



THANK YOU

. . . for your inquiry regarding application for a congregation loan from the Michigan District Church Extension Fund.

Enclosed, you will find:

- A. LOAN INFORMATION SHEET detailing such matters as loan qualifications, application procedures, conditions required to close a loan and fees/costs.
- B. FREQUENTLY ASKED QUESTIONS & ANSWERS.
- C. LOAN APPLICATION FORM.

If you have questions about any matters pertaining to the application form, please contact our office toll-free at 800-242-3944.

LOAN INFORMATION

LOAN QUALIFICATIONS:

1. The congregation must be incorporated by the State of Michigan and a member of the Michigan District of the Lutheran Church-Missouri Synod.
2. Although not a condition for a loan, it is suggested that supporting investments from congregation members in the Church Extension Fund be equal to at least 25% of the loan amount.
3. All building fund dollars should be invested in a CEF account until such time as they are needed to fund the project.
4. The following information is considered in reviewing loan requests:
 - a) A three-year review of parish activity, including membership and financial statistics.
 - b) Indebtedness upon completion of the building project should not exceed up to the average worship attendance times \$4,000 to \$5,000 (considering your area's median wage).
 - c) The total long-term indebtedness should not exceed 2 1/2 times the total annual member-giving for all purposes.
 - d) The total debt service payments (principal and interest) should not exceed 25% of the congregation's annual budget (less any day school or early childhood expenses).
 - e) The percentage of project cost supported by building fund contributions and pledges should be a minimum of 25%.

APPLICATION PROCEDURES:

1. All sections of the application must be completed. Incomplete applications may be returned for further information, delaying the approval process.
2. The following additional information must accompany the application:
 - a) Complete financial reports (including all fund balances) for the last three years, plus current budget and most recent year-to-date financial report.
 - b) A set of plans and specifications (preliminaries or working drawings).
 - c) Original Borrowing Resolution (page 8 of application).

CONDITIONS REQUIRED TO CLOSE LOAN:

1. Mortgage and Note, executed by authorized representatives of the congregation.
2. ALTA form of mortgage title insurance policy in the amount of the loan.
3. A survey of the property to be mortgaged - a new mortgage inspection survey may be required.
4. Fire and extended coverage insurance policy with loss payable clause to Church Extension Fund of the Michigan District of the Lutheran Church-Missouri Synod.
5. Constitution and By-laws, including all amendments.

Additional Requirements for Construction Loans

6. Performance Bond and Labor & Material Payment Bond for the general contractor in the amount of the contract. Bond requirement may be waived under special circumstances, and at the discretion of Church Extension Fund, if project is less than \$750,000.00.
7. Copies of all signed construction contracts with firm pricing (bids).
8. Builders Risk Insurance with loss payable clause to Church Extension Fund of the Michigan District of the Lutheran Church-Missouri Synod.

FEES/COSTS:

All costs arising from the closing of the loan shall be paid by the congregation, including attorney fees if needed, title insurance policy premiums, recording fees, and survey fees if required.

CHURCH EXTENSION FUND
Michigan District of the Lutheran Church-Missouri Synod
3773 Geddes Road, Ann Arbor, MI 48105
toll-free: 800-242-3944
local: 734-665-3791
fax: 734-332-7811
www.mi-cef.org

INFORMATION CONCERNING THE MORTGAGE LOAN PROCESS IN A QUESTION & ANSWER FORMAT

pages 1 - 4: information for all loans

pages 5 - 9: additional information for construction loans

Church Extension Fund
Michigan District of the
Lutheran Church-Missouri Synod

QUESTIONS AND ANSWERS THE MORTGAGE LOAN PROCESS

Church Extension Fund
Michigan District of the Lutheran Church-Missouri Synod
3773 Geddes Road
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What is the usual process and time frame for a loan?

Church Extension Fund's Board of Trustees generally meet the fourth week of every other month beginning in January - March - May - July - September - November. Our office must receive completed loan applications no later than the tenth day of the month in order to be given consideration at the Board meeting for larger loan amounts. Certain loan requests may be approved by the Management of CEF based upon their individual lending authority and may not necessarily need Board approval. In such cases, loan decisions will usually be rendered within two weeks after all necessary application items are received.

