



Lutheran Church Extension Fund

> where investments build ministry

Helping Hands In the Lending Process

Critical Information and Steps to the Loan Process at
Lutheran Church Extension Fund (LCEF)

Embracing The Lutheran Church—Missouri Synod

Lutheran Church Extension Fund (LCEF) exists to empower ministries in Kingdom work. Our goal each day is to identify opportunities to share our resources to expand God's kingdom as Christ commanded in the Great Commission. We want more people to hear and believe, be baptized and grow in the Word, and join together in God's saving grace and the gift of eternal life.

LCEF serves only The Lutheran Church—Missouri Synod (LCMS) and its partners in the United States and around the world. Through the dollars invested by more than 50,000 individuals, congregations, schools, organizations and businesses, LCEF offers low-cost loans and ministry support services that help leaders respond to growth and community needs. LCEF also offers loans to rostered church workers—those dedicated servants who are on the front lines of ministry.

We appreciate the volunteers who assemble and forward the items required to complete financing arrangements with LCEF. We recognize that some of the terms and processes used may need clarification and explanation. This booklet provides ministry members the steps and critical information needed to understand our loan process and requirements.

Our goal is to make this process as efficient as possible and help you get back to focusing on putting your ministry's plans in action. Should you have questions or suggestions that will help improve the process, please call your LCEF District Vice President or one of the following Loan Specialists at 800-854-4004:

Angie Ellis, ext. 6530
Pam Ueltzen, ext. 6532
Philicia Meyer, ext. 6491
Kris Fling, ext. 6324
Addison Keel, ext. 6590
Karen Elder, ext. 6354
Jodee Laster, ext. 6619
Lucas Jones, ext. 6481

This booklet is designed to assist you. Because of the unique nature of each ministry and its plans, state statutes, etc., some requirements for your situation may differ and are subject to change. Once a loan is approved, an approval letter outlining the specific requirements for the loan will be issued.

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“So we, though many, are one body in Christ, and individually members one of another. Having gifts that differ according to the grace given to us, let us use them...” – Romans 12:5-6

Your Helping Hands

LCEF strives to make the loan process as easy as possible for the borrower. To the loan committee and ministry contact representative, the following three sets of helping hands can greatly ease the process and lead to a well-developed project. These assistants are your:

- LCEF District Vice President (DVP)
- Architect
- LCEF Loan Specialist

Each has been through the process many times and knows the necessary tasks to meet state laws and ensure fiscal responsibility. This booklet describes the steps in the loan process and the responsibilities of the individuals who will assist during the process. In addition, it provides definitions of the terms used in the process.

LCEF District Vice President

Your ministry members have a vision and are ready to move forward with a building renovation, expansion or new structure. LCEF offers critical support, starting with your LCEF District Vice President. Reach your DVP by calling your district office or LCEF at 800-843-5233. You can expect the following services:

- If you and your members need assistance clarifying plans and confirming the purpose God has intended for your ministry, your District Vice President will help arrange for a Ministry Clarity experience. LCEF’s demographic services can provide valuable information as you seek to connect to your community and plan for your outreach and building project.
- Certainly, funding will come from several sources, and your District Vice President will assist you in determining the mix of raising funds through a capital campaign with Ministry Solutions and an LCEF loan.
- Your District Vice President will meet with you to begin gathering information regarding strategic plans for the project. The timetable and initial plans for the project will be reviewed, including a preliminary budget estimate of the project.
- Your District Vice President will meet with you as needed to review completed application, financials and discuss loan procedures. This will include a discussion of the sections that are applicable to your loan, along with a review of loan guidelines and requirements relating to the loan.

Although this list of duties occurs early in the loan process, your District Vice President remains your primary set of “helping hands.” If any problems arise, particularly as the loan itself is being processed, again, he or she will be there to guide and advise you.

Architect

The architect’s responsibilities can vary a great deal depending on the project scope. Be sure the architect’s basic and additional services are clearly defined in your contract for professional services. It is recommended that standard American Institute of Architects (AIA) contracts and forms be used throughout the project.

LCEF requires borrowers retain an architect to certify applications and Certificates for Payment as a disinterested third party with the expertise needed to ensure that the work completed is accurate and performed according to the blueprints, plans and specifications.

