I. Overview and Purpose
The Diocese of Southwest Florida maintains a designated Revolving Loan Fund [to fund congregational growth through capital projects]. Including amounts already loaned to congregations, the total amount of this Revolving Loan Fund in 2011 is approximately $4 million. Debt financing is an acceptable tool for financial management through times of capital growth. In cases where loans from a third party are not easily available or when a congregation has unique needs for flexibility and timing, the diocesan Revolving Loan Fund is available. The goal of this policy is to support successful loan decisions regardless of whether the funds come from the diocese or a third party financial institution.

II. Diocesan Canons
Diocesan approval is required for both loans from the diocesan Revolving Loan Funds as well as any loan from a third-party financial institution.

Diocesan Canon V, Section 10 reads as follows: The prior written consent and approval of the Bishop and Diocesan Council are required prior to the conveyance, transfer or encumbrance, in whole or in part, of any interest in any real property owned or controlled by the Diocese, a Congregation, or a Related Organization.

Diocesan Canon IV, Section 6, Paragraph 3 reads as follows: The prior written consent and approval of the Bishop and the Standing Committee are required prior to the conveyance, transfer or encumbrance, in whole or in part, of any interest in any real property that has been designed or used for regular services of worship, whether or not consecrated, and that is owned or controlled by the Diocese, or a Congregation, or a Related Organization.

Furthermore, the canons of the national church underscore the requirement for approval:

The Episcopal Church Canon Title I. Canon 7. Sec. 3 reads as follows: No Vestry, Trustee, or other Body, authorized by Civil or Canon law to hold, manage, or administer real
property for any Parish, Mission, Congregation, or Institution, shall encumber or alienate the same or any part thereof without the written consent of the Bishop and Standing Committee of the Diocese of which the Parish, Mission, Congregation, or Institution is a part, except under such regulations as may be prescribed by Canon of the Diocese.

A congregation shall notify the diocese of its application for a loan or line of credit not secured by real property for any amount over $50,000. No congregation may obligate the diocese on any debt without the consent of Diocesan Council.

Please see the sample letter of approval provided by our diocesan chancellor for suitable documentation indicating diocesan consent. In addition, the exact resolution of diocesan council as recorded in the minutes can be provided by the Office of the Bishop.

III. Loan Parameters for Revolving Loan Fund

Loans from the Revolving Loan Fund are intended to fall within the following parameters:

- Loan funds are for capital purposes only. The funds cannot be used to support annual operating expenses. Except in special circumstances, these funds are not intended for refinancing purposes.
- Any loan should correspond to a capital campaign. See the “1/3 Principal Rule” as defined in section D.i. of the Loan Proposal Guidelines.
- Loan amounts will range from $25,000 to $250,000.
- Loan term will range from 1 year to 15 years.
- An ability to service the debt principal and interest payments must be forecasted for the life of the loan in the congregation’s operating and capital campaign budgets.
- The use of a mortgage vs. an unsecured promissory note should be clarified.

IV. Loan Proposal Guidelines

The attached guidelines are intended to lead the congregation through a structured analysis of its debt needs and the ability to service the debt payments going forward. This preparation will put the church in a proactive position to apply for a loan from the Diocesan Revolving Loan Fund or from a third-party lender.
V. Procedures and Timeline

These guidelines are intended to support the congregation whether seeking approval of a third-party loan or requesting funds from the Revolving Loan Fund. The steps fall under two phases as follows:

Preparatory Phase

1. The congregation contacts the Office of the Diocesan CFO to communicate their intentions and receive a general orientation of diocesan policy and advice on completing the loan proposal package.
2. The congregation completes a loan proposal following the Loan Proposal Guidelines outlined with this policy. The Office of the Diocesan CFO is available to assist with any questions throughout this process.
3. As the loan proposal documentation is assembled, the congregation discusses the opportunities for third-party financing and diocesan Revolving Loan Fund financing
4. The Office of the Diocesan CFO will assist in reviewing the loan proposal specifics and adding the topic to the Finance Committee agenda.

