Policies and Regulations for Church Building Loans

Effective May 1, 2003

PURPOSE

The Kansas-Nebraska Southern Baptist Foundation (hereinafter referred to as the Foundation) established the Church Building Loan Program many years ago with the concept that all interest received from the building loans would be used for mission causes in the Kansas-Nebraska Southern Baptist Convention (hereinafter referred to as the Convention).

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

MINIMUM ELIGIBILITY FOR A LOAN APPLICATION

1. **DENOMINATIONAL LOYALTY.** Churches applying for loans must be loyal to the denomination. Such loyalty shall be evidenced by fellowship and cooperation with the local association as determined by regular gifts through Associational Missions and with the Convention as determined by regular gifts through the Cooperative Program.

2. **CHURCH BUDGET.** Churches applying for loans must have a written budget, which is adopted at least annually by congregational action and should give evidence of a consistent pattern of church growth.

3. **LOCATION AND NEED.** Churches applying for loans shall be located in communities, which represent opportunities for building and maintaining a church. Churches shall provide ample parking space and shall comply with city, county and state fire and building codes and regulations.

4. **CHURCH INCORPORATION.** A church must be incorporated in order to obtain a loan from the Foundation. In the case of a mission, the loan would have to be in the name of the sponsoring church or other entity.

INTEREST RATE AND METHOD FOR PAYMENT ON A LOAN

5. The Foundation Loan Committee of the Board of Directors establishes the interest ranges as market conditions dictate. The interest rate charged to the churches shall be the rate in effect when the loan documents are executed. Churches shall have the option of choosing one of three (3) adjustable rates of interest within a fifteen (15) year amortization.

6. The interest rate shall be fixed for three (3), five (5) or ten (10) years, depending on the adjustable rate chosen by the church a the time of closing and the following conditions shall be in effect:

   a. The **three (3) year adjustable rate** will be adjusted to the Foundation's three year adjustable interest rate on the third (3rd), sixth (6th), ninth (9th) and twelfth (12th) anniversary date of the original loan agreement. The interest rate may not be raised or lowered over the life of the loan more than three (3) percentage points in any three year adjustment time, or more than five (5) percentage points above or below the interest rate effective at the beginning of the loan. There would be a one-quarter (1\4) percentage point charged for this rate option.

   b. The five (5) year adjustable rate will be adjusted to the Foundation's five year adjustable interest rate on the fifth (5th) and tenth (10th) year anniversary date of the original loan agreement. The interest rate may not be raised or lowered over the life of the loan more than five (5) percentage points above or below the interest rate effective at the beginning of the loan. There would be a one-half (1/2) percentage point charged for this rate option.

   c. The ten (10) year adjustable rate will be adjusted to the Foundation's ten year adjustable interest rate on the tenth (10th) year anniversary date of the original loan agreement. The interest rate may not be raised or lowered over the life of the loan more than seven (7) percentage points above or below the interest rate effective at the beginning of the loan. There would be one (1) percentage point charged for this rate option.

7. Loans will be amortized at the time of the closing and again at the anniversary date of each three (3), five (5) or ten (10) year periods, whichever applies. 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 fifteen (15) years.

9. Prepayment of the principal may be made at any time without penalty.

10. Monthly loan installment payments shall be made to Southwest National Bank, P.O. Box 1401 Wichita, KS 67201 (serving as agent for the Foundation and here after referred to as Agent). Payments are due on the first (1^{st}) business day of each month. This may be accomplished by automatic bank draft.

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. Loans are considered delinquent after ten (10) days past the due date.

12. In the event a church ceases to cooperate with the local association and/or the Convention, as described under DENOMINATIONAL LOYALTY (section 1), **the remaining indebtedness shall become due and payable on demand.**

APPLICATION PROCESS FOR A LOAN

13. All applications for church loans shall be made on the form provided by the Foundation. The form is available and may be downloaded from the Foundation web site at www.kncsb.org.

14. Information submitted by the church on the application form must be current and complete.

15. When the application has been received and evaluated, a representative of the Foundation shall contact the church to arrange a meeting with the appropriate church committees and/or with the church body, as required. The purpose of such meetings shall be to discuss the church's loan request, the proper legal actions required by the church to make loan and to mortgage property, and the Foundation's purposes and obligations in the administration of the Church Building Loan Program.