Architectural Services

Your architect will provide valuable resources to your organization throughout the construction project, from concept through dedication. The services that the architect provides for each phase are unique and significant to bring your project to completion on time and on budget.

Nothing is more important than prompt, open communications. Only then can you receive the service you desire.

LCEF Loan Specialist

A Loan Specialist will assist you from loan approval to funding.

The duties are as follows:

- A Loan Specialist of the Approval/Post Close Team will:
 - a. Notify the ministry’s contact person of the district loan approval. Provide an approval letter, loan terms and requests, details of the project and any unique requirements in the borrower’s state.
 - b. Order and review the Articles of Incorporation of the borrower along with the Constitution and Bylaws to prepare the necessary corporate resolutions.
- A Loan Specialist of the Commitment/Escrow Team will:
 - a. Coordinate the order for title insurance through a local title insurance agent/attorney.
 - b. Assist the borrower with meeting all loan requirements, defined in the approved loan letter.
 - c. Assists the borrower in tracking and disbursing the construction loan dollars and congregation’s building fund dollars.
 - d. All draw requests are reviewed by the Loan Specialist and checks are issued along with Unconditional Lien Waivers and Releases to each subcontractor and supplier, as needed.

- A Loan Specialist of the Closing/Disbursing Team will:
 - a. Prepare the loan documentation and corresponding support documents to be forwarded to the title company (loan documents are prepared once all loan requirements are satisfied).
 - b. Upon completion of the project and receipt of the appropriate occupancy permit, the Loan Specialist prepares the conversion documentation to be signed by the borrower and the final loan disbursement is made.

Any questions or concerns about the loan process after the loan has been approved by the district should be directed to your Loan Specialist. An LCEF Loan Specialist is ready to serve you in every possible way and works in conjunction with your District Vice President to help resolve concerns, should they arise.



Questions and Answers

Requirements for Construction and Permanent Loans

Q: What is the usual process for a permanent loan?

A: After the loan application has been approved and upon receipt of the required items from the borrower and title company, LCEF—in consultation with the borrower and title company—will schedule a loan closing date and prepare the necessary closing documents.

Articles of Incorporation

Q: What are the Articles of Incorporation and why does LCEF need a certified copy?

A: The Articles of Incorporation is a legal document filed with the state or county that establishes the borrower as an incorporated entity and identifies, the governing body/bodies, legal name, terms of existence, borrowing limitations and other pertinent information regarding the corporate structure. In most instances, LCEF obtains this document on behalf of the borrower and this certification verifies that the document is a true and current copy of the filed Articles of Incorporation. Also, the title company issuing the title insurance policy will require a certified copy.

Constitution and Bylaws

Q: What are the Constitution and Bylaws and why does LCEF require a certified copy?

A: These documents describe in detail the structure of the corporation, the responsibilities and duties of the officers and boards, membership, etc. This document will be examined to identify the governing body/bodies authorized to borrow money and mortgage the property, and identify the person(s) authorized to sign legal documents on behalf of the corporation. A certified copy of the borrower's Constitution and Bylaws should be given to the District Vice President at the time of application.

Resolutions

Q: What are resolutions and why are they necessary?

A: Resolutions are how a corporate entity officially expresses its will or intentions and are needed to give assurance and direction to the lender and title company of the official acts of the borrower. LCEF will prepare the resolutions for approval by the borrower.

Fire, Extended Coverage and Builder's Risk Insurance

Q: What is Fire and Extended Coverage and Builder's Risk Insurance and does LCEF require the insurance to be written by a certain company?

A: Fire and Extended Coverage Insurance insures existing improvements against loss from fire, theft, storms, vandalism, etc. Builder's Risk Insurance provides basic coverage in the event of loss during construction or renovation/remodeling. Both types of insurance must be written in at least the amount of the loan or the value of the improvements, whichever is greater. The company must have a B++ or better rating by the A.M. Best Rating Company. The borrower is insured as the owner of the property with LCEF named as the mortgagee, as follows:

Lutheran Church Extension Fund–Missouri Synod

ISAOA/ATIMA

PO Box 229009

St. Louis, MO 63122-9009

Flood Zone Certification

Q: What is a Flood Zone Certification (FZC) and who orders this?

