

Heartspring Methodist Foundation Loan Policy

I. PURPOSE

Heartspring Methodist Foundation offers loans to the churches and agencies in the Texas Annual Conference of the United Methodist Church as a service to those organizations.

The Foundations lending program serves two purposes:

- 1) To provide a sound and profitable investment of Foundation funds;
- 2) To make low cost, competitive financing available to credit worthy Texas United Methodist churches and agencies.

These purposes are in keeping with the Foundation's purpose as stated in the Articles of Incorporation ". . . to carry on an effective program of encouraging Methodist people in Texas to be good stewards of their present and future resources."

II. LOAN

A. Interest Rates and Fees

Interest rates and fees on each loan shall be determined by the Loan Committee at the time of the loan's approval based on the loan size, risk and expected administration costs of the loan. Fixed interest rates will be set within 30 days of the closing date, and rates should not be fixed for a period longer than 5 years. Rates on floating rate loans should be structured to change on the first calendar day of each year.

B. Closing Costs

The borrower will be responsible for all closing costs or other loan costs. Loan closings will be handled by an attorney approved by the Loan Committee of the United Methodist Foundation.

C. Loan Terms

Terms of loans are based on the use of borrowed funds, repayment sources and the nature of the loan's collateral. Notwithstanding these factors, loans should be amortized in monthly installments of principal and interest with a maximum amortization period of 20 years and interest rates set annually. Interest should be collected at least monthly on all loans.

D. Lending Limit

The maximum exposure of loans and commitments to one borrower is \$1,000,000. Exceptions to this limit may be made with the concurrence of 2/3 of the Loan Committee members. Exposures over \$1,000,000 shall also require the approval of a majority vote of the Trustees. No more than 20% of the total loan funds can be loaned to any one borrower. The minimum loan amount is \$20,000.00.

E. Application Requirements

An entity requesting a loan will be sent a Church Loan Application (Exhibit A). After this is completed and returned to the Foundation, for loans of \$50,000 or more an officer of the Foundation will visit the entity requesting a loan. The visit will be to interview the Pastor and Lay Leadership, and determine if any additional information is required before making a credit decision.

The Loan Officer or Loan Committee Secretary will complete a Loan Application form summarizing the proposed loan and terms recommended by the Loan Officer. This application and other credit information will be submitted to the Loan Committee for approval or ratification.

- F. Loans under \$250,000, and within the credit guidelines set at any given time by the loan committee, may be approved by the Foundation staff. All other applications must be approved by the loan committee.
- G. The District Superintendent of the church making application must give written approval of the application.
- H. The Foundation will not loan more than 80% of any project cost.

The minimum credit information required from a church for a loan application will include:

- A. Last two years Statistical Report Form to the Annual Conference.
- B. Last two years Annual Report of Trustees to the Church/Charge Conference.
- C. Last two years Annual Report of the Committee on Finance to the Administrative Board.
- D. Current year budget and future budget plans.
- E. Other credit information as determined by the Foundation.
- F. Completed Loan Application.
- G. Complete listing of all debts of every kind.

III. GUIDELINES FOR QUALIFYING

For both new loan requests and renewals, the Loan Committee will analyze information received from the Borrower to assess the prospects of the loan being repaid in the ordinary course of business without undue strain on the Borrower. Some of the factors to be considered in this process include the following:

- A. Total debt service, including the proposed loan, as a percentage of the annual budget;
- B. Borrower's history of paying other loans and obligations, including conference obligations and apportionment;
- C. Stability of membership and operations;
- D. Reliability of financial information;
- E. Value of the loan's collateral;
- F. Profitability of the loan.

IV. TYPES OF LOANS

- A. Capital Improvement Loans secured by a first lien on real property. Required Documentation: Normal and customary documentation as advised by counsel. Construction loans must be accompanied by a “completion bond”.

Capital improvement loans will be closed and documented in accordance with the Book of Discipline of the United Methodist Church, including the approval of the District Boards of Church Location and Building when required.

Loans secured by first liens on vehicles.

- B. Loans secured by funds invested with the United Methodist Foundation of Texas may be approved by the President as follows:

- 1) Interest bearing investments with a stated interest rate (Fixed Income Fund). The Foundation may loan up to 100% of a borrowers fund balance secured by such investments. The minimum interest rate for such loans shall be 1% above the rate stated for the investment.
- 2) Investments in equity funds or those with other than a stated fixed interest rate: Normally, up to 90% of market value may be loaned against deposits. At the discretion of the President and Loan Chairman, up to 100% may be loaned.

- C. Discouraged Loan Types or Features.

The following types of loans or loan terms are discouraged:

- 1) Interim loans or loans where there is no claim on the Borrower beyond the loans collateral;
- 2) Unsecured term loans;
- 3) Interest only term loans;
- 4) Loans to finance or capitalize interest;
- 5) Loans which are subordinated to another lender;
- 6) Single maturity bullet loans with maturities greater than 6 months;
- 7) Loans to Borrowers whose present lender has asked that the debt be moved.

