NORTHWEST BAPTIST FOUNDATION
CHURCH LOAN POLICY

THIS POLICY SHALL BE REVIEWED REGULARLY BY THE CHURCH LOAN AND FINANCE COMMITTEE AND APPROVED BY THE BOARD OF DIRECTORS (“BOARD”).

The NORTHWEST BAPTIST FOUNDATION (the “Foundation”) offers to churches Permanent, Construction, and Special Purpose ($100,000 or less) loans.

Loans may be used for:

- Site acquisition (raw land or an existing building)
- Refinancing
- Construction
- Remodeling/renovation
- Bridge or gap financing
- Other special purposes

Unless clearly inconsistent by the context, references herein to a “Church” or “Borrower” shall be not only to an incorporated church but also to any entity to whom the Foundation extends a loan pursuant to this Policy.

TERMS AND DEFINITIONS

Adjustable (or variable) Rate Loan: An "Adjustable Rate Loan" is a loan with an interest rate that can change over the term of the loan based on the Index to which the loan is tied (and whether the Church qualifies for adjustments to the determined interest rate).

Amortization: "Amortization" is the scheduled reduction of principal paid in installments over time.

Basis Point: One (1) "basis point" is equal to 1/100th of a percentage point.

Construction Loan: A "Construction Loan" shall be a loan for which the Church is able to request draws for construction related expenses up to a maximum approved amount.

Debt Service Coverage Ratio: The "Debt Service Coverage Ratio" is computed by dividing the Church's unrestricted revenues by the sum of expenses for 1) debt repayment, 2) compensation & benefits, and 3) utilities, repairs, maintenance and other expenses related to facilities and property. In the case of a mission church, unrestricted revenues shall also include financial support from the home or sponsoring church.

Deed of Trust: Although true mortgages are rarely used in commercial lending practices, the term is often used interchangeably with a deed of trust or trust deed. The term "Deed of Trust" shall refer to and describe a single security instrument which may encumber one or more parcels of land and one or more obligations.

Grace Period: A "Grace Period" is the time following the stated due date during which a Church may pay a scheduled installment without being considered in default or suffering any other sanction provided by the loan documents (e.g. late charge).

Index: Depending on the Church's decision, the "Index" can be any of the following:

- 3 year Treasury Constant Maturity
- 5 year Treasury Constant Maturity

Each of the above indexes will be determined by publication from the Federal Reserve as of the 15th day of the month for the month prior (or, if the 15th day of the month is a nonbusiness day, the next business day. (see http://www.federalreserve.gov/releases/h15)

Interest: "Interest" payable on a loan is the cost for the Foundation to extend credit to the Church.

Jumbo Loan: A "Jumbo Loan" is a loan equal to or exceeding 2 million.

Loan Fee: In addition to Interest, the Foundation assesses a "Loan Fee" which is expressed as "Points." Each Point equals one percent (1%) of the total loan amount.

Loan Servicing: "Loan Servicing" is the administration of a loan after it has been funded. Loan servicing functions can include any one or more of the following: accounting for loan payments, assuring that hazard insurance premiums are timely paid, confirming compliance with operating covenants and handling loan default situations.

Loan-to-Value Ratio: The "Loan-to-Value Ratio" is the ratio of the loan amount to the estimated value of the encumbered real property, stated as a percentage.

Prepayment: "Prepayment" is the payment of loan principal before the scheduled maturity date. The Foundation does not prohibit Prepayment and does not assess a fee for Prepayment.

Reserve: "Payments Reserve(s)" are funds set aside from the initial loan whose sole purpose is to provide borrower solvency for purposes of loan payments should the borrower face unforeseen difficulty in making payments at some point in the life of the loan. The Payment Reserve is calculated as 3, 4, or 6 monthly payments and based upon the first [full] monthly payment that is due. If the Payment Reserve is reduced or fully liquidated during the term of the loan, the church shall restore the Payment Reserve as provided herein.

STANDARDS

The standards for obtaining a loan are as follows:

A. TERM

1. Permanent loans shall not exceed 180 months.

   Permanent loans may be fully amortized, amortized over 240 months with a resulting balloon payment or, optionally, for loans of $500,000 or more, 120 months with amortization over 300 months, with a resulting balloon payment.