A: A certification indicating whether a property is located in a flood plain. LCEF will order this on behalf of the borrower. If the FZC indicates the property is located in a flood zone, the borrower will be required to purchase flood insurance from the insurance agency providing Fire and Extended Coverage Insurance.

Property Valuation

Q: What types of property valuation does LCEF accept?

A: Below are the three types of property valuations that LCEF may require:

- Appraisal Report—the most complete report available, containing details on comparable data, area and market analysis, etc.
- Restricted Appraisal Report—contains a documented narrative or multi-page form with explanation of the appraisal procedure and data used in the valuation.
- Broker's Price Opinion (BPO)—this report includes neighborhood analysis of the property, comps (comparable properties) and local as well as regional market information.

Title Insurance Policy

Q: What type of mortgagee title insurance policy does LCEF require and why is it required?

A: A title insurance policy is a contract with a title insurance company to provide coverage for lenders who use real property as security for their loans. American Land Title Association (ALTA) Extended Coverage Policy is required, which insures that LCEF has a valid, enforceable first mortgage. This title commitment contains a list of the title company's requirements and exceptions on the property, which must be eliminated or insured prior to loan closing. LCEF uses this commitment to prepare the documents needed for the loan closing. If the borrower wishes, LCEF can place an order for this through any title insurance company and is usually issued within days following receipt of the legal description.

Survey

Q: When is the survey to be completed and what type of survey is required for survey coverage?

A: A survey is a boundary measurement of a parcel of real property. The title insurance company may give survey coverage only upon receipt of an acceptable survey. (Please contact LCEF before ordering a survey.) An ALTA survey prepared by a registered or licensed surveyor (an architect can make a referral, if the borrower needs a surveyor) with a current date must be furnished and it must:

- Establish the exterior boundaries and acreage to the nearest hundredth acre.
- Spot any encroachments of any structure or fences and any improvements on the property.
- Spot all existing utility services, ditches, waterways, roadways, paths and any and all easements or rights-of-way.
- Establish any public roadway adjoining the property.
- Contain the legal description and be certified to the borrower, LCEF and the title insurance company.

Q: Does the survey need to be updated and recertified when the new construction's foundation footings are put in place?

A: Yes. The new foundation footings must be located on the survey which must then be recertified by the surveyor and provided to both LCEF and the title insurance company.

Note: If the borrower can locate an earlier survey, it could be cost and time effective to use the same company/surveyor.

Loan Closing

Q: What is a loan closing and where is it held?

A: A loan closing is the final procedure in the process where the loan is completed by the execution of documents. LCEF and the borrower together establish a mutually agreed upon date, normally 10 business days from the date of receipt of all requirements by LCEF. Closings are generally handled by the title insurance company at its office; however, in some cases, it may be handled by an independent escrow company or an attorney.

Closing Documents

Certificate of Incumbency

This document verifies that as of the day of closing, the Articles of Incorporation and Constitution and Bylaws are true and valid with no changes and that the resolutions approved by the governing body/bodies of the corporation are still valid.

Construction/Permanent Promissory Note (the “Note”)

The Note is a contractual, legally binding agreement between the borrower and LCEF. It defines the terms of the loan (amount, payments, interest rate, maturity date) along with other provisions such as late charges, default measures, collateral, etc.

Mortgage or Deed of Trust

A Mortgage or Deed of Trust is the document by which real property becomes security (collateral) for a loan. The borrower gives LCEF a security interest in the property. It is signed by the authorized signers of the borrowing corporation and then placed of record with the county recorder.

Settlement Statement

The Settlement Statement lists fees and charges associated with the loan. It also shows interest due on an existing loan that is being refinanced and the final amount of the loan to the borrower.

Additional Requirements for Construction Loans

Q: What is the usual process for a construction loan?

