

DIOCESE OF THE SOUTH

DEPOSITS & MANAGED DEBT PROGRAM (DMDP) OVERVIEW

The Diocese of the South maintains a cooperative deposits and managed debt program (DMDP), in trust for Diocesan entities, to manage deposits of medium to long term funds, to issue loans for construction projects and property acquisition to participating members, and to assist members with debt service in the first years following a construction project or property acquisition.

DEPOSITS

The interest rate on savings accounts is variable and may be changed at any time at the Bishop's discretion. Interest earned on savings accounts held with the Diocese is excludable from a parish's income for calculation of the Diocesan tithe.

Parishes wishing to enter or already participating in the managed debt program must be depositing their building/acquisition fund income and excess operating funds with the Diocese. This includes income from capital campaigns and from designated building fund donations.

Parishes should keep the Diocese informed about their expected timeline for withdrawing these funds. Withdrawals totaling less than \$20,000 will be issued within approximately one week after the withdrawal request is received and approved by the Diocesan accounting office. Withdrawals totaling more than \$20,000 must be approved by the Bishop, or the Administrator or Chancellor on his behalf, prior to issuance, and the amount may be issued by the Diocese in installments in order to facilitate the Diocese's cash flow needs. Thus, parishes anticipating withdrawing large amounts should plan ahead and begin discussing the timing of the withdrawal with the Diocese as early as possible.

Parishes depositing funds for an upcoming property acquisition or building construction typically deposit large amounts, and they should keep the Diocesan accounting office informed about the expected timing for withdrawal of these funds. The accounting office will work with the parish to ensure that funds are withdrawn on a schedule that meets the needs of both the parish and the Diocese. For example, when a parish is approximately 3 to 6 months out from needing to fund the project, the accounting office may instruct the parish to stop depositing with the Diocese and then will begin returning the parish's funds in installments.

MANAGED DEBT PROGRAM

Managed Loans

The Managed Debt Program (MDP) is a program in which the DOS agrees to pay a parish or mission's mortgage payments. In return the parish or mission remits approved monthly MDP payments to the DOS. Note that the church's underlying obligation to the debtholder is not changed nor does the Diocese incur a legal obligation for payment of the debt solely by virtue of this arrangement.

As a general guideline, parishes entering the MDP should be capable of remitting 25% of their general fund income plus the usual tithe (10%). Each parish's circumstances are evaluated individually, though, and different payment arrangements may be negotiated when appropriate. The payment arrangement must be approved by the Bishop, or by the Chancellor or Administrator on his behalf. Payment arrangements will be reevaluated periodically to determine if modifications should be made.

Mortgage payments made by the Diocese in excess of a parish's MDP payments to the Diocese are recorded by the Diocese as a direct loan to that parish. (For example, if the Diocese pays a parish's monthly mortgage payment of \$1,500, and the parish only remits \$1,200 in loan payment that month, then \$300 will be recorded as a loan to that parish.) These loans to parishes currently are made on an interest-free basis.

The Diocese may, at its discretion, choose to make extra discretionary payments to the creditors of parishes' managed loans. This does not relieve the parish of liability for the loan. Such payment by the Diocese constitutes a partial debt refinance and the church's direct loan balance is therefore increased by like amount.

Direct Loans

The Diocese makes direct loans to parishes for major projects and acquisitions from time to time when it has cash available. The Diocese will establish a loan payment schedule with each parish. The payment schedule must be approved by the Bishop and may be reevaluated periodically as needed.

Direct loans are the only type in which the Diocese is the principal debtholder of the parish. They may be made by the Diocese for a variety of purposes that fall into the broad categories of budget support and property improvements/acquisition. Most are refinances of other creditor debt but the Diocese has provided primary funding for several lower cost property acquisitions.

For all managed loans, including managed church friendly loans, any shortfalls between a parish's loan payments to the Diocese and the payments made by the Diocese to the MDP creditor are recorded as direct loans. Direct loans may also be extended to cover building cost overruns or fill the gap between project cost and bank funding shortfalls.

Direct loans are generally subordinated to the managed loans. However, parishes with both direct and managed loans that wish to pay off debt early must obtain approval from the Bishop, or Chancellor or Administrator on his behalf, for the allocation of the pay off between the direct and managed loans.

