingency plan for emergencies or cost over-runs as well. **A Plan and Cost Analysis** of the project may be required by an entity suitable to GUMF.

- 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 must have met 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 retirement payments can or will be paid from other named sources for at least the first three (3) years.

The only exception to this provision will be **newly organized congregations that cannot qualify under the items noted above, in which case the loan must be guaranteed.**

- 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 10 to 20 years. Where special circumstances require, a loan may be made for a longer period of time.

All loans are amortized on a monthly or quarterly basis, including principal and interest.

- G.** Guarantees may be required for new churches without sufficient history to analyze financial strength. A loan may be made in excess of the amount determined by GUMF as a safe borrowing level for the Applicant, only on condition that the loan payments are guaranteed by another party.

When a guarantee is needed the following rules will apply:

1. A certified copy of the guarantor's assets and liabilities, the number of loans already guaranteed, and the amount of unpaid principal of these guaranteed loans shall be submitted for consideration to the Trustees of GUMF.
2. The following organizations, provided they have the necessary resources, may guarantee a loan made by the Fund:
  - a. An annual conference.
  - b. An appropriate conference agency.
  - c. A district or metropolitan mission society or union (or the like).
  - d. A local church.
3. A guarantor may request a release from its guarantee when the balance on the loan is not in excess of the amount GUMF considers a safe borrowing level for the Applicant, provided the Applicant has made payments promptly and is deemed capable of making future payments promptly. The Director of Lending Programs for GUMF is authorized to release such guarantees when the provisions of this section have been satisfied.

## **V. Loan Procedures**

- A.** All eligible loan applications will be reviewed by GUMF Appropriate Loan Committees. Following review by this entity, the application will be submitted to the Trustees Loan Committee of GUMF for action.
- 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 GUMF, signed by the Pastor and the President/ Chairperson of the Board of Trustees (or equivalent), accepting the terms of the commitment:
  1. An estimate of the date of the first withdrawal shall be submitted when the commitment letter is returned.
  2. A loan commitment is valid for a period of **six (6) months from the date of the commitment**. It may be extended for an additional six (6) months by the Director of Lending Programs for GUMF, upon receipt of written request from the church and 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 thirty (30) days of the date of the letter.

- C. Funds are disbursed only upon notice from GUMF legal counsel that all legal requirements have been met. 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 GUMF by the general contractor as approved by the architect and by an official of the Applicant. Each requisition must show a breakdown 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, funds will be disbursed by GUMF 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 GUMF until the following requirements are met:
1. The mortgagee's title insurance policy insures against possible mechanic's liens and materialmen's liens.
  2. An affidavit is filed from the contractor to the effect that all material and labor bills 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.
  3. 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.
  4. A certificate of occupancy has been issued by the local authority.
- E. If a construction loan has been obtained from local sources, GUMF will disburse its proceeds in a lump sum to pay off the construction loan. This disbursement will take place once the following requirements have been met:
1. Assurance by the title company that the mortgage or deed of trust held by GUMF is a valid first lien on the property.
  2. GUMF's lien must be superior to any possible mechanics' or materialmen's liens.
  3. Assurance from the Applicant that construction has been completed and accepted by the Applicant.
  4. 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 disbursement of any portion of the loan funds, **the first payment of interest accrued on that disbursement shall be due**. Each succeeding month (until the first payment of principal and interest is due), the interest accrued to the date of billing shall be due

and payable. Interest on loans begins on the day funds are advanced. Interest is charged only on the portion of the loan funds actually disbursed.

- B.** Within thirty (30) days following the final disbursement on the loan funds, the first payment of principal and interest shall be due.

If the Applicant determines that the full loan commitment will not be requested, the Applicant will so notify the Fund in writing, and principal payments shall become due.

- C.** Interest is charged on all payments until the date GUMF collects from its depositor bank the payments from the Applicant's checks.
- D.** The GUMF 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 amount of principal and interest due for the current payment. 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 current payments 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.** During the period of the loan, it is recommended that the borrower conduct periodic capital fund campaigns to ensure the availability of adequate funds to meet the debt payment.

**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.

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Chairperson, Board of Trustees

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Chairperson, Finance Committee

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Treasurer

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Chairperson, Building Committee

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Pastor

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Name of Church

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Area Code and Telephone Number	Fax Number