- D. Loans Secured by Note Receivables.

The Foundation will not purchase a Note Receivable from a church or other borrower. Consideration will be given to accepting a collateral assignment of a note receivable if the borrower qualifies in other respects. Historical income from a note receivable will be added into the qualifying formula.

V. LOAN COMMITTEE

- A. Loan Committee Structure

- 1) Size – This Committee will consist of the President of the Foundation and no fewer than five people appointed from the membership of the Board of Trustees. The Treasurer of the Foundation and/or the Chairperson of the Investment Committee will be ex-officio members of this Committee.
- 2) Meetings – The Committee will meet at the direction of the Loan Chairman as needed. In order to vote on loans or conduct official

business of the Committee a quorum must be present. Three of the five members of the Committee shall constitute a quorum.

B. Duties

The responsibilities of the Loan Committee shall be as follows:

- 1) To approve all loans granted by the Heartspring Methodist Foundation.
- 2) To monitor the quality of Foundation's loan portfolio.
- 3) To oversee the administration of problem or "watch" assets.

VI. LOAN APPROVAL

All loans committed by or funded by the United Methodist Foundation of Texas, with the exception of loans secured by deposits must be approved by the Loan Committee with an affirmative vote of three of the five of committee members present at the Loan Committee meeting. Approvals of any application shall expire within 90 days of approval unless other terms are approved by the Loan Committee. Funding of loans after 90-day expiration shall require resubmission to the Loan Committee for approval.

In those situations when the Loan Chairman deems necessary, a telephone call or conference call to Loan Committee members may be conducted. Loans approved by this telephone call shall be ratified at the next meeting of the Loan Committee.

Modifications of Approvals:

Modifications must be approved by the Loan Committee. A modification is any change in the financial condition of the Borrower, increases in the loan amount, extensions of loan term or amortization term and collateral. Any other changes may be approved by the President but reported to the Loan Committee in writing at its next committee meeting.

Renewals:

Renewals require the same documentation and approval process as any new extension of credit. Loans should not be structured with automatic future renewals.

Extensions:

Provided the Borrower is not in default on any obligation to the Foundation, the President may approve one extension of a loan's maturity date of up to 60 days. The President may also approve up to (2) 30-day extensions of monthly principal and interest payments during the life of the loan.

VII. COLLECTIONS

The President is responsible for keeping close contact with Borrowers, reviewing their financial statements, so that potential problems can be promptly identified and effective action taken to uphold the quality of the Foundation's loan portfolio. Any material deterioration in a Borrower's ability or probability to repay shall be promptly reported to the Loan Committee.

A. Annual Reviews:

Each Borrower should submit annual financial information including balance sheet, statement of cash receipts and disbursements, its Local Church Report to

the Annual Conference and Annual Report of Trustees. This information together with other information from the President will be used by the Loan Committee to conduct an annual review of the portfolio to assess quality of each loan and the portfolio's performance in general.

B. Past Due Loans:

- 1) A loan will be considered past due if not received within thirty days of the due date.
- 2) It is the intention of the Foundation to collect past due notes using all remedies available. Different borrowers and situations may require discretion on the part of the Foundation. It is not always appropriate or prudent to pursue collections with one formula. This policy suggests and allows flexibility in the collection process.
- 3) These guidelines will be followed:
 - (a) 30 Days Past Due – A phone call will be made and a past due notice sent.
 - (b) 60 Days Past Due – A second past due notice will be sent and a phone call will be placed to the borrower and the District Superintendent.
 - (c) 75 Days Past Due – A meeting will be scheduled with the appropriate parties of the borrowing entity, the District Superintendent and the Conference Treasurer. The Bishop, Conference Treasurer and District Superintendent will be copied on all correspondence from this point forward.
 - (d) 90 Days Past Due – At the discretion of the committee, the note will be referred to an attorney for collection and all legal options will be exercised.
- 4) **Late Fees:**
The Foundation will charge a late fee as allowed by appropriate state law. This fee will be enforced after a payment is 30 days overdue. The President has the authority to waive the late fee.

C. Special Handling of Loans:

From time to time there may be loans which may require special handling. Loans in this category will be listed on a Watch List and will exhibit some or all of the following characteristics:

- 1) Loans which exhibit some degree of credit weakness. This could be failure to pay apportionments, past due history, changes in leadership, declining membership, declining income, etc..
- 2) A loan will remain on the Watch List until there is a history of timely payments and there are no other adverse trends. The Watch List may be updated periodically. It will be distributed to the Loan Committee, Executive Committee, Bishop, Conference Treasurer, and District Superintendents (where necessary). This list is to remain confidential.

VIII. POLICY EXCEPTIONS

Exceptions to this policy may be made with the concurrence of the Loan Committee. The approval of an exception, the reasons or mitigating factors and the Loan Committee's concurrence shall be documented in the Loan Committee minutes and the Borrower's credit file.

IX. METHOD TO IMPLEMENT AND AMEND POLICY

The policy will be implemented and amended at the recommendation of the Loan Committee with the approval of the Board of Trustees.