A: The entire process usually takes three to six months, although it has been as short as two weeks. Your LCEF Loan Specialist will be ready and willing to help with each step. In addition to the requirements for a permanent loan, the following items also must be submitted to LCEF prior to setting a loan closing date:

- Builder's Risk Insurance
- Contract(s) and change orders
- Performance and payment bonds (if required)
- Project budget statement

Upon receipt of these additional items, LCEF will schedule a loan closing date and prepare the necessary closing documents. Prior to the first disbursement of funds, LCEF must be provided the following:

- Title insurance policy
- Fully executed and recorded Mortgage/Deed of Trust
- Executed Certificate of Incumbency, Construction/Permanent Promissory Note and Construction to Permanent Loan Agreement
- Building fund dollars (*see explanation below*)
- Owner's Statement (if required)
- Contractor's Statement

For each disbursement, LCEF must be provided the following:

- Fully executed Application and Certificate for Payment
- Invoices and unconditional lien waivers

Before the second disbursement or after the foundation footings are in place, the borrower must obtain an updated survey to be presented to the title insurance company for the issuance of a foundation endorsement. Once construction is complete and LCEF has received a copy of the Occupancy Permit, a permanent loan closing date will be established and LCEF will prepare the conversion documents to be executed by the borrower.



Building Fund Dollars

Q: What are building fund dollars and when are they to be used?

A: Building fund dollars are monies pledged and collected by the borrower for the construction project to be deposited into an LCEF Loan Escrow Account under the borrower's name. These dollars are to be used **before** any loan dollars. LCEF's Loan Specialist will be authorized to withdraw funds from the borrower's Escrow Account to be disbursed in the same manner loan dollars are disbursed.

Contract

Q: What is a contract and who must sign this contract?

A: A contract is a legally binding agreement between the borrower and the general contractor or subcontractors. It details the labor and materials to be provided by the contractor or subcontractor for the construction project. The borrower and the contractor must sign all contracts and the contracts must be submitted to LCEF prior to loan closing to ensure the entire construction project can be funded by the building fund dollars and approved loan dollars. LCEF requires a guaranteed maximum cost or stipulated sum contract (it is preferable to use the standard AIA guaranteed maximum cost contract). The contract must allow for retainage (*see explanation below*) and change orders should be approved by LCEF before execution to be certain there will be sufficient funds for the payment of all invoices.

Retainage

Q: What is a retainage and when is it released?

A: Retainage is an amount withheld from each payment due to contractors and subcontractors until the project is complete. This ensures completion of the project and payment by the general contractor to all subcontractors and suppliers. Retainage is released upon total completion of the construction project, receipt of an Occupancy Permit, full insurance binder, final title insurance update, all Final Unconditional Lien Waivers and the construction loan is converted to a permanent. In those instances where the borrower acts as its own general contractor, LCEF will consider the release of retainage on certain subcontractors earlier in the project.

Each construction contract must provide retainage in accordance with one of the following methods (unless otherwise specified by state statute):

- 10% of each disbursement
- 5% of each disbursement
- 10% of each disbursement through 50% completion of the total contract amount, with no additional retainage thereafter.

Performance and Payment Bonds (if required)

Q: What are performance and payment bonds, who furnishes these bonds and who is insured under the bonds?

A: A performance bond ensures that the contractor(s) will complete the project and all subcontractor and suppliers will be paid. A payment bond ensures that the payment will be made to all subcontractors and material suppliers. The bonding company is responsible for providing monetary restitution so the project can be completed without placing additional financial responsibility on the borrower. The general contractor (or in some cases, each subcontractor) obtains performance and payment bonds in the amount of the contract(s). All bonds must name the borrower as “owner” and LCEF as “co-obligee.”

Note: Bonding is not required, but LCEF reserves the right to require a bond(s) if circumstances warrant.

Project Budget Statement

Q: What is the Project Budget Statement?

A: This document details the cost of the entire construction project, providing a financial overview of the project and verifying that funds are available (building fund dollars and loan dollars) to complete the construction project. It is furnished to the borrower as an enclosure to the Approval Letter. It is to be completed by the borrower after all contracts have been signed and submitted to LCEF prior to loan closing.

Pre-Start

Q: Why does LCEF require that there be no commencement of construction before the loan closing?

A: The commencement of a construction project prior to the recording of the Mortgage/Deed of Trust is referred to as a pre-start. In certain states, Mechanic’s and Materialmen’s Liens (*see page 15 for definition*) would take priority to the Mortgage/Deed of Trust in the event a pre-start takes place prior to the recording of LCEF’s Mortgage/Deed of Trust.

