



Christian Reformed Church Loan Fund

Secured and Unsecured Loan Policy

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I. General Provisions

- A. **Eligible Borrowers:** Loans are available to Christian Reformed organized churches, boards, and agencies, as well as other organizations related to or connected with the CRCNA, such as schools.
- B. **Loan Purposes:** Loans are intended primarily to finance or refinance the acquisition, construction, renovation, improvement, or repair of real property, buildings, or facilities that are owned, leased, or otherwise utilized by the eligible borrower, in support of their ecclesiastical, educational, or ministry-related activities.



- C. **Loan Types:** The Loan Fund primarily issues variable and fixed rate secured loans (collateralized by real estate) and selectively offers variable rate unsecured loans.
- D. **Variable Rates:** The interest rate on a variable rate loan is equal to the Loan Fund's average cost of funds plus an amount up to but not to exceed two percent (for secured variable rate loans) or three percent (for unsecured variable rate loans). Secured and unsecured variable rates shall not increase by more than 2% in any 12 month period.
- E. **Priority** is generally given to Christian Reformed affiliated churches and, as resources allow, to related organizations. Preference will be given to loan applications for construction, renovation, improvement, or repair. Applications for acquisition and refinancing may be considered on a case-by-case basis, contingent upon the availability of loan capital.
- F. **Loan Interest Type and Calculation Method:** All loans accrue simple interest, calculated on a 365/365 basis.
1. Simple interest is defined as interest that is calculated only on the original principal balance of the loan. Unlike compound interest, simple interest does not accrue on previously accumulated interest. As a result, the interest payable is based solely on the principal amount outstanding and does not increase due to unpaid or capitalized interest.
 2. Under the 365/365 day count convention, interest is calculated by dividing the annual interest rate by 365 and multiplying the result by the number of days the principal is outstanding. This method provides a precise daily accrual and reflects the actual number of days in a year.
 - a. Example: If the loan principal is \$100,000 with an annual interest rate of 5%, the daily interest rate would be $5\% \div 365 = 0.0137\%$. For one day, the interest would be $\$100,000 \times 0.000137 = \13.70 .
- This method ensures transparency and predictability for the borrower, as interest does not compound over time, and the amount owed is directly tied to the actual number of days the loan remains outstanding.
- G. **Loan Payments** are due on the 1st of each month; a 2% late fee applies after 15 days.
- H. **Waiver:** Any church, affiliate, or related organization which receives funds from the Loan Fund shall waive all defenses based on usury.



II. Secured Loans

A. *Approval & Limits*

1. Loan Committee Authority:
 - i. In accordance with Bylaw Article V, Section 3, the Loan Committee—composed of the Executive Director and at least three non-ex officio directors—is authorized to recommend loan policy to the board and implement the board-approved loan policy.
 - ii. Approve secured loans up to the board designated amount of \$300,000, subject to ratification by the Board at its first subsequent meeting.
2. Loan Maximum Amount shall be \$1,500,000 or 10% of total Loan Fund assets at the end of the previous fiscal year, whichever is less.
3. Exceeding Limit: Higher amounts may be approved if:
 - i. Members of the borrowing congregation invest in Loan Fund notes equal to the excess, with terms of at least 3 years,
 - ii. The promissory note requires a reduction in the principal balance whenever the congregational investment falls below the excess loan amount, and
 - iii. The Loan-to-Value Ratio (LTV) does not exceed 60%, based on an appraisal value determined by a licensed MAI appraiser.



B. ***Loan Terms***

<u>Feature</u>	<u>Variable Rate Loans</u>	<u>Fixed Rate Loans</u>
Interest Rate	Loan Fund's time-weighted average cost plus up to 2%	Fixed; subject to balloon payment at end of year 5
Amortization	Up to 20 years; limited to 10 years for site acquisition	Up to 20 years; limited to 10 years for site acquisition
Prepayment	No penalty	20% of original loan amount annually without penalty; 2% of the amount of excess as penalty fee if exceeded
Commitment Expiration	6 months after commitment letter, unless extended by board	2 months after commitment letter, unless extended by board
Renewal	Not applicable	May be renewed every 5 years if the borrower occupies property and the loan is not impaired, delinquent, or subject to liens senior to the Loan Fund loan, and borrower requalifies.

C. ***Underwriting Guidelines***

1. Debt Service Coverage Ratio (DSCR): Borrowers must maintain a minimum DSCR of not less than 1.00. The DSCR shall be calculated by dividing Net Operating Income (NOI) by Total Debt Service.
 - a. Net Operating Income (NOI) is defined as total revenue, excluding subsidies and grants, minus operating expenses, excluding depreciation, amortization, and all principal and interest payments on existing or proposed debt.
 - b. Total Debt Service is defined as the aggregate annual amount of all required principal and interest payments on existing debt obligations, plus the projected annual principal and interest payments associated with the proposed loan.