   - Bridge or Gap Financing ("Bridge Loans"): Except as otherwise specified, non-construction, temporary financing type loans, known as Bridge Loans, are fully subject to the terms stated above.

     Example: Church owns Building 1 and closes on Building 2. Church seeks a Bridge Loan for 12 months allowing it time to sell Building 1. During the Bridge Loan, Church makes interest only payments. At such time as Church sells Building 1, it applies most, if not all, of its equity to the principal balance and the Church begins to make amortized payments on the reduced principal balance. This initial period, whether 12 months or shorter, shall not extend the term of the loan.

2. Raw land acquisition loans shall not exceed 60 months in term and may be amortized for up to 120 months.

3. Construction loans shall not exceed 18 months in term.

4. Loans of $25,000 or less shall not exceed 60 months in term, fully amortized, and loans of $25,001.00 to $100,000 shall not exceed 120 months in term, fully amortized.

5. If a Church to whom a loan is granted is, at the time the loan is granted, cooperating with the Northwest Baptist Convention (NWBC) but later ceases to be a church cooperating with the NWBC at any time while the loan remains outstanding, the Foundation, at its option, may 1) accelerate the loan and declare the entire principal balance and interest due and immediately payable; or 2) change the terms of the note to the current terms in effect for non-NWBC churches. If a

Borrower to whom a loan is granted is, at the time the loan is granted, NOT a church cooperating with the NWBC and, at any time while the loan remains outstanding, the nature, organization or practices of that Church change such that, in the sole discretion of the Foundation, the Church and/or the loan granted to the Church is no longer consistent with the purpose, objective and interests of the Foundation or is not otherwise consistent with the Articles of Incorporation, Bylaws and Policies of the Foundation, then the Foundation, at its option, may accelerate the loan and declare the entire principal balance and interest due and immediately payable.

B. COLLATERAL

1. Loans must be secured by a first lien position Deed of Trust on such collateral as the Board deems to be acceptable.

   Though disfavored, a second lien position Deed of Trust may be considered if the outstanding indebtedness is less than 50% of the "fair market value" of the collateral involved in the loan. Any second lien position must be approved by a majority of the Board.

2. The loan amount shall not exceed 75% of the value of the collateral, including the value of the construction project, as completed.

3. An appraisal may be required, at the Foundation’s discretion, if the loan amount exceeds 50% of the collateral value.

C. LOAN FEE

All loans shall incur a Loan Fee. The Loan Fee shall be reviewed by the Church Loan and Finance Committee and approved by the Board.

The Loan Fee is intended to compensate the Foundation for any of the following:

- its work in preparing for the loan,
- the cost of setting aside the monies required to fund the loan,
- a site visit by Foundation staff.

The Loan Fee shall be paid by the Church at or before closing.

The Loan Fee for all loans (Permanent, Construction/Permanent, Bridge, and Special Purpose) shall be **1.5 points** of the amount borrowed or requested to be borrowed. Staff shall have discretion to approve a Loan Fee discount of up to 50 basis points. This discretion may be exercised by agreement of the President and Chief Financial Officer.

No conversion fee is imposed for amounts converted from Construction to Permanent financing.

D. INTEREST RATES

The initial interest rate and all future adjustments to the interest rate shall be determined as follows:

The ***Base Rate*** shall be the Church-selected Index as published on the 15th day of the previous month (or, if the 15th day of the month is on a non-business day, the next business day)

PLUS

- 450 basis points for loans having a risk rating of between 8 and 10;
- 550 basis points for loans having a risk rating of between 6 and 7.99;
- 650 basis points for loans having a risk rating of less than 6;

Once the ***Base Rate*** is determined, the ***Base Rate*** shall be ROUNDED UP to the next ONE-TENTH point for loans to be funded/subject to rate adjustment in the **following** month.

The ***Base Rate*** shall have a ceiling of eleven percent (11%).

Construction Loan interest rates shall be determined by assessing an additional 75 basis points to the as calculated Base Rate.

The risk rating or “church health score” shall be an aggregate score based on the following weighted factors:

- Loan to Value Ratio
- Debt Service Coverage Ratio
- Pastor Tenure
- Loan Term/Amortization Period
- Attendance Trend
- Debt Service Ratio

Notwithstanding the above, the determined Interest Rate may be further adjusted based on the following:

Church may qualify, at Lender's sole and absolute discretion, for a reduction to the determined Interest Rate of up to, but not exceeding, an additional fifty (50) basis points.