THERE ARE CERTAIN DOCUMENTS THAT MOST LENDERS (INCLUDING CHURCH EXTENSION FUND) REQUIRE IN ORDER TO PROCESS A LOAN. THE REQUIRED DOCUMENTS ARE EXPLAINED AS FOLLOWS:

What are the "Articles of Incorporation"?

A legal document filed with the State of Michigan that establishes the borrower (the congregation) as an incorporated entity. Each congregation in the Michigan District is (or should be) incorporated under the laws of the State of Michigan as an Ecclesiastical Corporation.

What do the Articles of Incorporation state?

The document identifies the legal name of the borrower, the governing body, the term of existence, any borrowing limitations, and any other pertinent information regarding the corporate structure.

Why is it necessary for CEF to obtain a copy of the Articles of Incorporation when processing a loan application?

The document verifies the existence of the corporation. Also, the title insurance company issuing the title insurance policy often requires proof that the corporation is in good standing with the State of Michigan. CEF verifies this information on the State's website (www.michigan.gov).

What are the constitution and bylaws?

These documents describe in detail the structure of the corporation (the congregation), responsibilities and duties of the officers and boards, membership, etc. Bylaws of the congregation sometimes change throughout the years as the need for the congregation structure changes. Therefore, it is necessary for our office to have a current copy of the constitution and the bylaws of the congregation. The above also reveals what governing body is authorized to borrow money and to mortgage property on behalf of the congregation. Further, the constitution and bylaws often identify the officers authorized to sign legal documents on behalf of the corporation.

What is a borrowing resolution?

A resolution is the means by which a corporate entity is able to officially express its will or intentions. The resolution certifies the governing body vote to borrow, the dollar amount and identifies the person(s) authorized to execute the loan documents.

Why is a resolution necessary?

To give assurance and direction to the lender and the title company of the official acts of the borrower. A resolution is signed by the elected secretary of the congregation affirming the action of the congregation.

THERE ARE OTHER ITEMS REQUIRED BY CHURCH EXTENSION FUND IN ORDER TO FACILITATE A LOAN. THESE ITEMS ARE EXPLAINED BELOW:

What is fire and extended coverage insurance?

It insures the existing improvements against loss from fire, theft, storms, vandalism, etc. It must be written in an amount that meets or exceeds the amount of the loan. Insurance coverage, ideally, would be for the value of the property (which is generally in excess of the loan amount).

Who is insured under the policy?

The borrower is insured as the owner of the property with the **Church Extension Fund, 3773 Geddes Road, Ann Arbor, MI 48105** named as the mortgagee.

What is title insurance?

A contract with a title insurance company to provide coverage for owners of real property and for lenders who use real property as security for their loans.

Why does CEF require a Mortgage Title Insurance Policy?

To assure its investment has a valid, enforceable mortgage lien that has priority over any known or unknown interests or claims to the real property used as security for its loan.

What type of Mortgage Title Insurance Policy is required?

ALTA extended coverage policy which insures the mortgage against unrecorded matters and documents recorded in the public records which are not shown as exceptions to the policy. These exceptions could affect the validity, enforceability or priority of the lien of the insured mortgage.

What title insurance company is to be used?

Our office usually orders title insurance. The borrower may recommend the name of a title insurance company in its area.

When is a Mortgage Title Commitment issued?

Usually within a couple of weeks following receipt of the legal description by the title insurance company.

What is a Mortgage Title Insurance Commitment and why is it required?

It contains information regarding the real property and a list of the title insurance company's requirements to insure the transaction. It also lists any exceptions to the title to the property which must be addressed prior to loan closing in order to be eliminated or insured over by the Mortgage Insurance Title Policy. CEF uses this Commitment to prepare the documents needed for the loan closing and to meet the requirements necessary for the title insurance company to issue a Mortgage Title Insurance Policy after the loan closing.

What if there are exceptions which must be addressed prior to loan closing?

It is the responsibility of the borrower to address the concerns and requirements of the title company regarding any exceptions. An example of exceptions are items such as old mortgages which have never been discharged (from another lender), unpaid sewer assessments, unpaid water bills, discrepancies in legal descriptions, boundary disputes and any other items of record which may encumber the title to the property.

What is a survey?

