

Loans Policy

1. Preamble

- 1.1 The Lutheran Church of Australia (LCA) gives thanks to God for his provision of resources that supports the advancement of the Objects of the Church.
- 1.2 The Lutheran Laypeople's League of Australia (LLL) has been a significant resource to the Church through its loans, which have served to enhance and expand the activities of schools, aged-care and community care organisations, as well as congregations and parishes.
- 1.3 The Church regards the availability of credit as a wonderful blessing that has enabled new opportunities to be pursued over many years and affirms that this source of funding will continue to support new and exciting opportunities into the future.
- 1.4 This policy seeks to build on this valuable collective and mutually beneficial action by depositors and borrowers in God's mission by affirming the LLL as the Church's preferred provider of loans.
- 1.5 At the same time, the Church commits itself to ensuring that there is an effective framework in place for the provision and management of all loans to minimise the risk of loss and damage to the loan provider, the borrower, the security provider, everyone who benefits from the activities supported by the loans and the Church as a whole.
- 1.6 This policy provides the framework which will help to guide good decision-making and effective process.
- 1.7 This policy, in affirming the LLL as the Church's preferred provider of loans, seeks to strengthen the mutual benefit to the ministries and work of the Church derived by the generosity of the LLL's depositors.
- 1.8 This policy supersedes the existing loans policy and procedures.

2. Scope of policy

- 2.1 This policy applies to all borrowings.

3. Definitions

- 3.1 Loans: for the purposes of this policy a loan includes all types of borrowings and credit facilities.
- 3.2 Risk appetite: the level of risk the Church is willing to accept in pursuing its objects.
- 3.3 Risk tolerance: the level of potential loss the Church is willing to accept after risk treatment.
- 3.4 Church: Lutheran Church of Australia (LCA).

4. Loan providers

- 4.1 The LLL is the Church's preferred provider of loans to its entities.

5. Purpose of loans

- 5.1 The purpose of loans endorsed by the Church shall be for the provision of resources to advance the objects of the Church.

6. Eligibility

- 6.1 Applications for loans may be made by the following eligible church bodies:
 - 6.1.1 congregations, parishes, boards, agencies, service organisations and auxiliaries of the Church or, of a District of the Church; and
 - 6.1.2 the Church or a district of the Church.

7. Loan criteria – purpose (mission and ministry)

- 7.1 Each loan application will need to meet the following criteria to satisfy the Church that the loan is being provided for an eligible purpose:
 - 7.1.1 The loan application must be consistent with the values and objects of the Church.
 - 7.1.2 The loan application must demonstrate how it supports the achievement of the objectives and outcomes of the applicant's mission and ministry plan approved by its governing body and endorsed by the local District Church Council (DCC) or General Church Board (GCB).
 - 7.1.3 The mission and ministry plan must align with the LCA's latest approved Strategic Direction.
 - 7.1.4 The proposal must demonstrate how it is responding to an identified opportunity to advance its mission and ministry and how it is highlighting any innovative features.

8. Loan criteria – viability

- 8.1 Each loan application will need to meet the following criteria to satisfy the Church that the loan can be serviced and risks managed:
 - 8.1.1 The loan application must be supported by a business plan that provides sufficient information commensurate with the size, nature and complexity of the proposal.
 - 8.1.2 The loan application must be supported by a financial plan, including evidence the assumptions on which the financial plan is based are soundly based.
 - 8.1.3 The financial projections must demonstrate that the loan can be repaid in a timeframe commensurate with the nature of the funded activity.
 - 8.1.4 In respect to congregation and parish loan applications, the financial projections required in 8.1.3 must further demonstrate that the repayments will not have a significant impact on financial contributions to the district.
 - 8.1.5 The loan must meet the agreed minimum benchmarks applicable to the type of proposal being considered.
 - 8.1.6 The application must demonstrate that the applicant has adequate management and governance capacity.
 - 8.1.7 The application must include a risk management plan that identifies key risks and risk mitigation strategies.
 - 8.1.8 The application must be for a prospective purpose. Applications for retrospective funding of activities that have already commenced will not be considered unless the GCB allows it because of exceptional circumstances. Retrospective funding does not include applications for re-financing of existing borrowings with another lender.

