ANGLICAN FUNDS
Grafton Diocese

CREDIT POLICY STATEMENT

CREDIT POLICY

1. INTRODUCTION

a. Mortgage lending is an integral part of the work of the Anglican Fund Grafton Diocese and its function is:

   i) As a part of the operations of the fund.
   ii) To provide a relatively secure form of medium to long term investment return,
   iii) Maintain regular cash flow,
   iv) To culturally, commercially and operationally align the fund with the broader church.

   The customer base is restricted to the Fund, being Anglican Parishes, Anglican Schools, Anglicare and other entities approved by the Anglican Fund Grafton Diocese Board.

   The volume of mortgage lending is limited to the availability of funds at any particular time as determined by the Board. This will usually be a function of the deposits and capital, less amounts set aside for liquidity management (eg, cash) or any other purpose as determined by the Board.

b. The following limitations apply – Overall credit exposure limits (net of cash security) – aggregate Facility Limits are not to exceed the total of deposits and capital, less amounts required for liquidity management purposes (as determined by the Cash and Liquidity Policy).

c. The aim of providing mortgage lending, is to deliver income at the least possible risk to capital consistent with the return achieved and serve the interests of the borrower and the common good through loan provision and to earn returns appropriate to the level of risks taken. A conservative but commercial approach to lending is to be adopted with careful assessment of both the applicants' ability to service and repay the loan, and security.

d. Management of the Mortgage Investment Portfolio is to be undertaken by the Fund Manager. Such management duties include:

Loan establishment and approval in line with the delegated authority as applicable from time to time (see section 5 of this document).

- Documentation
- Loan administration
- Arrears control

e. Management is to report to the Board at each meeting of the credit risk measures affecting the Fund, and any likely breaches of credit risk.

2. **Conflict of Interest**

a. Where an officer or Board member of the Diocese, or of the Anglican Fund Grafton Diocese, has a personal interest in the outcome of any loan application, that officer or Board member must advise the Board meeting of any perceived conflict.
b. Where there is a conflict of interest, or a perceived conflict of interest, the procedure to be followed should be consistent with that of the Australian Institute of Company Directors.

3. Loan Establishment

The following principles should apply to all loan applications.

a. For loans above $100,000, a full submission is required detailing the recommended terms of the proposed loan facility, including details of the borrower, amount, purpose, loan term, repayment arrangements, security, interest rate and fees and any special conditions. The Fund manager should sight supporting documents such as signed assets and liabilities statements of the borrowers and where applicable guarantors, two years balance sheets and accounts of company borrowers and two years tax returns (if applicable) together with other relevant documents which may include pay slips, group certificates, leases, and cash flow forecasts.

The manner in which debt servicing and principal repayment is to be achieved is to be clearly demonstrated. Details on the history of the borrower's business are to be provided (where applicable). A successful mortgage loan is dependant as much on the quality of the borrower as on the quality of the security. The applicant is to indicate when the funds are likely to be required.

b. For loans less than $100,000, these may only be made to Diocesan organisations, such as a Parish. In the case of such loans, the loan submission is to ensure that it complies with the requirement of section 5 i.e., loans to Parishes and other Diocesan organisations.

c. A valuation is to be provided at the borrower's cost and prepared by a valuer meeting the requirement set out in section 7 of this document. In the case of a loan to a Parish, the valuation may be based upon either the insured value of the Parish property or other reasonable amounts as represented in the Parishes financial statements.

d. The Fund manager must inspect the properties offered as security.

e. The lending criteria, valuation policies and prudential requirements contained in the document are to be applied.

f. No indication of commitment is to be given to any prospective borrower until the loan facility has been approved.

g. On approval, a letter setting out the terms and conditions of the loan is to be forwarded to the borrower. Such letter is to state that the borrower will be responsible for the cost of valuations, all legal fees and stamp duty and other taxes relating to the proposed facility. Preparation of the formal loan documentation is not to commence until the terms of the letter is accepted by the borrower in writing.

4. Lending Criteria

a. Security

   i) First registered mortgage only.
   ii) Where the borrower is a private company, joint and several personal guarantees from each of the directors is required (discretion is given to exclude non-beneficial directors).
   iii) Where the borrower is a subsidiary company a guarantee may be required from the parent company.

b. Land Tenure
   i) Any freehold including strata title.
   ii) Leasehold may be acceptable subject to circumstances and length of lease term remaining.

c. Property Type

Generally the property to be taken as security should be regarded as readily saleable in normal market conditions. Generally unacceptable property includes vacant or rural land, owner occupied residential property, and buildings under construction or to be constructed, unless such buildings are presold or have acceptable end leases already in place.

Types of properties considered suitable are:

i) residential homes or strata units which are income earning or are used to house a Parish employee,
ii) commercial office premises or shops (including strata),
iii) industrial property of modern construction or recently refurbished.

Where generally unacceptable property is being proposed as security, the application must be presented to the Board for approval.

d. Exclusions

The following properties are not acceptable security:

i) Any property used for illegal purposes or activities likely to offend the moral sensitivities of the Anglican Church, of that is inconsistent with the ethical investment exclusions including:
- The manufacture, sale or distribution of armaments
- The manufacture sale or distribution of gambling devises
- Polluting the atmosphere
- Encouraging repressive regimes
- Unfairly exploiting employees
- Unfairly exploiting disadvantaged people
- Selling or supplying tobacco or other products and practices that damage the health of human beings

ii) any property otherwise deemed unacceptable by Bishop-in-Council or Corporate Trustees
iii) any property subject to or likely to be subject to an environmental risk.

e. Location

The primary security should normally be located within the Diocese of Grafton, or, if other Dioceses are involved with the joint lending over particular property, then within the Diocese of one of the lenders. Secondary security may be located outside these areas, however the Board reserves the right to discount the valuation of such secondary securities.

