

PCBC Loan Application/Approval Process

There are a number of applications that you will need to make, and a number of approvals that you will require. If you have a PCBC application form, you might wish to refer to it. It is wise to allow months for the process, so that all approvals have been obtained well before you require the borrowed funds.

Completing the PCBC Application Form

The first step is to obtain a set of the application forms. You will keep one for your own records, a second is for your presbytery, and the third and final form, when completed, is returned to the Presbyterian Church Building Corporation, with certain additional documents.

The additional documents include an appraisal of the market value of the church property. In most cases, this need not be an extensive document. Your particular situation should be discussed with the General Manager before any major costs are incurred. A valid survey of the land will be required. This is a document a congregation should have in any case.

The three pieces of financial information listed in the application are also critical—the comparative balance sheet, comparative income and expense statement and congregational budget. (Note: comparative is for the last two years.)

A fourth document will be required, which is not listed on the application. It is an Environmental Questionnaire. This indicates that to the best of your knowledge there are no environmental hazards on the property (i.e., loose asbestos insulation, or an abandoned fuel oil tank that may have started to leak). If the questionnaire cannot be answered satisfactorily, then a professional environmental assessment may be required.

There follows a note about legal expenses, which will be borne by the congregation. This will mean costs by our lawyer, to prepare draft documentation, and to review the completed documentation to ensure that it is all in order, and a valid first mortgage is held for your property.

By the way, this is a special kind of mortgage, called a collateral mortgage. It is held by the Corporation, and not by the bank which is lending the money. What the bank receives is a photocopy of the mortgage, together with the Corporation's guarantee for the full amount of the loan.

What this means is that in the event you cannot pay the loan, and all possible alternative ways of solving the financial problems have been exhausted, as a last resort, your property will be sold, and the proceeds used to cover the debt. This has yet to happen with any congregation borrowing through the PCBC.

On the second page, your trustees sign a statement indicating that they have the authority of the congregation both to borrow up to a certain amount of money, to sign the mortgage and promissory note on behalf of the congregation, and to pay the legal bills. It also promises that no further borrowing for capital purposes will take place without the written permission of the Corporation.

The trustees sign as what are called “bare” trustees. This means they are assuming no personal liability, but are acting as the hand of the congregation for signing purposes. In order for this to take place, the trustees act only in terms of the resolutions approved by the congregation at duly called congregational meetings.

There is no limit to the number of trustees a congregation may have, but as an unincorporated body, it is required that all trustees sign all documents. It is therefore wise to have a limited number of trustees that you know will be available when documents need to be signed.

There are sample resolutions further on in the application for both electing trustees, if that has not been done, and for authorizing them to take the actions outlined on page two.

By the way, no increase can be made to the amount inserted on page two without the approval of a congregational meeting. However, a lower amount may be borrowed, if the congregation finds it does not require the full amount.

The following pages are for information that you supply. First is information about how you may be contacted, then information on your history and plans for the future. This is followed by financial information about you as a congregation, and about your project.

The last part of the application contains resolutions to be passed by the congregation and presbytery.

The Loan Approval Process

Once the congregation has approved the application, it is forwarded to the presbytery for its review and approval. The presbytery has the right to examine the documents in detail, to ensure that the congregation is not taking on a burden that it cannot support. The requirement for this is found in the Book of Forms.

When the presbytery is satisfied that all is in order, the application and its supporting documents go to the Corporation. The General Manager will prepare an analysis of the loan, and arrange to meet with the representatives of the congregation.

This analysis serves several purposes. It is used by the directors of the PCBC as a means of determining whether or not the loan should be approved, it provides background information for the bank as it considers its approval. It also serves as a tool for the congregation as it prepares its budgets.

The analysis includes descriptive information that the congregation has supplied in the application form, and several spreadsheets. The loan analysis is designed to see if the congregation meets all the required guidelines; and if level of debt contemplated is reasonable, given the resources of the congregation. It also shows what the loan would cost year by year for the congregation to repay within the time limit.

The meeting with the congregation to discuss the analysis is critical. Its purpose is to make certain that the General Manager has accurately described the financial position of the congregation, and has not missed any information that could affect the financial ability of the congregation to service the debt, either positively or negatively. At this point, the analysis can be modified, based on updated information.

When all is in order, the directors of the Corporation meet to consider the application. It may be approved at this point, or further information may be requested.

When the directors are satisfied, they will approve a loan guarantee in favour of the Royal Bank of Canada for a maximum term of 15 years.

