

## POLICIES AND REGULATIONS OF THE CHURCH BUILDING LOAN PROGRAM

Administered by

THE BAPTIST FOUNDATION OF ILLINOIS

(Revised October 29, 2004)

### PURPOSE

The Church Building Loan Program of The Baptist Foundation of Illinois is a credit assistance program for the benefit of the members of The Baptist Foundation of Illinois. Members are defined as Baptist entities which are (1) cooperating with the Illinois Baptist State Association and (2) cooperating with the Southern Baptist Convention. First mortgage loans are made to qualifying members for equity loans, building projects and the acquisition of additional properties and buildings. As funds are available, consideration will be given to applications for refinancing qualifying member indebtedness or other member institutions building or property indebtedness as defined by this policy.

The funds are not the property of the Foundation, but are held in trust for the benefit of Baptist causes designated by the donors. The earnings and interest received from loans are distributed to the designated causes through the Fixed Income Pool.

The program is administered by the Foundation Loan Services Committee, composed of members of the Board of Directors of The Baptist Foundation of Oklahoma. In discharging its duties of approving loans to churches and other Baptist entities, the committee is guided by the following policies and regulations.

### MINIMUM ELIGIBILITY FOR A LOAN APPLICATION

1. **DENOMINATIONAL LOYALTY.** Members applying for loans must be loyal to the denomination. Such loyalty shall be evidenced by fellowship and cooperation with the Illinois Baptist State Association, and by regular and substantial contributions to mission causes through the Cooperative Program.
2. **WRITTEN BUDGET.** Members applying for loans must have a written budget plan which is adopted at least annually by congregational action and must give evidence of a consistent pattern of church finance.
3. **LOCATION AND NEED.** Members applying for loans shall be located in communities which represent opportunities for building and maintaining a church. Members shall provide ample parking space and shall comply with city, county and state fire codes and building regulations.
4. **INCORPORATION.** Members applying for loans must be incorporated in the state in which the member is located.

## INTEREST RATES AND METHOD FOR PAYMENT ON A LOAN

5. The Foundation Loan Services Committee of the Board of Directors establishes the interest rates as market conditions dictate. The interest rate charged to members shall be the rate in effect when the loan documents are executed. Members shall have the option of choosing one of five (5) adjustable rates of interest within a fifteen (15) year amortization.
6. The interest rate shall be immediately adjustable or fixed for one (1), three (3), five (5) or ten (10) years, depending on the adjustable interest rate chosen by the church at the time of closing and the following conditions shall be in effect:
  - (1) The variable interest rate is a floating rate tied to The Wall Street Journal Prime Lending Rate as published in The Wall Street Journal and will be adjusted immediately with any change in the published Wall Street Journal Prime Lending Rate. The interest rate may be raised or lowered, without limits, over the life of the loan with any changes in The Wall Street Journal Prime Lending Rate.
  - (2) The annual adjustable interest rate will be adjusted to the Foundation's annual adjustable interest rate on each anniversary date of the original loan agreement. The interest rate may not be raised or lowered over the life of the loan more than one and one-half (1½) percent in any one year, or more than five (5) percent above or below the interest rate effective at the beginning of the loan.
  - (3) The three year adjustable interest rate will be adjusted to the Foundation's three year adjustable interest rate on the third (3<sup>rd</sup>), sixth (6<sup>th</sup>), ninth (9<sup>th</sup>), twelfth (12<sup>th</sup>), fifteenth (15<sup>th</sup>), and eighteenth (18) year anniversary dates of the original loan agreement. The interest rate may not be raised or lowered over the life of the loan more than three (3) percent at any three year adjustment time, or more than five (5) percent above or below the interest rate effective at the beginning of the loan.
  - (4) The five year adjustable interest rate will be adjusted to the Foundation's five year adjustable interest rate on the fifth (5<sup>th</sup>), tenth (10<sup>th</sup>), and fifteenth (15) year anniversary dates of the original loan agreement. The interest rate may not be raised or lowered over the life of the loan more than five (5) percent above or below the interest rate effective at the beginning of the loan.
  - (5) The ten year adjustable interest rate will be adjusted to the Foundation's ten year adjustable interest rate on the tenth (10<sup>th</sup>) year anniversary date of the original loan.. This new rate will be in effect for the remainder of the twenty (20) year term. The interest rate may not be raised or lowered over the life of the loan more than seven (7) percent above or below the interest rate effective at the beginning of the loan.
7. Loans with the variable, annual, three (3), five (5) or ten (10) year adjustable interest rate will be amortized at the time of closing and again at the anniversary date of each one (1), three (3), five (5) or ten (10) year period respectively, or in the case of the variable rate, whenever a change in the loan rate occurs. Monthly installment payments shall include accrued interest on the unpaid

principal balance and a monthly principal reduction to retire the loan within the remaining term of the loan.

