

BAPTIST UNION CORPORATION LTD**BAPTIST UNION LOAN FUND
INFORMATION, PROCEDURES AND SCOPE OF LENDING****Approved by the Directors of the Baptist Union Corporation (November 2015)**Updated October 2019

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1. INTRODUCTION:

The Baptist Union Loan Fund (BULF) was set up by the Baptist Union Corporation Ltd (BUC) at the request and with the support of the Baptist Union of Great Britain (BUGB). Its principal purpose is to assist churches in their work and mission by making loans available to finance the provision or redevelopment of church premises and Manses. It may, however, also assist in providing loans to churches, Associations, colleges and other similar organisations to enable them to buy out their share of pension deficit liabilities or to enable them to pay debts arising from a cessation event.

It is hoped that the BUC is able to offer terms more favourable in every respect than can normally be obtained from Bankers or other lenders. Furthermore, it is recognised that in some cases the property itself may have little or no commercial value and thus not amount to a security which an ordinary lender would regard as adequate. The Corporation is, however, confident that Baptist organisations can be relied upon to honour their commitments and it is on this general principle that the scheme is based.

The BUC Directors, as administrators of BULF, agree that the Loan Fund Officer (LFO) may proceed with any application for a loan providing it falls within the criteria set out in section 7. Applications for loans which fall outside these criteria need to be referred to the Pre-Sanctioning Panel consisting of the Moderator, Support Services Team Leader, Regional Director and Mike Southcombe, before proceeding.

2. PURPOSE OF THE LOAN FUND

The purpose of the Baptist Union Loan Fund is to provide finance for churches (or other Baptist organisations) principally but not limited to three main areas.

Church Premises – buying new or replacement premises or land on which to construct a new building; renovating, upgrading or extending church premises, bridging the gap between the sale of one property and the purchase of another.

Manses – buying a new or replacement Manse (including purchases made jointly with a Minister who does not need a mortgage to purchase their share), buying the Minister's share of a Manse to enable the church to own the Manse outright, bridging the gap between the sale of one Manse and the purchase of another, renovating, upgrading or extending a Manse owned by the church.

Pension Deficits – to enable a church (or other pension scheme employer) to pay their debt to the Baptist Pension Scheme.

3. LOAN TERMS AND INTEREST RATES

The fund is largely composed of moneys deposited (by churches and other organisations) with the BUC.

As the BUC pays interest on money deposited with it, then the BUC must charge interest upon the loans it makes. Money raised through charging interest also helps to pay for the work of some staff in the BUGB Legal Services and Operations Team and Finance Team and thus reduces the charge on Home Mission.

The **interest rate** is variable and the current rate is always advertised at www.baptist.org.uk/loans Closed short-term (bridging) loans are charged at an extra 1% over the standard variable BULF interest rate. Open short-term (bridging) loans are charged at an extra 2% over the standard variable BULF interest rate.

Loans are normally repayable over a **standard term** of 10 years by equal monthly repayments of capital and interest. Loans over longer periods up to 20 years may also be considered. For more details please see Section 7.3

Short-term loans must be paid back within 2 years. Until that happens the church must make monthly payments to cover the interest charged on the loan. If the loan is not repaid within 2 years then the church will normally need to start repaying the capital as well as the interest.

4. SECURITY

If the BUC or another Baptist Trust Corporation is the Trustee of the property concerned

A legal charge on the property will not be required and the BUC will not require repayment to be guaranteed by any private individuals.

The relevant Trust Corporation will be asked to give an undertaking to the BUC they they will hold the property concerned as security for the loan.

The Loan Fund Officer will register a Restriction against the Land Registry Title for the church property which will remain in place for the duration of the loan. The fee payable (currently £40) to be met by the church. The Restriction will be discharged when the loan is repaid.

If the property is held by Private Trustees, by another Denominational Trust Company or by the church as a Company or Charitable Incorporated Organisation (CIO)

A legal charge (Standard Security in Scotland) will be required on the property and all expenses for this will be met by the church.

The Private Trustees or the Directors/Trustees of the Company or CIO will be asked to give an undertaking to the BUC that they will hold the property concerned as security for the loan.

In the case of an Ecumenical Church which has another Denominational Trust Company as their Property Trustees, the church will need to check that the Trustees will be willing for the BUC to take out a Legal Charge on the property for the duration of the Loan before the application is submitted.