Processing the Loan

You will be the first to be notified once the guarantee has been approved. Copies of the analysis are then made and forwarded to two different parties—the Corporation’s lawyer and the Royal Bank.

The Royal Bank does its own independent analysis of the application, through a head office department assigned this responsibility, which approves or declines the funding of the loan.

While this is taking place, the lawyer begins preparing the mortgage documents, the promissory note, and the Corporation’s guarantee to the bank. Much of this is done in consultation with the congregation’s lawyer.

This process can take time, especially if unusual situations are discovered during the title search, such as an undischarged mortgage, a restriction on the property, or a land survey that shows the congregation doesn’t own all the property on which it is situated.

The trustees will be involved at this point, signing the mortgage documents, the promissory note.

Once the signed mortgage and associated documents are returned to our lawyer, copies are forwarded to the Royal Bank, together with the Corporation’s Guarantee for the loan.

The congregation is now in a position to borrow the money approved. This is a good time for the congregation to open an account with a local RBC branch of their choice.

The Borrowing Period

In some rare cases, such as when the congregation was borrowing in order to purchase a building, the full approved amount of the loan has been drawn down at once. In most cases, however, the congregation is about to begin construction, and will not require funds for a number of months, and then not all at once.

When you do require funds, you advise the Royal Bank of the amount needed and the account number of your new RBC account where the requested funds will be deposited.

From the moment you borrow that first amount, interest will be charged, and will be deducted from the same account each month. It is important that you have sufficient funds in this account at all times to cover the anticipated interest charges.

It is fairly easy to calculate what this would be, as you will know how much you have borrowed, what the interest rate is, and the number of days since your last interest payment.

There are two special conditions which apply. The first is that you cannot borrow the same money twice! In other words, while you are borrowing money, don't make any payments on the loan on the expectation that you can later borrow that money again. If you have extra cash on hand, use it for your next invoice from the contractor instead.

The second condition is that you have 12 months from your first draw to borrow all the funds you require. This has proven to be more than enough time for any building program that we have encountered.

Municipal Letters of Credit

It may be that when you apply for your building permit that your municipality will require a site plan agreement. This is an agreement that you will do certain things, and not do certain other things.

What you might be expected to do is landscaping, installing lights and paving a parking area. What you might be expected *not* to do is damage any municipal property, such as curbs, sidewalk or roadway during construction.

To ensure your compliance, you may be required to put up a cash deposit, or more likely a letter of credit. This could be substantial; some have been in excess of \$50,000.00. Often these deposits or letters can be held by the municipality long after the work has been completed, to ensure for example that any landscaping material that doesn't survive the winter is replaced. If you had to use your cash for such a deposit, you would not have it available to pay for the work involved, such as the landscaping.

In order to get around this dilemma, the Royal Bank will consider an application from the congregation to issue letters of credit for a fee.

The Loan Repayment Period

There are two parts to your loan repayment—the interest and the principal.

The interest will be deducted each month from the Royal Bank account you set up for this purpose. It is important that sufficient funds be in the account well ahead of the date on which the bank will deduct it.

The principal is not automatically deducted; you must arrange to pay that separately.

The minimum amount of principal required each year can be found on one of the spreadsheets that was included with the loan analysis that formed part of the meeting between the General Manager and your congregation mentioned above.

If you have not borrowed the full amount, and would like a repayment schedule based on the lesser actual amount, this can be easily arranged.

Your loan is unlike a traditional mortgage in which the interest and principal are blended into one payment. One of the advantages of this is that you can make extra principal payments at any time without incurring a penalty.

During the loan repayment period you will be asked for certain information on an annual basis. One of these items is a list of contact people in your church. This is important, in case we need to contact you quickly with regard to a loan payment.

The Royal Bank provides the Corporation with a monthly update on all the loan balances outstanding. If you wish at any point to confirm how much you owe, your contact is the Corporation rather than the Bank. We do not have a record of how much interest you pay, but this will be easily available from your own bank records.

If you change congregational treasurers, please see that the loan file is passed on to your successor. If you are a new treasurer, and feel you may be missing some documentation, please contact our office, as we keep a duplicate file for each congregation.

Other Sources of Loan Funds

Should your congregation be in the Synod of British Columbia, you would approach the Presbyterian Extension Fund (BC) Ltd. for major capital funding, instead of the PCBC.

Details on how to do so would be available from your Synod staff.