8. No loan shall be made for more than twenty (20) years.
9. Prepayment of the principal may be made at any time without penalty.
10. Monthly loan installment payments shall be accomplished by automatic bank draft by The Baptist Foundation of Oklahoma on the member's account on the first (1<sup>st</sup>) or fifteenth (15<sup>th</sup>) day of each month or the first business day thereafter.
11. If payment is not received on the due date, accrued interest on the unpaid balance shall be included in the amount required to bring the loan current.
12. In the event a member ceases to cooperate with the Illinois Baptist State Association, as described under DENOMINATIONAL LOYALTY, the remaining indebtedness shall become due and payable on call.

#### APPLICATION PROCESS FOR A LOAN

13. All applications for loans shall be made on forms provided by the Foundation.
14. Information submitted by the member on the application forms must be current and complete.
15. When applications have been received and evaluated, a representative of the Foundation shall contact the member to arrange a meeting with the appropriate committees and/or with the church body, as required, at a regularly scheduled or called meeting of the congregation. The purpose of such meetings shall be to discuss the member's loan request, the proper legal action required by the member to make loans and to mortgage property, and the Foundation's purposes and obligations in the administration of the Church Building Loan Program.
16. A Baptist Foundation representative will, prior to the approval of any loan, inspect the real property and improvements that are to be used as collateral for the loan. The purpose of this inspection is to determine the possibility of contamination of the land or buildings by toxic or hazardous substances. This inspection is not to be construed as approval by The Baptist Foundation of Oklahoma or that the premises are in compliance with laws, rules and regulations dealing with environmental matters. If this inspection reveals the possibility of such contamination, the Baptist Foundation may require that a professional environmental study be conducted at borrower's expense. If the professional environmental study reveals the presence of toxic or hazardous substances, the Baptist Foundation shall have the right to reject the loan request.
17. Final approval or denial of loan applications shall be made by the Foundation Loan Services Committee or by the Board of Directors of The Baptist Foundation of Oklahoma at any regular or special meeting.
18. A mortgage title insurance policy is required on loans in excess of \$50,000.00 on land used as collateral. A mortgage title report is required on loans up to \$50,000.00 on land used as collateral.

The mortgage title insurance underwriter may require affidavits from builders and/or suppliers showing all construction debts and liens have been satisfied or paid from the loan proceeds.

19. When a loan has been approved, the member shall be provided a formal letter of approval by the Foundation specifying terms of the loan. On loans in excess of \$50,000.00 a mortgage title insurance policy commitment must be received before a closing date can be set. On loans up to \$50,000.00 a mortgage title report must be received before a closing date can be set. The loan closing must take place no more than six months from the date of the Foundation Loan Services Committee approval.
  - (1) An equity loan is closed when fees are paid, a mortgage title insurance policy commitment letter or mortgage title report is furnished to the Baptist Foundation and an agreement, promissory note and mortgage are signed and filed for the full amount approved. Approximate monthly drafts will be funded until the project is complete, not to exceed 12 months.
  - (2) Monthly interest only payments shall be required during construction. The interest payments will be based on the daily-accrued interest for the current principal balance. The interest rate during construction shall be the same interest rate chosen by the borrower for long term financing.
  - (3) A loan, not requiring interim financing, is closed when fees are paid, a mortgage title insurance policy commitment letter or mortgage title report is furnished to the Baptist Foundation and a certificate of resolution, promissory note and mortgage are signed, and filed.

#### GUIDELINES FOR A LOAN

20. The total amount loaned to a single member shall not exceed \$2,500,000.00 unless approved by the Board of Directors. The Foundation may participate with other lenders in loans that exceed this limit.
21. The Baptist Foundation's representative will perform a market value analysis for property used as collateral.
22. No loan shall be made in excess of fifty (50) percent of the fair market value of the property offered as collateral. The value of new construction shall be included in the market value.
  - (1) Exception to policy #22 shall be made when the member is borrowing funds for purchase, construction or renovation of a parsonage. The member shall be allowed to borrow up to 75% of the current market value of the parsonage.
  - (2) The Foundation Loan Services Committee may make an exception to policy #22 for land purchases on a case-by-case basis for growth or expansion.