The BUC will however, in every case, need to know which Baptist organisation is responsible for the finance of the project and will therefore accept responsibility for repaying the loan. In all normal cases, this will be the Church in occupation of the premises. In the case of a new church, however, there may need to be a sponsoring Church, or Churches, or, alternatively, the Association

In every case the organisation concerned will be asked to pass appropriate resolutions in such form as may be required by the Corporation.

5. APPLICATIONS

Churches or other organisations are advised to apply as soon as it is reasonably certain that a loan will be required. Application Forms and Guidance Notes are available at www.baptist.org.uk/loans or from the Loan Fund Officer. The Guidance Notes list the paperwork which the church will need to supply as part of their application.

The BUC will, so far as possible, consider applications in the order in which they are received but reserves the right to give priority to any of special urgency or importance.

If the BUC does not have sufficient funds available to meet the request made in an application, the applying church or organisation will be immediately informed that this is the case by the LFO. The application may then be placed on a waiting list until such time as funds are available.

On receipt of the initial information a meeting will be arranged between church representatives, the Loan Fund Officer and representatives of the Directors to enable a full report to be submitted to the Directors. This requirement will normally be waived in the case of an application for a loan for a Manse purchase or to pay a church's pension debt. It may also be waived for any application for less than £75,000.

This meeting will normally take place on the church premises. Please note that churches or organisations not in membership of the Baptist Union of Great Britain will be asked to cover the travel expenses for this meeting. This requirement is waived where the church has a Baptist Trust Corporation as its Property Trustees.

It should be clearly understood that, even if the Directors give approval to an application, that approval is always subject to compliance with the conditions outlined in the Loan Offer Letter sent to the church following approval of the loan. Unless the Directors otherwise decide all such conditions must be complied with before payment of the loan can be made.

If the loan has not been drawn after one year from the date of sanction, a review will take place. After two years, a more in-depth financial review must be held, and written reports from the Loan Fund Officer and, preferably, the original visiting Director, presented to the Directors, who reserve the right to withdraw the loan offer after three years.

6. FEES

Many lenders will charge a variety of fees dependent on the project for which the loan is required. These will usually include an application or arrangement fee and the legal charges which will arise from the need to take a mortgage on the property as security. In addition, other lenders will usually require a formal valuation of your project which the borrower will need to pay for. These fees will normally run into thousands of pounds, or even tens of thousands of pounds, depending on the cost and complexity of the project.

It should be noted that, other than those referred to below, BULF does not make any charges. For most churches this means that the only fee they pay is the Land Registry Fee.

Accommodation Fee: This will be charged on any loan over £50,000 which has not been drawn down after six months from the date of sanction. The fee is calculated at 1% per annum on the full value of the loan less £50,000. It is calculated on a daily basis and levied quarterly, in arrears, ceasing once the first loan drawing has taken place. In relation to a loan for a building project this means the first payment made against an architect's certificate.

Cancellation Fee: We reserve the right to charge a cancellation fee of up to 0.2% of the value of the loan if the application is withdrawn at any time after it has been submitted.

Land Registry Fee: Where a church has one of the Baptist Trust Corporations as their Property Trustees we register a Restriction against the church property at the Land Registry. The current fee for this is £40 which needs to be met by the church and is payable once the loan has started to be drawn.

Legal Charges: If the church has one of the Baptist Trust Corporations as their Property Trustees there are no legal charges to pay. If this is not the case then we will need to take out a Legal Charge (Standard Security in Scotland) at the church's expense.

Valuation/Survey Reports: Where these are required as part of the application (purchases only) it is the church's responsibility to obtain and pay for these.

7. STANDARD LOAN CRITERIA

Applications for loans which fall outside these criteria need to be referred to the BUC Moderator, the BUC Company Secretary or the BUGB Support Services Team Leader before proceeding

7.1 PURPOSE

- Constructing or buying, new or replacement church premises or land on which to build a church building
- Constructing, renovating, upgrading or extending church premises
- Constructing, renovating, upgrading or extending a Manse owned by the Church
- Buying a new or replacement Manse
- Buying a new or replacement Manse jointly with a Minister (only possible where Minister does not need a mortgage to purchase his/her share)
- Buying the Minister's share of a Manse to enable the church to own the Manse outright
- Buying out an employer's share of pension deficit liabilities and/or to paying debts arising from a cessation event. [Baptist Pension Fund only]
- Uplifting (transferring) loans provided by other bodies (Banks, Building Societies, Baptist Associations, or private individuals) subject to a satisfactory repayment history and the loan term not exceeding the remaining term of the uplifted loan.
- Enabling a church to undertake a property purchase or building work prior to the completion of sale of other property.