For purposes of determining this reduction, each of the following factors may qualify Church for a twenty-five (25) basis point rate reduction in the calculation of the Interest Rate:

1. A history of consistent and meaningful giving to the Cooperative Program. For this purpose, giving must be at a minimum of $100 per month or 3% of average offerings, whichever is greater, for a minimum of 3 years (or 75% of its corporate existence if Borrower is less than 4 years old).

2. A demonstrated history, for a similar time frame, of commitment and cooperation with the Northwest Baptist Convention ("NWBC"). Borrower's commitment and cooperation may be evidenced by various factors including, but not limited to, sending messengers to the NWBC annual meeting, membership participation on NWBC boards and committees, participation in NWBC events, training, etc., and completion of the Annual Church Profile ("ACP").

3. Any one or more of Borrower's members purchasing participation interests in Borrower's loan of at least 50% of the total loan amount. Minimum participation interests would be the lesser of $50,000 or 10% of the amount of the loan. Loan participations would be made through revocable trusts established by members and managed by Lender, and Lender would be entitled to its standard trust management fee. Loan participations could also be made by members establishing self-directed IRAs and directing, consistent with the above minimum(s), the custodian to purchase the participation interest. GoldStar Trust Company shall serve as custodian of such self-directed IRAs.

4. Borrower establishes a revocable trust with Lender, with a balance equal to or exceeding 25% of the original amount of the loan and pledges the account as additional security for the loan. Withdrawals from the trust will be limited to the portion of the trust exceeding 25% of the outstanding principal balance of the loan during the period of time that the rate reduction is in effect.

Any rate reduction granted by Lender shall be effective only until the Interest Rate is reviewed for adjustment. At that time, any rate reduction(s) will continue only if Borrower continues to be eligible based on one or more of the above criteria.

In addition to the above potential discount(s), a reduction of up to 50 basis points may be applied (upon the concurrence of any 2 or more of the following: the President, the CFO, and/or the Chair of the Church Loan and Finance Committee of the Board of Directors). The purpose of this discretionary discount is to allow flexibility when considering the Church's ability to cover cash flow requirements, collateral liquidation scenarios, and other underwriting matters within the then-current commercial loan environment.

Important: Each loan will be subject to adjustment based on the Anniversary date of the Loan and the selected Index.

- As an example, a 15-year term loan with a selected 5-year Treasury Constant Maturity Index would be subject to adjustment on the 6^{th} and 11^{th} Anniversary dates of the loan.

For Construction Loans, interest shall be paid monthly on the average daily balance.

For other information regarding interest rates, see the attached Interest Rate Addendum.

E. REPAYMENT

1. The Church must be able to demonstrate the ability to meet the loan [minimum] payment from its regular offerings, and this will require the Church's financial statements to show a weighted Debt Service Coverage Ratio of at least 1.25:1 over the most recent three years as follows:

Year (Current to Oldest)	Weight
Year 1	50%
Year 2	30%
Year 3	20%

When a loan application is made during the first six months of a year, "Year 1" will be the last, full year. During the last six months of a year, the numbers from the current year will be used to extrapolate data for that full year, and that will count as "Year 1."

a. In order to ensure the Church's ability to continually meet the Debt Service Coverage Ratio, the Church will be required to furnish to the Foundation an annual Income & Expense statement (also known as a Profit & Loss statement), Asset, Liability, and Net Asset statement (also known as a Balance Sheet), and updated attendance and giving unit numbers within 90 days of the close of its fiscal year each year during the life of the loan. Should the Debt Service Coverage Ratio drop below 1.25:1 during the life of the loan, the Foundation will communicate with the Church and determine an appropriate course of action for each situation.

2. Construction Loans must have a source of repayment evidenced by a WRITTEN commitment from an acceptable credit source. The loan shall not exceed one hundred percent (100%) of the commitment.

3. Loans shall provide for prepayment without penalty.

4. Payment Reserve:

- To protect the Church from unforeseen financial distress during the life of the loan, the Foundation will collect up to 6 months of payment reserves before or at loan funding. The amount collected will be based on the Church's Health Score as determined in Section D.