Tithe-Based Loan Assistance Program (Formerly Called "Tithe Credits")

To assist parishes financially in the first few years following a property acquisition or building construction, the Diocese currently offers a tithe-based loan assistance program to parishes with direct and/or managed loans that are unable to cover their full monthly loan payment. In this program, the Diocese credits a parish's loan each month based on the amount of its tithe paid that month. A parish may use this to reduce the monthly MDP payment it is required to make to the Diocese. The Diocese hopes that this will allow parishes to "grow into" being able to cover 100% of their loan payments.

The Diocese is implementing a time limit on the tithe-based assistance program as of July 1, 2017. Under the new time limit, the Diocese will provide loan assistance equal to 100% of a parish's monthly tithe for three years and 50% of a parish's monthly tithe for the subsequent three years. For parishes already receiving loan assistance based on the amount of their tithes, the Diocese will implement the time limit based on how long each parish has already received the assistance **as of July 1, 2017:**

<u>Years tithe credits received</u>	<u>Time limit implementation</u>
6 or more	Tithe-based loan assistance will end as of 7/1/17
2 – 5	Tithe-based assistance to decrease to 50% as of 7/1/17, then stop once the parish reaches 6 years of tithe-based assistance.
Less than 2	Move to new tithe-based assistance schedule as of 7/1/17

This outline of the tithe-based assistance program does not preclude the Diocese from providing other types and amounts of assistance to parishes. The Diocese, at the bishop's discretion, may also choose to provide additional loan assistance or loan forgiveness under certain circumstances, such as an unforeseen hardship.

Church-Friendly Loans

Church-friendly loans have been an effective way for some parishes in the Diocese to obtain financing within their own communities with more favorable terms than a bank would offer. These are loans made privately by individuals that are either part of a DOS parish or mission or are closely connected to a DOS parish or mission or to the Diocese generally. The loans have varying repayment terms that are determined by the lender. They are intended to be long-term loans because they are being used to support property improvements/acquisitions and long-term parish development. The Diocese currently guarantees and manages repayment on a number of church-friendly loans for its parishes. If the lender wants the Diocese to guarantee the church-friendly loan, the terms must be approved by the Bishop or by the Chancellor or Administrator on his behalf.

If the parish wishes to have the Diocese manage a church-friendly loan it has guaranteed, the loan proceeds may be deposited with the Diocese. The Diocese will credit interest to the parish on the deposited amount and manage the repayments to the lender as well, however, the parish will remain the primary obligor on the loan. All principal and accrued interest paid by the Diocese will be recorded as a loan receivable from the parish. The Diocese will not pay out the interest credited on deposited church-friendly loan proceeds unless the parish has reimbursed it for all payments it has made on the parish's behalf.

Church-friendly loans not intended for a specific parish will be managed and serviced by the Diocese, and the Diocesan administration will determine how to allocate the funds to best support the DMDP.

In certain cases when church-friendly loans finance most of the cost of a parish's building or property acquisition project, the Diocese may consider it for entry into the managed debt program.

Capital Campaign/Building Fund Income

A parish should tithe 10 percent of its building fund and capital campaign income to the Diocese. These tithes ultimately do end up benefitting the parish's building or capital program. They are not used for the Diocese's general operations. The funds provide liquidity so the Diocese can continue supporting its parishes' building and property acquisition projects by offering generous interest rates, tithe credits, debt management, loan guarantees, and direct loans.

Prioritizing Loan Repayment

Parishes in the LDMDP should be prioritizing loan repayment when they put together their budgets each year. A good rule of thumb for most parishes in the Diocese is to budget about 50% for compensation, 25% for loan repayment (or savings toward future building), 10% for Diocesan tithe, and 15% for other operating expenses. Small missions and large parishes may need to adjust these proportions. For example, a mission typically needs to budget more than 50% toward compensation.

Parishes in the DMDP should recognize that when they fall short or delay making their loan payments for long periods of time, it impacts the Diocese's ability to continue helping its other parishes.

Give other parishes the chance to benefit from the Diocese's programs

Parishes who have benefitted from the Diocese's programs in the past, whether through planting and transition grants, interest on deposits, loans made or guaranteed, tithe credits, or loans forgiven, should consider how the Diocese came up with the funds to provide that assistance. It comes from all of the parishes and the individuals who are part of our communities. Larger parishes who have received Diocesan assistance in the past are strongly encouraged to participate in the Diocese's deposit program so that the Diocese can continue to help all its parishes.