

DIOCESE OF DALLAS

POLICIES AND PROCEDURES FOR FINANCING

Summary

“Entity” means any diocesan entity (parish, parochial school, diocesan high school, seminary, Catholic Charities of Dallas, Inc., St. Joseph’s Residence, Inc., Texas Catholic Newspaper, Calvary Hill Cemetery, etc.).

If an Entity must borrow funds to finance a construction project (or for any other reason), the Entity must obtain Diocesan approval by following these Financing Policies and Procedures. Those policies are very specific as to process, data submissions, reviews, parameters for how much cash must be raised, the maximum allowable loan amount and specific loan document requirements. **No construction contracts can be signed until the necessary financing is in place.**

These policies and procedures are to help ensure that the Entity is borrowing within its financial means and its needs and to offer whatever assistance the approval committees and persons can provide, based on their financing experiences over the years within and outside of the Diocese.

All requirements and processes must be coordinated through the Diocesan CFO (the “Diocese” herein).

A summary of the requirements is:

1. The Entity writes a letter to the Bishop that requests permission to borrow, outlining the rationale, preliminary/expected terms, funding, and financing. (This is usually done in connection with beginning the review and approval process for a construction project. Please see the separate Diocesan policies and procedures for construction and renovation projects.)
2. Preliminary meeting with Diocesan CFO.
3. Bishop’s response to 1.
4. Entity negotiates terms with lender(s). (For financings in excess of \$1,000,000 it is required that written, detailed Request for Proposals be submitted to several lenders.)
5. The lender’s commitment letter must be signed by the Bishop and by the Entity.
6. Meet with Diocese to review financing proposal at least two (2) weeks prior to Financing Committee meeting.
7. Arrange for required presentation to the diocesan Financing Committee (not Finance Council) through the Diocese. Required financial data must be submitted to the Diocese at least three (3) weeks (21 days) before Financing Committee meeting.
8. All loan document drafts, including all exhibits, must be submitted to the Diocese for Diocesan review and Diocesan legal counsel review.
9. All loan documents must be signed by the Bishop and the Entity.

Procedures

The Entity initiates the financing process with its letter to the Bishop (with a copy to the Diocesan CFO), usually in concert with such requirements under Diocesan Policies and Procedures for Construction. That letter should request permission to start the financing process discussed herein. A very preliminary meeting with the Entity and the Diocese will be held before any action is taken on the request.

In addition to any Committee reviews required under the Diocesan Construction Policies and Procedures, the Entity's financing proposal must be reviewed by the diocesan Financing Committee prior to the Bishop's formal approval. If the financing is in excess of \$750,000, the financing must also be reviewed by the Diocesan Finance Council and the College of Consultors and their consent obtained by the Bishop prior to his formal approval. These reviews of the financing for the project do not modify the reviews required by the Construction Policies and Procedures.

In order to seek approval to borrow funds, the following parameters must be met. Regardless of any parameters, the Entity must demonstrate to the Diocese and to a lender that the Entity has the resources to repay the proposed debt in accordance with the proposed terms.

1. The proposed general financing plans and estimated project costs must be submitted to the Diocese for review and approval at least 5 weeks (35 days) prior to the required meeting with the Financing Committee. The financing review and approval process below must be completed prior to finalization of construction documents.
2. The Entity must have at least 50% of the project's total aggregate project cost available in the form of collected cash before any financing proposal will be considered. Credit toward the Entity's cash requirement will likely be given for funds already recently spent on architects, land, engineering, etc. The amount of the proposed financing will also be reviewed in relation to the Entity's annual income and ability to repay the proposed loan.
3. The funds dedicated to the project must be invested in Funds on Deposit at the Diocese or treasury securities or bank certificates of deposit or commercial money market accounts until disbursement. All of the funds dedicated to the project and the earnings on those funds are to be used for the project.
4. All funds received from any source for construction of the project must be segregated and accounted for as restricted trust funds and shall be used only for purposes associated with construction of the project. These funds may not be used for any other purpose, such as payment of general operating expenses of the Entity.
5. The Entity must have a satisfactory credit history with its vendors, including the Diocese. The Entity must have a satisfactory credit history for all obligations to the Diocese, including successful Annual Appeal campaigns, reporting and payments of assessments, payment of all Pastoral Center invoices and charges, etc.
6. The loan note and deed of trust (mortgage) must include the non-recourse language included hereafter in this policy (i.e. repayment must be restricted to the assets of the Entity).
7. The construction loan should be a floating rate interest only loan.