7.2 AMOUNT

Please note that the minimum amount that we can lend is £25,001

Church and Manse Loans

- Between £25,001 and £1,000,000. The maximum total lend from all external borrowing must not exceed 70% of project cost. If more than one project is involved then total exposure must be calculated.
- For the purchase of a manse, the maximum lend is 70% of valuation or purchase price whichever is lower, less any prior charges (e.g. where minister has an interest). However, where a loan is required to buy out a minister's share in a manse, the maximum lend is 70% of the current valuation.

Short-term Loans

- Between £25,001 and £1,000,000
- In the case of Short-term loans where contacts have been exchanged the maximum amount to be lent is 90% of the sale price.
- In the case of Short-term loans where contacts have not been exchanged the maximum amount to be lent is 80% of the valuation of the property to be sold.

Pension Loans

- Between £25,001 and £50,000 unless the church had a cessation event prior to 31st March 2017 in which case we can lend up to the full amount of the church's debt to the Pension Scheme.

7.3 TERM

- The standard term for a church loan is 10 years but churches may take longer terms with no additional interest being charged. Loans over £1m or over can be taken out over 20 years. Loans under £1m can be taken out over 15 years. Applications for loans between £750,000 and £1m over 20 years will be considered in exceptional circumstances
- The standard term for a manse loan is 10 years but churches may take longer terms of up to 20 years with no additional interest being charged.
- The maximum term for short-term loans is 2 years
- The maximum term for pension loans is 15 years

7.4 BORROWERS

The Scheme can lend to

- Churches in membership with the Baptist Union of Great Britain - generally England and Wales – and Churches in Membership with the Baptist Union of Wales (BUW).
- Churches in membership with the Baptist Union of Scotland (BUS) - a standard security will need to be registered using our legal agent in Scotland.

- Associations and Colleges in membership of the Baptist Union of Great Britain.
- Churches or other organisations which have a debt to the Baptist Pension Scheme. (Pension Loans only)

The Scheme will also consider lending to other Baptist Churches or organisations where there is a "substantial Baptist involvement".

8. SANCTIONING PROCEDURES

8.1 CHURCH LOANS (above £75,000)

- Where churches apply for loans above £75,000 for the purchase or alteration of church property they will normally be visited by the LFO and the Local Association Director.
- Two Directors will visit with the LFO where applications are for sums in excess of £750,000.
- The LFO will also contact the relevant Association (or BUW/BUS) to seek their confirmation that they fully support the church in the loan application, and the project, and recommend them for a loan.
- The LFO will compile a report which will include the reports from the visitors and the relevant Association to present to the BUC Directors.
- If the application meets the standard criteria (Section 7) the LFO will circulate the reports to all Directors via e-mail.
 - The Directors will be expected to peruse these papers and make comments or raise questions/concerns to all fellow Directors by e-mail, as appropriate.
 - Directors can also choose at this stage to notify the LFO by e-mail of their decision as to whether or not the loan should be granted.
 - A closing date (at least 7 days after the email has been sent) will be given by which time comments and questions should be sent to the LFO
 - After the closing date one of the following will take place
 - a) If a majority of Directors have voted in favour and no serious concerns have been raised then the loan will be deemed to be sanctioned and the LFO will advise all Directors of the final decision by e-mail.
 - b) If a majority of Directors have voted in favour but one or more other Directors have raised serious concerns the LFO will send a further email outlining the concerns raised and his/her response to those concerns. Directors will be asked if they wish to reconsider their decision and a further closing date given.
 - c) If a majority of Directors have voted against the loan being given then the loan will not have been sanctioned. The church will be informed and asked if they wish to revise their application or appeal the decision at the next Board meeting.
 - d) If a majority decision has not been reached by the closing date then the LFO will summarise the situation and invite the Directors to approve the loan. If it is not possible to reach a decision by email then the application will be taken to the next Board Meeting.
 - Once the loan has been sanctioned a Loan Offer letter will be sent to the church and the decision will be formally noted at the next Board Meeting.
 - If the application doesn't meet the standard criteria then the principal purposes/criteria of the Loan Fund, but the Pre-Sanctioning Panel have agreed it can proceed, then the application will be sanctioned in line with the process for standard loan applications. This will also normally be the case for an application from a church which would take their total borrowing over £1,000,000

If the Pre-Sanctioning Panel, consider any application not appropriate for further consideration the decision will be conveyed to the applicant church by the LFO.

All applications that take a church's overall borrowing over £1,000,000 will be discussed at the next Board Meeting.