9. Loan criteria – security and other specific requirements

- 9.1 Each loan application will need to meet the following further criteria to be eligible:
 - 9.1.1 The borrower and security provider must offer sufficient security to meet the requirements of the lender for the term of the loan.
 - 9.1.2 The applicant must be in compliance with relevant LCA policies and standards.
 - 9.1.3 The proposed borrowing must comply with the credit policies of the lender.
- 9.2 Specifically, in respect to each LLL loan application, the following additional criteria apply:
 - 9.2.1 The applicant must be able to provide matching LLL deposits to qualify for a matched loan.
 - 9.2.2 The applicant must be able to comply with the LLL's requirements to be eligible for an unmatched loan.
 - 9.2.3 It must meet any specific requirements of the Capstone Agreement between the LCA and the LLL.

10. Risk framework and debt/borrowing limits

- 10.1 The assessment of loan applications will be considered in accordance with the Church's risk framework, as approved by the GCB. This framework includes two key elements:
 - 10.1.1 a statement of risk appetite which formalises the Church's position on its willingness and capacity to take risk
 - 10.2.2 a process to establish and articulate its risk tolerances, including loan to valuation ratios, interest coverage, global borrowing limits, individual borrower limits and loan concentration limits.
- 10.2 All church bodies will report on their total assets and total liabilities position to the Loan Management Committee (LMC) at least annually or whenever there is a material change to their position.
- 10.3 The GCB will establish a global borrowing limit on an annual basis, based on an agreed procedure. The limit will be set with reference to the LLL and its borrowing limits.
- 10.4 The LMC will take the borrowing limit into account as part of the loan assessment and endorsement process.

11. Loan assessment

- 11.1 There will be robust processes to assess the substance and quality of applications before they are endorsed for submission to the lender. These processes will include:
 - 11.1.1 confirmation that the application has been fully assessed and approved by the relevant governing body/bodies
 - 11.1.2 a determination that all the loan criteria have been met
 - 11.1.3 if necessary, and in cooperation with the lender, advice from external professionals on the application or aspects thereof, with the apportionment of costs negotiated between the applicant, lender and the LMC
 - 11.1.4 a check that the credit request is within the parameters of the risk framework, or that any applications exceeding the benchmarks but recommended for approval is submitted to the relevant approving body
 - 11.1.5 warranties to the lender that any proposed material changes to the substance of the application that has been previously endorsed by the Church will be withdrawn. A new application including the material changes will need to be submitted following the same process outlined above
 - 11.1.6 the GCB will be the approving authority for all loan applications in the Church.

12. Approval delegations

- 12.1 There will be a delegation policy set by the GCB that articulates who may approve the endorsement of loan applications. The policy will provide for:
 - 12.1.1 delegated authority where decisions are within policy
 - 12.1.2 delegated authority where the approval will be outside policy
 - 12.1.3 the GCB delegates to the LMC responsibility for loan management.

13. Loan management

- 13.1 All loans must be subject to a regular performance review that satisfies the Church risk is being well managed and action is taken, as appropriate, in a timely manner. This will include:
 - 13.1.1 regular performance reporting from the borrower, lender and/or governing body, with specific reference to loan arrears and any events that may impact on the capacity of the borrower to meet its obligations as and when they fall due
 - 13.1.2 procedures for the instigation of action to address identified issues such as default, notifications about matters that will materially affect loan repayment or other obligations, and breaches of conditions and, in certain circumstances, trigger intervention to safeguard the position of the Church.

14. Loan Management Committee

- 14.1 The LMC will support the governance oversight of the LCA Loans Policy, operating under a Terms of Reference approved by the GCB.
- 14.2 The key responsibilities of the LMC will be to:
 - 14.2.1 manage the Church's roles and responsibilities under the Capstone Agreement and maintain regular communication with its signatories
 - 14.2.2 serve as the Church's loan application, assessment and endorsement panel, as required
 - 14.2.3 monitor compliance of the LCA Loans Policy
 - 14.2.4 receive reports, notifications and other communications from the borrowers, lenders and/or governing bodies as provided for in the Capstone Agreement and security documents
 - 14.2.5 manage relationships with lenders
 - 14.2.6 report to General Church Council and, as necessary, provide advice and/or recommend changes in respect to the Capstone Agreement, Loans Policy, Loans Risk Framework and other matters.

15. References

LLL credit policies
Other lender credit policies
Capstone Agreement
Guarantee and Indemnity
Memorandum of Common Provisions of Mortgage
Consent to Granting of Mortgage
Mortgage Form
LCA policies

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