8. If the term of the post-construction loan is more than 2 years, it must provide for a fixed rate of interest or an adequate interest rate cap facility must be included. Prepayment penalties are not allowed. In order to minimize the need for refinancing, the term of the loan should match the projected repayment period, but cannot exceed fifteen (15) years.
9. The Entity must submit the following financial data to the Diocese for subsequent submittal to the Diocesan Financing Committee, along with the specific financing plans:
 - a. A brief project description, limited to one page.
 - b. A summary of estimated project costs and project costs paid to date, as of a date within 60 days of the request, in the Excel format required by the Diocese. (Request from Diocesan CFO.)
 - c. Entity balance sheets, in the Excel format required by the Diocese, as of a date within 60 days of the request and as of the end of the prior three fiscal years (June 30). The interim balance sheet must be updated monthly until the transaction is closed or terminated. The balance sheets must include all assets including savings, endowment funds, trusts, etc. (Request from Diocesan CFO.)
 - d. Entity statements of revenues, expenses and cash flows (including pledge collections, capital expenditures and debt principal payments) in comparative columnar form (and separately for the parochial school, if there is one) and in the Excel format required by the Diocese (Request from Diocesan CFO), for each of the four most recent fiscal years and for the current year-to-date. The interim statement must be updated monthly until the transaction is closed or terminated.
 - e. In comparative columnar form on the same spreadsheet as d., a forecast of revenues and expenses and cash flows (including pledge collections, capital expenditures and principal/interest payments) for the full current fiscal year (the budget), for the subsequent 4 fiscal years, along with a separate listing of the major assumptions utilized in the forecasts. This analysis must demonstrate the ability of the Entity to meet all of its ordinary operating expenses as well as repayment of the borrowing during such period.
 - f. As of the date of the interim balance sheet in c. above, a current list of all cash, investments, savings, endowment and other funds showing balances, donor imposed restrictions, if any, and how the funds are being used.
 - g. If applicable, a summary of all written pledges (gross, collections reserve, collections to-date and remaining balance) that ties to the analysis in d. above.
 - h. An analysis of monthly cash flow during construction, in the Excel format required by the Diocese (Request from Diocesan CFO).
 - i. A term sheet (estimated or actual) outlining the terms and conditions of the proposed financing:
 - Lender or potential lender(s)
 - Principal amount
 - Rate structure for construction loan and for the term loan

Repayment terms (maximum allowable term is 15 years after construction)
Collateral (must have non-recourse language)

If the post-construction interest rate is not a fixed rate, an adequate interest rate cap facility must be included, unless the term is two (2) years or less.

The electronic Excel version format of the data required above must be obtained from the CFO of the Diocese. Other data may be requested by the CFO and/or the Financing Committee.

All of the above data must be submitted to the Diocese at least three (3) weeks (21 days) prior to the Financing Committee meeting.

The appropriate Entity administrative head and business manager must meet with the Diocese at least two (2) weeks prior to the Financing Committee meeting in order to review the specifics of the proposal and to prepare a summary for the Financing Committee.

The Financing Committee will make its recommendation to the Bishop as soon as practical after its meeting. Thereafter all draft loan and closing documents must be reviewed by the Diocese and Diocesan legal counsel.

The Entity will have to pay the fees for the reviews of contracts and loan documents by Diocesan legal counsel.

Minimum Requirements for Loan Documents

The following requirements apply to loan documents for all Diocesan Entity financings. These provisions have been routinely accepted by lenders that do financing for Diocesan Entities.