- c. Failure to meet the minimum DSCR requirement may result in denial of the loan application, unless an exception is approved by the Loan Fund Board based on documented mitigating factors.
2. Equity Contribution Requirement: Borrowers must contribute at least twenty-five percent (25%) of total project costs. This requirement may be reduced if additional real property or acceptable collateral is pledged as supplemental security, subject to approval and adequate documentation.
3. Loan-to-Value (LTV) Ratio: The loan shall not exceed seventy-five percent (75%) of the appraised value, as determined by a licensed MAI appraiser. Appraisals must be current and reflect the “as-completed” or “stabilized” value, as applicable.
4. Authority to Deny Loan Applications: The Executive Director may deny a loan application if the applicant does not meet underwriting requirements. If an application meets underwriting requirements, a majority vote of the Board is required to deny the loan.

D. Application Requirements

1. Completed application form.
2. Current balance sheet.
3. Year-to-date income and expense statement for the current fiscal year.
4. Income and expense statements for the three most recently completed fiscal years (partial-year statements, including for the current year, do not fulfill this requirement).
5. Church council or Board resolution authorizing the loan and mortgage.
6. If the borrower is a Church, formal support from the Classis of which it is a member.
7. Congregational Authorization Minutes: For church borrowers, loan disbursement is contingent upon submission of signed congregational meeting minutes authorizing the project and related borrowing from the Loan Fund and otherwise. The meeting must have occurred within the two months preceding the loan application or after its submission. Minutes must include the total estimated project cost, total borrowing, and project details, and must be signed by an elected elder or deacon serving a fixed term on council who holds no other church role.

E. Commitment Fee

1. A 1% fee of the secured loan amount is charged for the approved commitment period and is payable within 15 days of the commitment date.
2. If the loan closes within the commitment period, the fee will be applied toward closing-related costs or other eligible loan expenses. If the loan does not close, the fee is retained by the Loan Fund.
3. The Executive Director may exercise discretion in enforcing this fee.



F. Closing Requirements

1. Borrower Articles of Incorporation and Bylaws.
2. Purchase agreements or construction contracts and site plans as applicable.
3. Appraisal from a licensed MAI appraiser.
4. Environmental Claims Disclosure: Disclosure of all pending or threatened environmental claims, including those related to remediation, removal, or response to hazardous substances or contamination, and any claims, fines, or penalties for alleged violations of environmental laws or regulations.
5. Feasibility study (if available).
6. Title insurance: An ALTA mortgagee title insurance policy, in the amount of the loan, naming the Christian Reformed Church Loan Fund, Inc. as the insured, with no exceptions.
7. A 3.1 zoning endorsement to the title insurance policy or, at the Church's option, a zoning compliance certificate from the municipal authority addressed to the Loan Fund (and delivered to its attorney at the Loan Fund's option) stating that all buildings and improvements comply with applicable building codes, zoning ordinances, and recorded use restrictions, specifically regarding:
 - a. Lot size, width, and depth
 - b. Floor area
 - c. Setbacks of the structure from property lines
 - d. Building height
 - e. Any recorded building or use restrictions
8. As-built survey certified to the Loan Fund and Title Insurance Company, confirming all buildings and improvements comply with setbacks and other applicable requirements.
9. Promissory note and mortgage in the amount of the loan signed by authorized representatives of the affiliated church or related organization. Borrower will be responsible for the Loan Fund's legal costs of creating the documents and its own costs of reviewing the documents, if applicable.
10. A property insurance policy, binder, or certificate showing coverage for fire, peril, and casualty insurance on the property not less than the amount of the mortgage; the Loan Fund named as mortgagee and additional insured; and the policy's expiration date.
11. Commercial General Liability Insurance to protect against claims of bodily injury, personal injury, property damage, and other liabilities that may arise from its operations, services, events, or use of premises with minimum



limits of \$1,000,000 per occurrence and \$2,000,000 aggregate; the Loan Fund named as mortgagee and additional insured; and the policy's expiration date

12. Borrower pays all closing costs.
13. Environmental Site Assessment: For loans to acquire unimproved or improved real estate, the Church must provide the Loan Fund with a current Environmental Site Assessment (ESA), prepared in accordance with ASTM Standards by an acceptable environmental consultant with at least \$1 million in errors and omissions insurance. The ESA must be dated within one year of the loan closing date. Depending on the property's characteristics, the Loan Fund may require the ESA to cover additional concerns such as asbestos, wetlands, or other issues not addressed by ASTM Standards.

If the ESA identifies environmental conditions requiring more than \$10,000 to remediate, the Church must provide satisfactory evidence to the Loan Fund that:

- a. the Church will not be liable for the remediation costs; and
- b. the conditions do not present an unacceptable health risk for the intended use of the property.

If remediation costs are \$10,000 or less, the final loan disbursement will be withheld until the Church provides evidence that the conditions have been corrected to the Loan Fund's satisfaction.