It is a measurement of a parcel of real estate property, generally noting the placement of the improvements located thereon (such as buildings, parking lots, sidewalks, out buildings, etc.) and further shows any boundary problems (such as fences over the neighbor's line, easement of record, etc.).

Why is a survey required by CEF?

Often the title insurance company requires that a survey be supplied to them in order to give title insurance coverage "without exception".

What type of survey is required?

A current survey prepared by a registered or licensed surveyor must be furnished. On existing church and school structures, a “mortgage inspection survey” is considered adequate. If there is new construction involved with the current loan request, it is advisable that a “boundary survey” be completed in order to establish the exact boundary lines thereby assuring compliance with zoning regulations and making certain that all improvements are within property lines and required setbacks. On new construction projects, Church Extension Fund may waive the survey requirement if a “site plan” can be furnished which has been prepared by a licensed architect and/or surveyor.

FOLLOWING IS A DISCUSSION OF THE LOAN CLOSING AND LOAN DOCUMENTATION PROCESS:

What is a loan closing?

The final procedure in the process whereby loan documentation is executed and sent for recording. Loan papers are prepared by our office and forwarded to the congregation to be signed by the persons authorized to execute loan papers on behalf of the congregation for a specific transaction. It is important to specifically follow our instructions for the proper signing and notarizing of the documents. Occasionally, documents are prepared and forwarded to the title company to conduct the actual closing of the loan transaction.

When will the loan closing be held?

On a date that is mutually agreeable to both CEF and the congregation. CEF must, however, be in receipt of all the requirements outlined in our Letter of Commitment and all title exceptions must be settled.

What is the construction/permanent Promissory Note?

A contractual legally binding agreement between the borrower and CEF. It defines the terms of the loan (amount, payments, interest rate, maturity date, along with other provisions such as late charges, default measures, collateral, etc.). CEF prepares the Note which is signed by the borrower at the loan closing.

What is a mortgage?

The document by which real estate property becomes security (collateral) for a loan. The borrower retains possession and full use of the property and gives CEF a security interest in the property. The mortgage document is prepared by CEF and signed by the borrowing corporation at the loan closing. The mortgage is then placed on record with the Register of Deeds in the county in which the property is located.

ADDITIONAL REQUIREMENTS FOR CONSTRUCTION LOANS

How is a construction loan structured?

Construction loans are usually structured for a maturity of 6 to 12 months depending on the anticipated completion time of the project. During the “construction phase”, the Promissory Note calls for “interest only” payments on the money actually outstanding against the Promissory Note. On the first of each month, Church Extension Fund will mail an invoice to the congregation indicating the amount of interest owed for the previous month. At the time the construction is completed and the full amount of the Promissory Note has been drawn, the loan will then be converted to regular monthly payments of principal and interest.

What are progress payments?

The borrower signs a Promissory Note for the full amount of the approved mortgage loan. As the construction progresses and proper documentation is supplied to the Church Extension Fund office, money is drawn against the Note and disbursed as progress payments.

What about building fund money?

Money collected by the borrower for the construction project should be deposited into a Church Extension Fund Account before the loan closing.

When are building fund dollars to be used?

Before any loan dollars are used, Church Extension Fund will withdraw funds from the borrower’s account (upon the borrower’s authorization) to be disbursed in the same way as loan dollars are disbursed (directly to the General Contractor). Sometimes progress payments will be made from a combination of borrower funds and loan funds.

What is builder’s risk insurance?

Provides coverage in the event of loss during construction or renovation/remodeling. The insurance must be written in at least the amount of the loan. Church Extension Fund suggests that you consult your current property insurer regarding this coverage.

Who is insured under the policy?

The borrower as the owner of the property and CEF being named as the mortgagee.

What is a building contract?

A legally binding agreement between the borrower and the general contractor or subcontractors. It details the labor and materials to be provided by the contractor or subcontractor(s) for the construction project.

What type of contract is required by CEF?

A guaranteed maximum cost contract. It is preferable to use the standard AIA guaranteed maximum cost contract.

Why does CEF require that all signed contracts be submitted prior to loan closing?

To be certain that every aspect of the construction project is contracted for, the total cost represents the entire project, and the entire construction project can be funded by the building fund dollars and approved loan dollars.