For applications thought to be urgent the LFO has the option to seek permission from the Directors to use the email process to agree the Loan. This should only happen if neither the LFO nor the Association Director has any concerns about the loan.

8.2 MANSE LOANS

In the cases of Manse Loans (and Church loans of £75,000 and under), the Moderator is authorised to instruct the LFO to issue a Loan Agreement, providing that supporting reports and recommendations are received from the Local Association, the Association Director and the LFO. A visit will not normally be required. Decisions are to be advised to the Directors at the next Board Meeting.

8.3 PENSION LOANS

In the case of Pension Loans, the Moderator and the BUGB Support Services Team Leader will both need to approve the loan before the LFO can issue the Loan Agreement providing that supporting reports and recommendations are received from the Local Association, the Association Director and the LFO. A visit will not normally be required. Decisions are to be advised to the Directors at the next Board Meeting.

8.4 SHORT-TERM LOANS

- Short-term loans may require a visit which will be determined on a case-by-case basis by the LFO, the Operations Manager, the Moderator and the relevant Association Director.
- Closed short-term loans will be sanctioned as for a normal Manse loan or Church loan as appropriate.
- Short-term loans will be sanctioned by the email process described above or taken to a Board meeting as appropriate

9. LOAN DRAWDOWNS

The loan can only be drawn down when all the conditions in the Loan Agreement have been met. The LFO will inform the church when this is the case.

Loans towards the cost of purchasing property are paid direct to the solicitors handling the purchase.

Loans towards the cost of building work are paid on receipt of an invoice and architect's certificate. They are normally paid direct to the contractor but can be paid to the church.

The LFO has authority to advance up to a further 15% of the initial sanctioned loan (subject to a maximum of £60,000) subject to the following conditions:

- The new total should not exceed the standard maximum loan of £1,000,000.
- The new percentage of external borrowed funds should not exceed 70% of the total cost.
- The financial viability of the increased sum would have to be demonstrated.

10. LOAN REPAYMENTS

The first loan drawdown will trigger a request from the BU Finance Team to the church to start making loan repayments one month later.

Repayments are based on the full amount of the agreed loan. Interest is only charged on the outstanding balance. Repayments are made each month by Direct Debit covering interest and capital but may need to be adjusted in line with interest rate changes.

Churches with short-term loans can make interest-only payments for a maximum of 2 years. If the loan has not been repaid by that time then they will need to start repaying the capital as well.

Churches can make over-payments by setting up a Standing Order to 'top-up' the Direct Debit payments or paying lump-sums without penalty.

Churches may repay their loan at any time without penalty.

11. STANDARD LOAN CONDITIONS

Before any loan can be paid out all the church's charity trustees must sign a copy of the Loan Agreement sent to them and return it to the LFO along with other documents listed. These would normally include a resolution passed by a Special Church Meeting, a copy of the relevant insurance policy with the interest of the BUC noted as lender and any required documents not submitted as part of the application.

The Church agrees to

1. Enter into a Direct Debit agreement with the Baptist Union Corporation to enable the Corporation to receive the Minimum Monthly Payment each month starting one month after the drawdown of the loan has taken place. The Corporation will advise the Church of the Minimum Monthly Payment needed to repay the loan within the agreed term and will also notify the church of any changes to this due to interest rate changes. The church has the right to make over-payments and/or repay the loan at any time without penalties being incurred.
2. Pay a cancellation charge of 0.2% of the agreed loan if the application is withdrawn at any time before it is drawn down.
3. Pay an Accommodation Fee if the loan remains undrawn six months after the date of this Loan Agreement. This fee will be 1% pa of the full amount of the loan (less £50,000) and will be invoiced by the Corporation quarterly in arrears until the conditions are met and the first drawdown from the loan takes place.
4. Pay the fee needed (currently £40) to enable the Corporation to register a Restriction against the Land Registry Title for the property indicated on page 1 for the duration of the loan. The church will be asked to pay this fee once the loan has been drawn. This Restriction will say that *No dispositions of the registered estate by the proprietor of the registered estate is to be registered without a written consent signed by The Baptist Union of Great Britain, Baptist House, PO Box 44, 129 Broadway, Didcot, Oxon, OX11 8RT.* The Restriction will only be discharged when the loan is repaid. [Not needed when a Lega; Charge or Standard Security is in place]
5. Not obtain any other loan or loans (other than those, if any, already notified to the Corporation and any personal unsecured loans from Church Members) without the prior written consent of the Corporation.
6. Keep the church's premises adequately insured during the term of the loan to the Corporation's satisfaction and arrange for the Corporation's interest as Lender to be noted by their Insurance Company.