G. Construction Loans/Improvement Loans – Additional Requirements

1. For projects over \$5,000, a material and performance bond is typically required.
2. A builder's risk insurance policy must be in place during construction.
3. Disbursement Order: Funds are typically disbursed in the following order:
 - a. Church or related Organization cash on hand
 - b. Commercial loan funds (if applicable)
 - c. CRC Loan Fund
4. Construction Draw Requirements
 - a. Documentation: Each draw request must include clear documentation showing the work completed, payment amounts requested, and approval by the contractor, the architect (if applicable), and an authorized borrower representative. Standard forms like AIA G702 and G703 may be used, or other equivalent formats. Subcontractors must be listed by full business name, and all documents must be typed or clearly written.



- b. Submission Timeline: Draw requests must be submitted to the Loan Fund at least 10 business days before funds are needed.
 - c. Each request must include a sworn construction statement from the contractor, and Lien waivers from contractors and subcontractors for previous payments.
 - d. Payment: Funds shall be disbursed to the Borrower by check, ACH, or wire, preferably by ACH unless otherwise requested.
 - e. Final Draw: The final payment will be made only after the Loan Fund receives a valid Certificate of Occupancy and all required documents and lien waivers.
5. Monthly Payments: During construction, the borrower shall make monthly interest-only payments on disbursed funds. Amortized principal and interest payments will begin the month after the final draw or 12 months after closing, whichever comes first, and continue according to the loan's amortization schedule.

H. Foreclosure & Legal Provisions

- 1. Unless otherwise required by law, foreclosure may begin 60 days after written notice of delinquency has been served to the borrower.
- 2. If the loan is reinstated after foreclosure proceedings have commenced, the borrower shall be responsible for reimbursing all legal, administrative, and foreclosure-related costs incurred by the Loan Fund.
- 3. The borrower shall indemnify and hold the Loan Fund harmless from any claims, liabilities, losses, costs, damages, or expenses arising from environmental contamination or the presence of hazardous substances on real estate pledged as loan collateral.
- 4. The promissory note will include a usury waiver and provide that the interest rate will automatically adjust to the maximum rate permitted by law to ensure compliance with applicable usury laws.
- 5. Alternatives to Foreclosure: Before initiating foreclosure, the Loan Fund will make reasonable efforts to work with borrowers facing financial hardship. In appropriate cases, the Loan Fund may offer alternatives to foreclosure, including but not limited to:
 - a. Loan modifications to restructure terms for long-term affordability;
 - b. Forbearance agreements granting temporary payment relief;
 - c. Repayment plans allowing gradual repayment of arrears; and
 - d. Deeds in lieu of foreclosure where borrowers voluntarily transfer title to the property.

These measures aim to preserve ministry relationships, reduce financial loss, and support borrower recovery, while protecting the interests of the Loan Fund and its investors.



III. Unsecured Loan Policy

A. *Approval and Limits*

1. The Executive Director may approve unsecured loans (ratified by board).
2. Loans range from \$10,000 to \$100,000, with a maximum total loan amount of \$100,000 per borrower.
3. Portfolio Percentage Limit: Total unsecured loans shall not exceed 10% of the Loan Fund's outstanding loan portfolio.

B. *Loan Terms*

1. Interest Rate: The interest rate is variable and set up to 3% above the Loan Fund's time-weighted average cost of funds, but not more than 1% above the rate charged for secured loans. The rate is subject to reduction, if necessary, to the highest rate permitted by applicable usury laws.
2. Amortization: Up to 10 years.
3. Prepayment: No penalty
4. Loan Service Fee: 1% of loan amount (minimum \$200), due at closing.
5. Commitment Expiration: 2 months after the commitment letter.
6. Disbursement: Disbursement of funds must be requested in writing by the church, including a letter indicating the date on which the funds are needed.
7. Repayment: Regular monthly payments of principal and interest will begin the month following the disbursement of loan proceeds.

C. *Underwriting Guidelines*

1. DSCR: ≥ 1.0 (Net Operating Income \div Debt Service). (See Section II.C.1. for additional details.)
2. Total annual debt service for all outstanding debt cannot exceed 35% of the church's current year operating expense budget before taking on the project debt.
3. Unsecured loans may not be combined with other financing for larger projects, including construction or remodeling.

D. *Application Requirements*

1. Completed unsecured loan application.
2. Signed copy of council or congregational meeting minutes approving the project and borrowing from the Loan Fund.
3. Current Balance Sheet and budget.
4. Year-to-Date Income and Expense Statement.
5. Income and Expense Statements for the two most recently completed fiscal years. (*Statements for partial fiscal years, including the current year, will not be accepted.*)
6. Project budget and contractor estimates.



7. Disclosure of all pending and threatened environmental claims, including but not limited to claims for the remediation, removal or other response to hazardous substances or contaminants, and claims or penalties relating to violations of any environmental law or regulation.

E. *Closing Requirements*

1. Execution of a promissory note signed by authorized representatives of the CRC organized church or related organization. Borrower will be responsible for the Loan Fund's legal costs of creating the document and its own costs of reviewing the document, if applicable.
2. Evidence of property insurance exceeding the loan amount and proof of adequate liability coverage.
3. Loan service fee payment.