Church Health Score			Monthly Payment Reserve Requirement
≥		≤	
6	to	10	0
5	to	6	3
1	to	5	6

- Should a Church desire to apply one or more payments from its Payment Reserve to its monthly loan payment obligation (i.e. have at least one month's payment made out of the Payment Reserve account rather than being sent by the Church that month), a Debt Service Coverage Ratio of 1:10 or lower must be reflected in each of the most recent three (3) months of financial statements. If this requirement is met, the Church must submit a Payment Reserve Request packet to the Foundation at least 5 days prior to the next payment due date. This packet must include:

  - Short narrative describing the need for accessing the Church's Payment Reserve account,
  - Copy of signed meeting minutes approving the use of the Payment Reserve account, including the requested number of payments to be utilized by the payment reserve,
  - Most recent 3 months of the Church's financials, including the Profit & Loss Statement and Balance Sheet.

- Funds distributed from the Payment Reserve account must be restored via monthly restoration payments equal to 1/4th of the total monthly loan payment. Restoration payments are due monthly beginning with the first loan payment made by the Church after the Payment Reserve is applied. For example, if a Church's loan payments in January and February were made from its Payment Reserve account and the Church resumes making regular payments in March, then the first restoration payment is due in March. Restoration payments shall continue until the Payment Reserve account is fully restored.

- Any funds remaining in the Payment Reserve account within 6 months of the loan maturity date will be applied to the Church loan balance.

F. LOAN AUTHORITY

1. Loans conforming to this Policy and not exceeding $300,000.00 may be approved by the President and Chief Financial Officer. Any staff approval shall be reported to the Church Loan and Finance Committee and the Board.

2. Loans conforming to this Policy and not exceeding $1,000,000.00 may be approved by the Church Loan and Finance Committee. Any approval by the Committee shall be reported to the Board.

3. All loans exceeding $1,000,000.00 must be approved by the Board.

4. Loans with any provision that does not conform to this Policy and not exceeding $100,000.00 may be approved by the Church Loan and Finance Committee who will report such action to the Board.

5. All other loans with any provision that does not conform to this Policy must be approved by the Board.

G. APPLICATION

Loans shall be made in accordance with the Foundation's Articles of Incorporation. Loans may be extended to the Foundation's partners in the ministry, including, but not limited to, the following: the Southern Baptist Convention and its related entities; other Baptist State Conventions, their churches and related entities; other evangelicals, their churches and related entities; and other qualified charities (an organization described in each of Section 170(b)(1)(A), Section 170(c), Section 2055(a) and Section 2522(a)), so long as the borrower's stated purpose and objective is not otherwise inconsistent with the purpose, objective and interests of the Foundation and is not otherwise inconsistent with the Articles of Incorporation, Bylaws and Policies of the Foundation.

Notwithstanding the allowed extension of loans to other than churches cooperating with NWBC, the Foundation shall afford a preference in all situations concerning applications for loans as well as availability of loan funds to churches cooperating with NWBC.

Loans made to entities other than NWBC affiliated churches shall not exceed seventy-five percent (75%) of available loan funds.

1. All loan applications shall be submitted to the NORTHWEST BAPTIST FOUNDATION, PO Box 822712, Vancouver, WA 98682 or any other address that may be so kept.

2. Applications shall be accompanied by a $2,500 application fee. The application fee shall be applied against the Loan Fee and shall be fully

earned, regardless of the loan amount, except as follows: Should the loan not meet the approval terms and/or the application be denied or withdrawn, 50% of the application fee shall be returned to the Church (with the Foundation keeping the remaining 50% as compensation for its time).

3. If it becomes necessary to call a special meeting of the Church Loan and Finance Committee and/or the Board to consider a loan application, the Church must pay the cost of such meeting. The cost of said meeting, if not otherwise satisfied by the Church, shall be deducted from the loan proceeds. This provision does not apply to videoconference or telephonic meetings.

3. The loan application process may include meeting in person with the Church Loan and Finance Committee or Foundation personnel.

4. Incomplete applications will not be processed.

(The Foundation's current loan application is attached.)

H. LOAN APPROVAL

1. A LOAN APPROVAL NOTICE will be issued following loan approval.

   a. The Notice will be valid for a period of 90 days. The Notice may be extended for an additional 90-day period upon written request by the Church and approval by the Foundation President and/or Chief Financial Officer. The Notice will outline all conditions, obligations, and stipulations for granting the loan.

   b. The Notice will include disclosures outlining the financial implications of selecting a payment option other than a fully amortizing loan. The disclosures also will include an estimate of the balloon payment and the additional interest that will be paid when not selecting a fully amortizing loan.