Approval Phase

5. The loan proposal is presented to the Diocesan Finance Committee. The Finance Committee meets monthly on the 2nd Tuesday of each month.
6. The Finance Committee makes a recommendation to Diocesan Council to either 1. approve a third-party loan, 2. extend a loan from the Revolving Loan Fund, or 3. disapprove the loan proposal. If worship space is involved, the proposal will be added to the Standing Committee agenda to obtain its approval.
Loan Proposal Guidelines

The following are specific topics that must be addressed in the loan proposal package:

A. Importance of Capital Expenditures to the Long Term Mission of Congregation
   i. Present documentation regarding the reasoning for capital expenditures for which the loan proceeds will be used. How do these expenditures relate to the long-term life and mission of your specific congregation?

B. Appropriateness of Debt
   i. Proceeds from debt incurred from the mortgaging of church property may not be used for operating expenses.
   ii. Debt financing should provide for full amortization of the loan within 15 years. Balloon payments at five or ten years are typical.
   iii. A recent appraisal of the assets should be included, if available

C. Congregational Connection to the Debt Decision
   i. Present documentation evidencing the congregation involvement on the debt decisions and its long term impact on congregation finances. Such documentation would include: a capital campaign brochure, parish annual report, congregation newsletter.

D. Financial Feasibility of Servicing Debt
   i. The “1/3 Principal Rule”: The amount of debt incurred should not exceed 1/3 of the total cost of the project. At least 1/3 of the project’s total cost should be held by the congregation as cash in the bank. 1/3 of the project’s total cost may be pledged amounts.
   ii. The total debt service (interest plus principal payments) should not exceed 25% of the current operating revenue of the congregation.
   iii. Provide an analysis of trends in key factors for ten years prior and five years forecasted into the future. The current year financial figures should be your approved annual budget. These key factors include the following:

<table>
<thead>
<tr>
<th>Key Factors for Ten Year Back/Five Year Forward Analysis</th>
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<tbody>
<tr>
<td>Attendance and Stewardship</td>
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<tr>
<td>ASA</td>
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<tr>
<td>Pledge Units</td>
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<tr>
<td>Pledge Total</td>
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<tr>
<td>Income</td>
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<tr>
<td>Plate/Pledge Income</td>
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<tr>
<td>Other Income</td>
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<tr>
<td>Use of Endowment Funds (if applicable)</td>
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<tr>
<td>Expenses</td>
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<tr>
<td>Diocesan Apportionment</td>
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<tr>
<td>Staff</td>
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<tr>
<td>Debt service (interest and principal)</td>
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<tr>
<td>All Other Operating Expenses</td>
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<tr>
<td>-----------------------------</td>
</tr>
<tr>
<td>Assets</td>
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<tr>
<td>Cash and Operating Reserve Balances</td>
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<tr>
<td>Capital Fund Balances</td>
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<tr>
<td>Endowment/Designated Fund Balances</td>
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</tbody>
</table>

This data is readily available based on Parochial Report filings. The Office of the Diocesan CFO can assist in collecting and preparing this information.

E. Capital Campaign Strategy and Implementation
   i. Present documentation on current capital campaign, including specific dates and dollar amounts of pledges received versus actual receipts. How is the campaign organized? Are you using a professional firm for fund-raising?
   ii. Present discussion of capital campaign strategy, including the campaigns of the last 10 years as well as plans for future capital or debt reduction campaigns. Historically, has the church demonstrated an ability to generate capital funds through capital campaign efforts?
   iii. A review of the donation history of the top 15 donors is a valuable exercise to assess the confidence in future pledge performance. This suggestion envisions that an analysis is performed only by relevant personnel and kept at the congregation level with the names of individual donors held in the strictest of confidence.

F. Discussion of Third-party Financing Options
   i. Present documentation on financing arrangement opportunities solicited from local banks or lending institutions. Include the terms, type of promissory note (mortgage, unsecured promissory note) and fees involved. Please advise of any instances where third-party lenders have declined to extend credit to the congregation for this project. It is understood that the final details may not be known if these guidelines are being used in preparation for obtaining the third-party loans.