What are Performance and Payment Bonds?

A Performance Bond insures that the contractor(s) will complete the project. A Payment Bond insures that payment will be made to subcontractors and material suppliers.

Who must furnish bonds and who is insured under the bonds?

A general contractor obtains Performance and Payment Bonds in the amount of the contract. If the borrower acts as its own general contractor, each subcontractor (with contracts totaling \$20,000 or more) must obtain Performance and Payment Bonds. All bonds must name the borrower as owner and CEF as the co-obligee.

What do the bonds provide for the borrower and CEF?

Assures both the borrower and CEF that the new construction will be completed, all subcontractors will be paid and all utilized materials will be paid in full. In the event that the contractor or a subcontractor fails to complete the project or pay for materials or labor as provided in the contract, the bonding company is responsible for providing monetary restitution so the project can be completed without placing additional financial responsibility on the borrower.

Under what circumstances may a Performance and Payment Bond be waived?

Bonds may be waived by CEF on projects up to \$750,000 based upon one or more of the following:

- a. The congregation (borrower) has engaged a licensed architect who provides for contracted administration throughout the term of the project.
- b. The borrower, under the direction of the architect, will prequalify all bidders and substantiate bid amounts.
- c. The project will utilize Laborers for Christ as the primary contractor. If such is the case, written estimates must be supplied from all other contractors, subcontractors and material suppliers.
- d. The borrower is able to supply CEF with appropriate lien waivers from all contractors, subcontractors and material suppliers.
- e. The major portion of the project will be renovation of existing facilities and not new construction.
- f. Previous experience with the contractor, construction management firm, architect and/or other coordinators of the project.

What is the project Budget Statement?

This document details the cost of the entire construction project and verifies that funds available (building fund dollars and loan dollars) are sufficient to complete the construction project. It is furnished to the borrower as an enclosure with the Commitment Letter and should be completed by the borrower after all contracts have been signed and submitted to CEF prior to loan closing.

What is a construction lien?

A legal right to claim, hold or encumber property to satisfy a debt or obligation. Individuals or companies who supply either labor or material to a construction project may place a lien upon the borrower's property in claim that money is owed.

What is a "Notice of Commencement"?

A Notice of Commencement is a legal document publically recorded (with the County Register of Deeds) which gives notice that construction is taking place on a certain property and fulfills one of the requirements of the Michigan Construction Lien Act. The Notice of Commencement may be prepared on behalf of the borrower by either the general contractor or the CEF office. In any case, the Notice of Commencement must be recorded prior to any construction beginning.

What is a Sworn Statement?

A Sworn Statement is completed by the owner or the general contractor reflecting the names and addresses, kind of work and/or materials supplied and the total amounts of the contracts that have been entered into with subcontractors and suppliers for a particular construction project. This form is supplied with each construction draw request and substantiates the amount owed to the subcontractors and material providers with the stated request.

What is a Lien Waiver?

A document signed by the general contractor, subcontractor or materials provider which states that payment has either been partially or fully made for service, labor and/or materials furnished for the construction project. Lien Waivers are submitted with each subsequent sworn statement to "backup" the request for disbursement of funds and thereby guarantee that payment has been made for each loan draw as requested. The general contractor is required to collect the Lien Waivers from each subcontractor and supplier.

What is an Occupancy Permit?

A certificate issued by the local county or city building official giving approval of the use of the facility. A copy is to be sent to CEF, ideally before the final disbursement from the construction loan is made.

What is retainage?

An amount (usually 10%) withheld from each payment due to contractors, subcontractors and suppliers until the project is complete.

Why is a 10% retainage recommended?

To insure completion of the project and to insure payment by the general contractor to all subcontractors and suppliers.

When is the 10% retainage released?

Upon completion of the construction project and CEF's receipt of an occupancy permit.

THERE ARE OTHER ITEMS WHICH YOUR CONGREGATION SHOULD CONSIDER WHEN ENTERING INTO A BUILDING PROGRAM. ALTHOUGH THE ITEMS BELOW ARE NOT REQUIRED BY CHURCH EXTENSION FUND, WE SUGGEST THAT YOU INVESTIGATE THE FOLLOWING FOR YOUR OWN PROTECTION:

What is dispute resolution?