2. TITLE INSURANCE: The Foundation shall order a mortgagee's title insurance policy issued by a preferred title insurance company, insuring title to its property as a good and marketable title. The Church is responsible for all costs related to obtaining a title policy, and all such amounts shall be paid at or before closing. The

requirement for a title insurance policy may be waived by the Foundation President and/or Chief Financial Officer for loans of $25,000 or less.

3. RECORDING FEES AND OTHER COSTS: The Church shall pay the cost of recording the Deed of Trust and all other loan documents and all other incidental expenses or costs involved in finalizing the loan. Unless otherwise paid, recording fees shall be paid from the proceeds of the loan. The Foundation is responsible for recording the Deed of Trust and other related documents with the county recorder (or at such other office where public records are recorded) in the county in which the Church or property is located and may do so through an agent, such as the title company.

4. INSURANCE

   a. GENERAL: Any collateral must be kept insured. Said insurance must be a minimum of a Form 3 fire policy and extended coverage endorsement provided to the Foundation prior to the closing of the loan. In addition, the Foundation must be listed as an additional insured and mortgagee on the Church liability policy. Said insurance must be with a sum sufficient to protect the loan, with a mortgagee clause attached to the policy, making the loss, if any, payable to the Foundation, as its interest may appear. A certificate of coverage must be provided to the Foundation prior to closing of the loan and annually during the duration of the loan.

   b. FLOOD: The Foundation may, at its discretion, require flood insurance coverage.

   c. SEISMIC: The Foundation may, at its discretion, require seismic coverage.

I. CONSTRUCTION

1. DRAWS

   a. All draw requests (“draws”) must be presented in writing.
   b. All draw requests must state for which invoices the monies will be used.

c. Draws will be granted for actual expenditures, not for anticipated expenses.
d. Draws will be granted in direct proportion to the percentage of building completion.
e. Draws will not be granted unless the Foundation receives an unconditional lien waiver(s) for prior payment and conditional lien waivers for the current payment.
f. The Foundation will have 10 working days (Monday-Friday) after the draw request is received in which to make their inspections and issue an appropriate draw.
g. All draws will be made payable to the Church or the Church and the supplier or subcontractor, as determined by the Foundation.
h. Any exceptions to the provisions of this paragraph shall require the approval of the Church Loan and Finance Committee.

2. INSPECTIONS

a. Periodically during construction, an inspection of the project will be made. Said inspections will determine the percentage of completeness of the project. The inspection will be conducted by Foundation personnel or other assigned person(s) acting as agents of the Foundation.
b. Construction loans shall be assessed an inspection fee of $4,500 for each 12-month period until an Occupancy Permit is obtained. Any unused portion of the inspection fee may be refunded at the discretion of the Foundation.
c. Any exception to the provisions of this paragraph shall require the approval of the Church Loan and Finance Committee.
d. Unused inspection costs may be refunded at the discretion of Foundation staff.

J. ADDITIONAL ITEMS

1. Unless waived, the following items will be required from the applicant:

a. A set of approved plans and specifications (approved by lender and local building department).
b. List of contractor and sub-contractors with addresses and phone numbers.

c. Cost breakdown compiled by contractor or equivalent.
d. Signed construction contract.
e. A specification list of materials to include size, grade, thickness, brand name, type of material, etc.
f. In the event of environmental concerns related to a particular property, the Foundation may require special documentation related to environmental compliance and/or the limitation of environmental liability.

2. Any changes to the approved plans and specifications that increase the approved Construction loan amount will require the Foundation's prior written approval. Change orders that do not increase the cost of the overall project or provide for cost savings do not require Foundation approval.

3. A sponsoring or partner church may be approved to co-sign a loan. All loan terms and requirements shall apply equally to the co-signer.

4. Unless determined otherwise by a site visit, the Foundation may require that the Pastor and at least one layman from the Church meet with the Church Loan and Finance Committee prior to any loan being approved to answer questions the committee might have concerning the loan. In the case of a mission, the mission Pastor and at least one layman along with the Pastor and at least one layman from the sponsoring church may be asked to meet with the Committee. Any costs incurred for transportation, lodging, or meals will be the responsibility of the applicant church or mission.