16. A 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 Foundation or that the premises are in compliance with laws, rules and regulation dealing with environmental matters**. If this inspection reveals the possibility of such contamination, the Foundation may require that a professional environmental study be conducted at the borrower's expense. If the professional environmental study reveals the presence of toxic or hazardous substances, the Foundation shall have the right to reject the loan request.

17. Final approval or denial of loan application shall be made by the Foundation Loan Committee or by the Board of Directors of the Foundation.

18. A mortgage title policy is required on property used as collateral.

19. When a loan has been approved, the church shall be provided a formal letter of approval by the Foundation specifying terms of the loan. A mortgage title policy commitment must be received before a closing date can be set. The loan closing must be no more than six (6) months from the date of the Foundation Loan Committee approval.

20. A church loan is closed when the Agent has received all fees, a mortgage title policy, and executed certificate of resolution and a signed and filed promissory note and mortgage.

GUIDELINES FOR A LOAN

21. The total amount loaned to a single church shall be determined by the Board. The Foundation may participate with other lenders in loans that exceed our available limit.

22. The Foundation's representative will perform a market value analysis for property used as collateral. A certified appraisal of the property may be required and will be ordered by the Foundation at the expense of the borrower.

23. No loan shall be made in excess of seventy-five (75) percent of the fair market value of the property offered as collateral. The value of new construction shall be included in the market value.

Exception to policy shall be made when Foundation Loan Committee, with Board approval, allows for land purchases on a case-by-case basis for church growth or expansion.

24. No loan shall be made where monthly installment payments on church indebtedness (principal and interest) to the Foundation exceeds twenty-five (25) percent of the church's average annual budget receipts for the past two (2) years. Churches receiving loans from the Foundation must agree not to increase indebtedness beyond the twenty-five (25) percent debt limit without written permission from the Foundations Loan Committee. **Failure to secure such written permission may result in the loan becoming due and payable on demand.**

a. The Foundation Loan Committee, upon approval from the Board of Directors, may make exception to the "debt ratio" policy set forth in policy #24 when a church has completed a pledge program that will raise cash, within a three (3) year period, toward payment of the project. In such cases an additional amount may be loaned to the church up to seventy (70) percent of the total outstanding pledges.

b. A church approved under this exception shall agree to the three (3) year adjustable rate mortgage and agree to pay the required minimum monthly payment from their general undesignated budget receipts during the first three (3) years 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 three (3) year period by reamortizing the principal balance at that time for the remaining term of this note at the effective interest rate and adjusted according to the interest rate policy.

25. Church building loans shall be secured by a first mortgage on real estate owned by the church.

26. The Foundation shall fund an approved loan to a church purchasing land and/or buildings after all terms and provisions for purchase of the property have been fulfilled by both the church and the seller.

27. The Foundation shall secure a Mortgage Title Policy issued by a title insurance underwriter at the expense of the borrower. 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.

28. Construction financing must be obtained from a local financial institution. The Foundation will give a commitment letter to the local financial institution for long-term financing when the project is complete.

29. There shall be a loan origination fee calculated on the loan amount committed to the borrower based on the adjustable rate option chosen in section 6 above.

The origination fee shall be:
¼ % for the three (3) year adjustable option
½% for the five (5) year adjustable option
1% for the ten (10) year adjustable option

$10,000 to $300,000 (Maximum, $3,000)
$300,001 to $600,000 ($3,000 plus ½% of amount over $300,000)
$600,001 and up ($4,500 plus ¼% of amount over $600,000)

One half of the origination fee **(non-refundable)** shall be paid following the loan approval. The remaining one-half of this fee shall be paid when the loan is closed.

30. A loan shall be closed only after final inspection is made and approved by a Foundation representative and proof of insurance coverage is provided as outlined in paragraph 33 below.

31. The borrower shall pay all expenses of the loan and the closing costs; including, but not limited to, appraisal (if required), survey, title insurance, legal fees, escrow fees recording fees, etc.

32. Churches shall maintain insurance on properties mortgaged to the Foundation. Coverage shall include fire, blanket coverage 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 insurance shall be with an insurance company having an "A" or better rating as assigned by the A.M. Best Company in the "Best's Insurance Reports." The policy shall also contain a loss payable clause to the Foundation. A certificate of insurance shall be provided to the Foundation at the time of loan closing and annually during the term of the loan. **Failure to secure such insurance may result in the loan becoming due and payable on demand.**

33. **Exceptions** of the above stated policies must have the approval of the Foundation Board of Directors.