- (3) A loan made to a Baptist associational entity or guaranteed by the Illinois Baptist State Association, may be approved up to 75% of the current market value of the property offered as security including the cost of new construction.
23. No loan shall be made where installment payments on indebtedness, including payments on the Foundation loan, exceeds twenty-five (25) percent of the average annual budget receipts for the past two (2) years. Members receiving loans from the Foundation must agree not to increase indebtedness beyond the twenty-five (25) percent debt limit without written permission from the Foundation Loan Services Committee. Failure to secure such written permission may result in the loan becoming due and payable on call.
  - (1) Exception to the "debt ratio" policy set forth in policy #23 may be made by the Foundation Loan Services Committee when a member has completed a pledge program that will raise cash, within a three (3) year period, toward payment of the project. In such cases a loan amount equal to a 20% debt service amount may be loaned to the member along with an additional amount of up to one-half ( $\frac{1}{2}$ ) the total outstanding pledges.
  - (2) A member approved under this exception shall agree to pay the required minimum monthly payment by automatic bank draft from their general undesignated budget receipts during the first 36 months of the loan. They shall further agree to pay all monies received for the payment of pledges directly to the Foundation as principal reduction of the loan. The required monthly payment will be adjusted at the end of the thirty-six (36) month period by reamortizing the principal balance at that time for the remaining term of the note at the effective interest rate chosen by the borrower at the beginning of the loan and adjusted according to the interest rate policy.
24. Church building loans shall be secured by a first mortgage on real estate owned by the member. Construction, renovation or purchase of a cabin on leased Southern Baptist campgrounds will require the main church property as collateral.
25. The Baptist Foundation shall fund an approved loan to a member purchasing land and/or buildings after all terms and provisions for purchase of the property have been fulfilled by both the member and the seller.
26. Members receiving loans shall, at their own expense, furnish to the Foundation a Mortgage Title Insurance Policy on loans in excess of \$50,000.00 issued by a title insurance underwriter approved by the Foundation. This policy insures that no loss shall be sustained by the lender by reason of defects in the mortgage given as security for the loan. When the loan is approved and a letter of commitment has been issued, the borrower shall make application for such mortgage title policy. Members receiving loans up to \$50,000.00 shall, at their own expense, furnish to the Foundation a Mortgage Title Report issued by an abstract company approved by the Foundation.
27. Construction Financing. When property market value is sufficient, an Equity Loan may be established before the project is begun and these funds may be used for construction. Upon completion of the project or up to 12 months, whichever is earlier, fully amortized payments begin with monthly principal and interest payments required. If present property market value is below policy guidelines, construction financing may be obtained from a local financial institution and the Foundation will give a commitment letter for long term financing when the project is complete.

28. There shall be a loan origination fee calculated on the loan amount committed to the borrower.

(1) The origination fee shall be:

\$10,000 to \$300,000 – One percent (1%) (maximum, \$3,000)

\$300,001 to \$600,000 - \$3,000 plus one-half percent ( $\frac{1}{2}\%$ ) of amount over \$300,000

\$600,001 and up - \$4,500 plus one-fourth percent ( $\frac{1}{4}\%$ ) of amount over \$600,000

This fee shall be paid when the loan is closed.

29. A loan shall be closed only after final inspection is made and approved by a Baptist Foundation representative, title policy requirements are satisfied, and proof of insurance coverage is provided as outlined in paragraph 32.

30. The Foundation shall pay the mortgage tax. The member shall pay for the recording of the mortgage and other expenses involved in completing the transaction.

31. The abstract of the real estate offered by the member as security for the loan shall be stored off the borrower's premises for safekeeping during the term of the loan.

32. Members shall maintain insurance on properties mortgaged to the Baptist Foundation. Coverage shall include fire and extended coverage (including flood insurance, if in flood zone) during the existence of the loan, for a sum equal to an amount necessary to protect the loan. The policy shall also contain a loss payable clause to The Baptist Foundation of Oklahoma. A certificate of insurance shall be provided to the Foundation at the time of loan closing and during the term of the loan.

#### FUTURE ADDITIONAL ADVANCE CLAUSE

33. The Future Additional Advance ("Advance") clause would permit a church building loan customer ("borrower"), on written request and approval of The Baptist Foundation of Oklahoma ("Foundation"), to draw amounts or re-advance prepayments of principal. The prepayments that could be drawn upon would generally be limited to principal prepayments in excess of regularly scheduled payments of principal and interest. The Foundation would have sole discretion over approval of the Advance.

34. Following church approval, the borrower will submit a written request along with current financial information, stating the amount of the Advance. The amount of the Advance shall not exceed the amount of prepayment of principal and could, in some instances, be an amount less than the prepayment of principal.

35. The amount of the Advance would be subject to the applicable amortization schedule in effect at the point in time the request is made and approved. If the amount requested would jeopardize the remaining amortization of the loan based on the current monthly payment, the amount of the monthly payment would increase so as to fully amortize the loan for the remaining term of the loan. However, the increase in the monthly payment based on the Advance and the new principal balance of the loan shall not exceed the 25% debt service ratio of the borrower, based on current financial information of the borrower, as outlined in the Policies and Procedures of the Church Building Loan program.

36. There will be a fee of .25% for each Advance under the terms of this clause.
37. The approval of any Advance will be at the sole discretion of the Foundation, whether or not the borrower meets the conditions of the Future Additional Advance Clause.
38. Exceptions to the above stated policies must have the approval of The Baptist Foundation of Oklahoma Board of Directors.