1. All Parish loans must include the following non-recourse language in the note and in the Deed of Trust:

“Notwithstanding anything contained in the Note or in the Deed of Trust or any of the other loan documents executed in connection herewith (collectively, the "Loan Documents"), the Lender agrees that the indebtedness evidenced by this Note or any other sums owing under any of the other Loan Documents and the performance of Borrower's other obligations under the Loan Documents, is and shall be non-recourse to the Borrower. The Lender agrees to look solely to the specific assets of _____ Parish, (the "Parish") granted as collateral for the Note, and not to the general assets of the Borrower unless otherwise encumbered by the Loan Documents, for satisfaction of any obligations or indebtedness owing under the Loan Documents. The liability of the Borrower for payment of the principal of the Note and accrued interest thereon and for payment of all other indebtedness and sums evidenced by the Note and the other Loan Documents and the performance of Borrower's other obligations under the Loan Documents shall be limited to the real property and other collateral given to secure the Note in the Deed of Trust and in any of the other Loan Documents, and neither Borrower nor any principals of Borrower shall have any general personal liability for the payment of such sums or the performance of such other obligations. The Lender shall look solely to the collateral encumbered by the Deed of Trust and the other Loan Documents for the satisfaction

of the Borrower's obligations hereunder and under the other Loan Documents, and the Lender shall neither seek nor take any deficiency judgment or other monetary judgment against the Borrower, any general assets of the Borrower, or any of the principals of the Borrower."

2. The correct name of the Borrower is (use all caps):
 - a. For all loans to parishes/parochial schools-
MOST REVEREND KEVIN J. FARRELL, D.D., BISHOP OF THE
ROMAN CATHOLIC DIOCESE OF DALLAS, AND HIS
SUCCESSORS IN OFFICE, FOR THE EXCLUSIVE BENEFIT OF
[NAME OF PARISH].
 - b. For loans to other Entities –
the legal name of the entity.
3. The Entity and the Bishop must be signatories on behalf of the Borrower.
4. Delete any language that would result in the note being a Demand Note.
5. Loan documents should omit any reference to Guarantors or sureties unless there is a specific guarantor.
6. Loan documents should contain at least a ten day notice to the Borrower and an appropriate opportunity to cure for any default.
7. Delete any broad "insecurity" provisions that define an act of default or requiring acceleration of the loan such as:
 - "Lender believes itself insecure"*
 - "Lender believes the prospect of payment or performance of the indebtedness is impaired"*
 - "The occurrence of a Material Adverse Event"*
8. Collateral should exclude trust funds. The following language should be inserted in the paragraphs defining collateral in Security Agreements and Deeds of Trust:
"Notwithstanding anything herein to the contrary, it is acknowledged that the collateral and the security interest granted by the Loan Documents shall not include any donor-restricted funds held in trust and so identified by the Borrower in writing in advance, excepting only donor-restricted funds for the project being financed."
9. Collateral should exclude Sacred Objects. The following language should be inserted in the paragraphs defining collateral in Security Agreements and Deeds of Trust:

"Notwithstanding anything to the contrary herein, it is acknowledged that the collateral and the security interest granted by the Loan Documents shall not include Sacred Objects of the [Entity Name] as governed by the Code of Canon Law of the Roman Catholic Church."

"Sacred Objects" means (i) objects, relics or images which are designated for divine worship by dedication or blessing, venerated as holy

or which are honored with reverence or veneration (including, without limitation, any altars, tabernacles, baptismal fonts, crucifixes, stations of the cross, vestments, ambo, vessels, statues, images, religious art, stained glass, oils, and objects used in rituals such as incensors, chalices and ciboria), (ii) a part of the body of a servant of God whom the authority of the Roman Catholic Church has recorded in the list of the saints, or an object or relic supposedly used by or associated with any such person, and (iii) any other item which is afforded reverence or veneration by the Code of Canon Law of the Roman Catholic Church.

10. Delete any waiver of the right of jury trial.
11. Delete any arbitration clause. Non binding mediation is acceptable and encouraged.
12. No prepayment penalty.

PARISH APPROVAL LETTER TEMPLATE
[On Parish Letterhead]

[Date]

Most Reverend Kevin J. Farrell
Bishop
Roman Catholic Diocese of Dallas
P.O. Box 109507
Dallas, TX 75219

Dear Bishop Farrell:

This letter confirms that the undersigned, being all members of the Parish Finance Committee, have given their consent to the Pastor's approval of the proposed financing of [describe project briefly], in accordance with the terms in the attached Exhibit A [describe financing terms and project, its costs, etc. in more detail; attach lender term sheet if available]

[Pastor and Each Finance Committee Member should sign]

[Pastor's signature block]

Enclosure: Exhibit A

Finance Committee consent:

Typed name of member

[Add as many signers as necessary]

Typed name of member

Typed name of member