The Corporation reserves the right to

1. Demand the repayment of the loan within 28 days if
 - The Church ceases to be a member of the Baptist Union of Great Britain [or BUS/BUW] or, in any other way, ceases to be eligible for a loan.
 - [BUGB member churches only] The Church fails to pay its BUGB membership subscription in full within 12 months of it being requested.
 - The Church misses three consecutive loan repayments without the written agreement of the Corporation
 - The Church is deemed to have acted fraudulently or illegally or has breached the above conditions.
 - The Corporation considers that the Church has been misleading in the information provided in its application or in any of its dealings with the Corporation.
 - Anything happens which, in the opinion of the Corporation, makes it likely that the Church will be unable to continue to repay the loan.

In all of these scenarios the church would not be able to draw down any part of the loan which remains undrawn.

2. Arrange for any part or all of the Church's property assets to be sold in the event of any failure of the Church to repay the loan and/or interest thereon after due demand. No action shall be taken by the Corporation to discharge the loan and all interest and costs outstanding without providing the Church with three months' written notice of the same which shall be done in consultation with the Church.

12. LOAN DEFAULT PROCESS

It is extremely rare for churches to default on their loan payments or breach their loan conditions in any way which would trigger a loan repayment demand. However, we do have procedures in place should this occur, and they are set out below.

Stage 1: Notification

1. LFO becomes aware of an issue which should trigger a loan repayment demand.
2. LFO checks the loan agreement signed by the church and then emails or phones the Church Treasurer (or Church Secretary if appropriate) to explain that they are in breach of their loan agreement and ask how they are planning to address this.
3. LFO to follow this up in writing (i.e. a letter) enclosing a copy of their loan agreement and requesting a reply within 28 days. If the church is in membership of one of the Regional Associations or BUW/BUS then a copy of the letter is sent to them.
4. If no reply received within 21 days then the LFO should send a reminder letter to the church treasurer with a copy to the minister and church secretary.

Stage 2: Action

The process to be followed at this stage depends on the reply received from the church

A: If the church agrees to address the issue which has caused the breach

- If the church's plan to address this issue is a request to significantly vary the terms of their loan then agreement will be sought (normally by email) from the BU Directors.
- Church are added to a 'watch list' and monitored monthly until the LFO considers they are back 'on track' and the issue has been resolved.
- If this has happened within 6 months of the date of the reply from the church then no further action is needed.
- If the issue has not been resolved within 6 months then move to the Escalation stage

B: If the church agrees to repay their loan in full

- Church are asked for the date on which this will happen.
- Finance Office are asked to calculate the redemption figure and provide this to the church
- If the loan is paid off on that date then no further action is needed
- If the loan is not paid off on that date (or within a week of that date) then move to the Escalation stage - unless the church have given an explanation of their failure to pay and set a new repayment date.

C: If the church agrees to sell all or part of their property in order to repay the loan

- The LFO will work with the relevant Trust Company (or Private Trustees) to ensure that this happens as quickly as possible.
- The church are notified that they have the option to move to interest-only payments (which could be charged at a higher interest rate) or remain on normal monthly repayments.
- Once the property has been sold and the loan repaid then no further action is needed
- If the LFO has reason to believe that the church are not moving as quickly as they could then this could be moved to the Escalation stage

D: If the church is unsure how to proceed

- The LFO arranges a visit to the church along with one of the BUC Directors – usually the relevant Association Director – to agree the way forward.
- If the outcome of this visit is as 'A', 'B' or 'C' above then the relevant process is followed
- If the visitors are unable to reach agreement with the church then move to the Escalation stage.

E: If no reply is received within 28 days

- Move to the Escalation stage

Stage 3 Escalation

- 3.1 If monthly loan repayments are not being made then the church may be notified that the loan is being converted to a 'short-term' loan pending full repayments and the interest rate increased as appropriate.
- 3.2 LFO seeks to arrange a (further) visit to the church with one of the BUC Directors and a representative from the relevant Association (or BUS / BUW). If the outcome of this visit is as 'A', 'B' or 'C' above (Stage 2) then the relevant process is followed. If the visitors are unable to reach agreement with the church then move to 3.4
- 3.3 If the church refuses a visit then move to 3.4.
- 3.4 Ask the BUC's Solicitors to issue a Final Demand Letter to the church asking for repayment of the loan and indicating the need to sell property held as security to recover the loan.