Many architectural and building contracts call for mediation and/or arbitration as alternatives to the traditional method of dispute resolution, which is known as litigation in the State or Federal Judicial System. Make certain that you are "comfortable" with such language and, if not, consult an attorney for his/her opinion.

What is contractor's comprehensive general liability insurance?

You should ask the contractor for proof of such coverage which provides for insurance against bodily injury, death or property damage as a result of the building company's action, whether actual or alleged. You may also want to inquire and receive verification that the general contractor provides worker's disability insurance coverage.

What are "change orders"?

Any changes to the original contract should be confirmed in writing with a "change order" signed by both the contractor and the owner (congregation). Change orders describe the "change" from the original contract and state the amount of dollars to effect the change, whether an increase or reduction.

Who's in charge?

Establish a clear policy in writing between the church and the contractor as to who can bind the church on any matter. It is often best for the congregation to appoint a church representative who is to be the official contact between the church and the contractor, architect, engineers, etc. The representative should ideally be knowledgeable about the construction project and be current with all affairs. The church representative should make notes of all conversations held, keep minutes at meetings, take pictures, develop rapport with inspectors, gather information and follow through with the project to completion. The chairman of the building committee often will function in this capacity and should be able to commit the time to doing so.

Who handles the money?

Much attention must be given to keeping track of building receipts and disbursements. Sometimes it is best that a person be appointed as the Building Committee Treasurer to deal with all of the financial matters concerning the project and not burden the Church Treasurer with this extra responsibility.

What are building committee responsibilities after construction starts?

Hold regular meetings (not less than every two weeks) to review work progress with not only the contractor, but with church personnel (pastor, principal, etc.). Such meetings are also necessary to review contractor and subcontractor bills, payments, changes, etc. Committee members should do regular "walk-throughs" to determine that what is being done is according to what was intended and that the quality of work is to your satisfaction. Said meeting will usually include the attendance of the architect. The Committee should carefully review all architectural drawings (both before construction begins and during construction) to inspect for, and decide upon, certain amenities such as electrical fixtures, doors, built-ins, floor and wall finishes, cabinets and counter tops, etc. Ask questions about what you are buying, as well as each item's quality and practicality. Durability and practicality of doors, windows, hardware, carpeting, etc. are important considerations today for the future maintenance of same.

Church Extension Fund of the Michigan District LCMS

3773 Geddes Road, Ann Arbor, MI 48105-3098

Telephone: 800-242-3944 toll-free

734-213-3245 local

734-332-7811 fax

www.mi-cef.org

**MORTGAGE LOAN APPLICATION FORM
Construction/Permanent/Refinance**

Date _____

PURPOSE

1. Describe purpose of loan _____

2. Loan Amount _____ Number of Years _____ (Amortization)

GENERAL INFORMATION

3. Congregation: _____
4. Mailing Address: _____
5. City: _____ County: _____ State: _____ Zip: _____
6. Tax Identification Number: _____ Date Congregation Organized: _____
7. Name of Pastor/s: _____ Tenure: _____
_____ Tenure: _____
8. List person to be contacted regarding application: _____
9. Home phone: (_____) _____ Cell phone: (_____) _____
10. e-mail: _____
11. **Authorized signature:** _____
12. Please print name and title: _____
Telephone # (_____) _____ (If different than line 9 above)

MEMBERSHIP

	Current YTD 20__	Last Complete Yr. 20__	Previous Year 20__
13. Baptized	_____	_____	_____
14. Confirmed	_____	_____	_____
15. New Adults Confirmed	_____	_____	_____
16. Total Membership Gain (Loss)	_____	_____	_____

AVERAGE ATTENDANCE

	Current YTD 20__	Last Complete Yr. 20__	Previous Year 20__
17. Weekly Worship Service(s)	_____	_____	_____
18. Bible Class-Adult	_____	_____	_____
19. Bible Class-Youth	_____	_____	_____
20. Sunday School	_____	_____	_____

DAY SCHOOL (If applicable)