Construction to Permanent Loan Agreement

Q: Why does LCEF require a construction loan agreement?

A: The agreement is required to outline the provisions under which both parties are legally bound to perform. It lists the required documents and instructions for completing them when disbursements are required.

Escrow Disbursing and Procedures

Q: What is escrow disbursing and what are the requirements and procedures?

A: Escrow disbursing is a service provided by LCEF to the borrower to assist in the construction project. An LCEF Loan Specialist collects documentation to establish an account for the purpose of tracking and disbursing the construction loan dollars and building fund dollars throughout the building project. The borrower is required to submit an application and Certificate for Payment to the Loan Specialist along with any invoices and unconditional lien waivers for review and audit. The Loan Specialist will obtain a clear update to the lender's title insurance policy and then issue payment to the general contractor and suppliers.

Owner's Statement

Q: What is an Owner's Statement?

A: This form will be supplied to the borrower by LCEF in advance of the first disbursement *in the states that require such a statement*. It will need to be completed by the borrower and signed in the presence of a Notary Public reflecting the names, addresses and costs of companies providing services relevant to the construction project (architectural firms, engineers, surveyors, etc.).

Contractor's Statement

Q: What is a Contractor's Statement?

A: This statement is completed by the general contractor and signed in the presence of a Notary Public reflecting the names and addresses of all subcontractors and suppliers, what they are providing, the kind of work and/or materials supplied and the total amount of their contract or purchase order. This form will be required with each request for payment.

Application and Certificate for Payment

Q: What is an Application and Certificate for Payment?

A: An Application and Certificate for Payment is a two-page form designed by the AIA (form G702™) to be used when requesting payment on a construction project. (See aia.org for details.) The form is supplied and completed by the contractor and signed in the presence of a Notary Public and submitted to the architect for certification. Upon completion, any authorized representative of the borrower must evidence approval by signature with the word "approved" and the date on the face of each application. Once the application is complete, it should be sent to LCEF for processing.

Unconditional Lien Waivers

Q: What is an Unconditional Lien Waiver?

A: An Unconditional Lien Waiver is a document signed by the general contractor, subcontractors and/or suppliers relinquishing their right to claim a lien against real property. This document is required from all parties performing work and/or providing materials for a construction project as it progresses. The general contractor is required to collect Unconditional Lien Waivers from each subcontractor and supplier including partial payments. The borrower is required to collect Unconditional Lien Waivers for any ancillary/miscellaneous payments made. All Unconditional Lien Waivers are to be submitted to LCEF with each application and Certificate for Payment.

Mechanic's and Materialmen's Liens

Q: What is a Mechanic's and Materialmen's Lien and why is it required?

A: This type of lien is a legal right to claim, hold or encumber property to satisfy a debt or obligation. This coverage is required to protect LCEF against loss if Mechanic's and Materialmen's Liens are filed and gain priority over LCEF's mortgage lien. Title companies' typical requirements include: no construction pre-start; financial statements of both the borrower and the general contractor; indemnity agreements to be executed by both the borrower and the general contractor; and an owner's affidavit to be executed by the borrower.

Foundation Endorsement

Q: What is a Foundation Endorsement and when is it required?

A: The title insurance company issues this endorsement to LCEF upon receipt from the borrower of the updated and recertified survey reflecting the new footings and foundations. This is an endorsement to the lender's title insurance policy ensuring that the improvements do not encroach upon adjoining lands, easements, rights of way or violate existing covenants, conditions and restrictions. LCEF will make one construction loan advance before receipt of the Foundation Endorsement.

Construction Inspections

Q: What is a construction inspection?

A: A construction inspection is issued by a third-party service provider to confirm that budgeted items that are disbursed by LCEF are on-site, in process, or completed as expected, to ensure that construction is proceeding on schedule and within budget. Construction inspections may be required depending on the scope of the project.

Occupancy Permit

Q: What is an Occupancy Permit?

A: An Occupancy Permit is a certificate issued by the county or city official giving approval for use of the facility and a copy of the permit is to be sent to LCEF. LCEF will then prepare the documentation for the final disbursement and conversion to a Permanent loan.



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