
THE UNITED METHODIST DEVELOPMENT FUND

LOAN GUIDELINES AND PROCEDURES

I. Purpose of The Fund

The United Methodist Development Fund (“The Fund”) supports the mission of the church by making **first mortgage loans** to United Methodist churches, districts, city societies, district unions, mission institutions or annual conference 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. The Fund raises the money it lends by selling notes to United Methodist individuals and agencies. For information on investing in The Fund, call 1-800-862-8633. Maximum loan amounts, interest rates, and terms are established periodically by the Directors of The Fund. They are subject to change, and Applicants are encouraged to check with 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, refinancing and/or replacement of existing facilities.
- D. Site purchases or church relocation.
- E. Refinancing of existing loans with banks or other lenders.

Projects for which Loan Funds are NOT Available

Projects for which loan funds are 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.

Priorities for Funding:

The following priorities are applied:

- A. First unit for new congregations; racially ethnic churches being given priority.
- B. Renovation and/or remodeling of existing facilities; racially ethnic churches being given priority.
- C. Site purchases; racially ethnic churches being given priority.
- D. Other (e.g., refinancing existing mortgages, financing for church expansion or relocation, purchase of parsonages and buildings for conferences and city societies).

II. Loan Application Process

- A. Before making application to The Fund, the Applicant must:
 - 1. Meet all procedures and requirements for local church buildings referenced in paragraph 2543 of the 2008 Book of Discipline.
 - 2. The Applicant should contact the Office of Loan Administration of The

Fund at 212-870-3865 **at an early point in the planning stage of the proposed project.** A staff member will discuss the procedures and obligations involved in making application for a United Methodist Development Fund loan.

- B. The Loan Application packet will be sent to the Applicant. Once this completed application is received in the Office of Loan Administration, it will be processed for consideration by the Directors of The Fund. **ANY INCOMPLETE APPLICATIONS WITH MISSING LOAN CHECKLIST ITEMS WILL BE RETURNED TO THE APPLICANT.**
- C. Applications for loans are considered by the Directors of The Fund at their regular meetings. In order to ensure proper time for consideration of each loan, it is essential that completed applications are received a minimum of Two (2) months 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 The Fund's attorneys must be executed and delivered to The Fund. The terms of each loan provide that at each fourth year anniversary of the loan, the directors of The Fund may increase or decrease the interest rate on the loan to the then prevailing rate being charged by The Fund.
- B. A **first mortgage or first deed of trust** covering the real estate of the Applicant shall secure the payment of the note. The attorney or agent representing the

Applicant will prepare the mortgage or deed of trust and submit it to legal counsel of The Fund for review and approval.

- 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 where the Applicant is situated. The deed under which the title is held must contain the trust clause as set forth in The Discipline (2008 Book of Discipline Paragraph 2503).
- D. A **hazard insurance policy**, with an extended coverage, endorsement containing a mortgagee clause naming The United Methodist Development Fund, 475 Riverside Drive, New York, New York, 10115, 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 only in connection with loans for the purchase of unimproved land. A physical inspection of the property upon which the construction or renovation is to take place is conducted when deemed necessary by The Fund.
- 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 The Fund.**
- H. **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 Paragraphs 2539 and 2540 of The 2008 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 that will assure prompt payment of all contractual obligations and other accounts when due (Paragraph 2543.12).

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. Please see worksheets for additional assistance.

C. Ordinarily, the maximum loan to an Applicant should not result in principal due in excess of four times a congregation's annual operating budget. This is to ensure that the Applicant has adequate funds for its program needs.

D. An applicant applying for a loan must meet the following requirements:

1. A capital funds campaign, with sufficient pledges or committed grants to meet debt retirement for at least the first three (3) years of the loan.
2. Evidence that the debt retirement payments will be paid from secured pledges or reliable income other than from the current program operating revenues.
3. Cash-on-hand or other equity such as grants for about 25% of the value of the project. Typically, The Fund will not lend more than 75% of the project cost.

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. For construction and renovation projects, the Applicant shall have on hand, or in pledges collectable by the time the project is to be completed, a minimum of 25-33% of the projected amount needed to complete the project.

F. Normally, a loan is granted for 15 years. Where special circumstances require, a loan may be made for a longer period of time.

All loans are amortized on a monthly 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 The Fund 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 Directors of The Fund.
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 The Fund 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 Executive Director of The Fund is authorized to make other arrangements, such as Deposit Agreements, or to release guarantees.

V. Loan Procedures

- A. All eligible loan applications will be reviewed by the Office of Loan Administration and The Fund's In-House Loan Committee. Following review by these entities, the application will be submitted to the Directors of The Fund for action.
- B. Once 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 the Office of Loan Administration, 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 and projected timeline for construction 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 months by the Executive Director of The Fund, upon receipt of written request from the church and subject to the then current rate of interest if the rate has increased. The commitment is subject to the church's acceptance of the commitment within 30 days of the date of the letter.
- C. Funds are disbursed only upon notice from The Fund's 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. **Interest only payments are required until the loan is fully drawn and becomes permanent.** During construction, requisitions covering work completed and materials purchased will be submitted to The Fund 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 release of liens. Upon approval of the requisition, a check will be forwarded by The Fund to the Applicant for the amount requisitioned, within the limitations of the loan commitment.
- D. The final ten percent (10%) of the loan commitment will be retained by The Fund until the following requirements

are met:

1. The mortgagee's title insurance policy insures against possible mechanics' 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.
- E. If a construction loan has been obtained from local sources, The Fund will disburse its loan in 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 The Fund is a valid first lien on the property.
 2. The Fund'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.

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 to run from the day the check is issued. Interest is charged only on the portion of the loan funds actually disbursed.

B. Within thirty (30) days following the final disbursement of 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 The Fund collects from its depositor bank the payments from the Applicant's checks.

D. The Financial Services Department of the General Board of Global Ministries, on behalf of The Fund, administers 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 on the first day of the following month. Payments on principal may be made in advance or in addition to the regular payment without any prepayment penalty only after the loan has been paid out to the Applicant.

Advance payments are first applied against current payments due and then to

future principal payments but the amount

VI. Repayment of the Loan

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.

VII. Mortgage Participation Loans

In cases where the Applicant needs to borrow in excess of The Fund's maximum, The Fund and a local lending institution may enter into a Mortgage Participation Agreement. The Fund and the local lending institution each advance funds to the Applicant in the form of a first mortgage loan in the name of the local lending institution for the combined amounts. In these cases, The Fund's interest in the total note, mortgage or deed of trust, title insurance policy, and fire insurance policy is represented by the Mortgage Participation Agreement. The Agreement, executed by both lenders, refers to the note, mortgage or deed of trust, title insurance policy, and fire insurance policy and states that The Fund holds an interest in those instruments in proportion to its contribution to the total amount lent. The local lending institution acts as the collecting agent for the entire loan. The Agreement sets forth the rights of The Fund to share proportionately in principal and interest payments made, as well as in any title or fire insurance proceeds that may be received by the local lending institution.

The local lending institution requisitions The Fund's loan monies in installments equal to its proportionate share of each advance due, pursuant to requisitions of the contractor certified by the architect and by the Applicant. Interest is charged by The Fund as disbursements of its share are made to the local lending institution.

The Fund will not participate in this type of

loan if either of the following is true:

- A. The length of the local lending institution's loan is for a shorter time than The Fund's.
- B. The percentage of the local lending institution's share of the loan is less than ten percent (10%) of The Fund's share of the loan.