	Current YTD 20__	Last Complete Yr. 20__	Previous Year 20__
21. Enrollment:	_____	_____	_____
22. Percentage of Non-members:	_____	_____	_____
23. Number of Grades:	_____	_____	_____
24. Number of Teachers (FTE):	_____	_____	_____
25. Current Non-member Tuition: \$	_____	_____	_____
26. Current Member Tuition: \$	_____	_____	_____
27. Annual School Revenue: \$	_____	_____	_____
28. Annual School Expense: \$	_____	_____	_____

PRESCHOOL PROGRAM (If applicable)

29. Self-supporting: Yes _____ No _____ Annual Preschool Budget: \$ _____
 30. Current Enrollment: _____ Number of Staff: _____

PROJECTED GROWTH

	Year 1 (20__)	Year 2 (20__)	Year 3 (20__)
31. Weekly Worship Services	_____	_____	_____
32. Baptized Members	_____	_____	_____
33. Day School Enrollment (If applicable)	_____	_____	_____

FINANCIAL HISTORY

	Current YTD From _____ thru _____	Last Complete Fiscal Yr. 20 ____
INCOME		
34. General Fund Contributions	\$ _____	\$ _____
35. Building Fund Receipts	_____	_____
36. Subsidy: Source(s) _____	_____	_____
37. Other* _____	_____	_____
38. Subtotal	\$ _____	\$ _____
39. Day School Tuition	_____	_____
40. Total Income	\$ _____	\$ _____

EXPENSES

41. Operating Expenses (Excluding School)	_____	_____
42. Debt Service	_____	_____
43. District/Synod Support	_____	_____
44. Other _____	_____	_____
45. Subtotal	\$ _____	\$ _____
46. Day School Expenses	_____	_____
47. Total Expenses	\$ _____	\$ _____
48. Net Operating Balance Gain/(Loss)	_____	_____

AVERAGE GIVING

49. Per confirmed member contribution for entire membership last year (excluding building fund receipts)	_____	(Line #34 divided by line #14)
50. Per average worship attendance last year	_____	(Line #34 divided by line #17)

* Other income - gifts, grants, sale of property, etc. (identify)

BUILDING FUND PLEDGE PROGRAM

Beginning Date _____ Completion Date _____

Conducted by _____

Number of calls made _____ Percent of membership _____%

Number of pledges received _____ Percent of membership _____%

Total pledged over _____ years. \$ _____

Less total funds contributed to date (_____)

Less total pledges anticipated prior to completion of construction (if applicable) (_____)

Balance to be received following completion \$ _____

1st Year
(20____)

2nd Year
(20____)

3rd Year
(20____)

Projected Pledge Receipts \$ _____ \$ _____ \$ _____
(Following project completion)

Sources of proposed annual debt amortization: Included in Budget \$ _____
 Building Fund Receipts \$ _____
 Total Debt Service \$ _____

MINISTRY STATEMENT OR PLAN

Enclose a copy of your congregation's Mission Statement and provide below a narrative statement that describes:

- Current programs that give evidence of carrying out your congregation's Mission Statement
- Future ministry plans for outreach
- Ministry goals/objectives and how will they be measured
- Results/outcomes anticipated or made possible by this loan

BORROWING RESOLUTION

I, _____, duly elected, qualified, and acting Secretary of _____ Lutheran Church of _____, Michigan, a Michigan Ecclesiastical Corporation, hereby certify that the following resolution was duly adopted by a vote of _____ yeas and _____ nays by the _____** (Voters Assembly, Church Council, Board of Directors)** at a _____ (regular, special) meeting held on the _____ day of _____, A.D. 20____, in accordance with the Constitution and Bylaws:

BE IT RESOLVED,

That _____ Lutheran Church of _____, Michigan request a loan from the Church Extension Fund of the Michigan District of the Lutheran Church–Missouri Synod in the amount of \$_____ for a period of _____ years. The purpose of the loan is: _____

BE IT FURTHER RESOLVED,

That the following officer(s) **Name & Titles** _____ be authorized and directed to execute all documents on behalf of the congregation for the repayment of the indebtedness.

Church Officer

Elected Secretary

Print Name & Title

Print Name

Date: _____

*** If this resolution was passed by an entity **other than** the Voters Assembly, please initial here to confirm that the governing body stated above has the authority to approve this transaction (without ratification by the Voters Assembly) per the current Constitution & Bylaws of the congregation.*

initials
of elected Secretary

initials
of Church Officer