Security properties should be structurally sound and located in areas not subject to flooding, land slip or subsidence and in this regard geo-technical reports may be required. Where the building site is filled and compacted an engineers report may be required.

Security property should be readily saleable and located in areas regarded as strong local markets for the particular property type. In the case of leased property, it should be located in an area considered strong for letting.

Care should be taken to ensure that some geographic and property type spread of securities is maintained so as not to have undue reliance on values in a particular area or type of security.

f. Loan to Valuation Ratio (LVR)

The loan amount is not to exceed the total of:

i) 100 per cent of any deposits with the Fund, provided that the deposits are secured with the written contractual ability to offset the deposits in the event of a Loan Default.
ii) 80 per cent of Board's valuation of the security for residential property and:
iii) 70 per cent of the Board's valuation of the security for other forms of property.

For the purposes of clarity, any property that is under the control of the Synod and the Corporate Trustees and is subject to a negative pledge can be taken as being security for a loan.

g. Loan Term

The preferred maximum loan term is to be 5 years. Loans with a term in excess of 5 years will be considered, however, the reason why a longer term is recommended should be detailed in the relative Credit Proposal. In the case where a loan term exceeds three years, there will normally, in the loan documentation, be a right to review the interest rates, margins and expenses after three years.

Loans of a short term bridging nature are acceptable where they otherwise meet the lending criteria detailed in this document.

h. Interest Cover

The prospective interest cover (ie net interest cover should the loan be approved) should be for a minimum of 1.5 times where:

$$\text{Net Interest Cover} = \frac{\text{EBLIT}}{\text{Net interest + finance lease charges}} = x \text{ times}$$

EBLIT is earnings before interest, finance lease charges and tax.
EBLIT is calculated by taking operating profit before tax and abnormal items plus net interest (i.e. interest paid less interest received and finance lease charges).

i. Loan Amount

Preferred maximum $5,000,000

Loans in excess of the preferred maximum amount will be considered subject to the approval of the Board.

j. Activities of the Borrower

Given that demand for our lending (at appropriate risk-adjusted rates) may exceed our capacity to lend.

We will favour lending to entities whose activities we believe best serve the common good.

k. Credit References

Loan applications from entities outside the control and management of the Anglican Church are to be subject to a credit reference check by way of obtaining a credit report from a reputable credit rating agency, and meet the credit rating criteria set out in the Cash Policy. This requirement may be waived by the Board.

5. Loans to Parishes and Other Diocesan Organisations.

The fund may be requested to consider an application for a loan from a Parish or other Diocesan Organisation. In such cases, these policies will apply except in respect to security requirements (section 4. a, the interest cover requirements section 4h and the insurance requirements section 8).

a. Security for Parish and other Diocesan Organisation Loans

Where the borrower is the Synod (acting on behalf of a Parish) or another Diocese of the Anglican Church of Australia controlled entity, consideration will be given to approving a loan on a less onerously secured basis provided:

- the purpose of the loan is not of an investment nature;
- the loan is not deemed complex
- the borrowing entity enters into a facility agreement under which it undertakes not to apply for, or obtain funding or financial accommodation from any person or corporation, or to encumber or dispose of its real property assets without the prior consent of the Board. A breach of this undertaking will be an Early Repayment Event.

The security required for a Parish loan should take the form of either:

i) a letter of comfort from the Diocese of Grafton, that offers to repay any outstanding loan value of the Parish, should the Parish default on loan repayments.

The appropriateness of any recommendation to provide a loan on a less onerously secured basis must be outlined in the relevant Credit Proposal.

b. Interest Cover

The provisions of section 4h may not always be appropriate for loans to Parishes or other Diocesan Organisations. However the ability of the borrower to meet interest and principal obligations must be clearly demonstrated.

In respect to Parishes, the interest and principal repayment commitment (calculated over a period not exceeding 10 years) must not generally exceed 30% of its general offerings together with up to 80% of specific loan servicing pledges (including any building fund pledges) over the next three years.

In considering loans to Parishes, consideration will be given to:

i) The level of offertories within the Parish including the offertories per person; the growth in offertories over the prior three years; and the average level of offertories per person and per parish within the Diocese.
ii) The level of funds received or pledged to the building fund or other similar fund..

iii) The time in service and ministry experience of the senior clergy.
iv) Planned assets sales (eg, bridging loans).

c. Insurances

Generally, Parishes' and other Diocesan Organisations' insurance cover is arranged through the Synod. The Fund Manager is to ensure that appropriate insurance cover is held as part of their credit assessment. Where appropriate cover is not maintained through the Synod scheme, section 8 of the policy document will apply.

d. Additional Requirements

i) All Parish loans must be supported in writing by a Bishop or Archdeacon, all Parish churchwardens and a majority of Parish Council or their equivalent (in the case of another Diocese).
ii) The secretary of Synod confirming compliance with all Diocesan relationship (eg, assessments not in arrears).

6. Loan Approvals

a. Approval to and including $100,000

Authority to approve in accordance with this policy has been delegated by the Board to the Fund Manager and reported to the next Board meeting.

b. Approval $100,000 up to $500,000
A resolution of the Board is required.

c. Approval $500,001 and over
A resolution of the Board is required.

d. Generally Unacceptable Property

Where generally unacceptable property (as defined at paragraph 3c) is being proposed as security, the application must be presented to the Board for approval.

7. Valuation

a. Every loan application must be supported by a valuation in respect of each property to be taken as security.
b. Such valuations are to be prepared by a valuer acceptable to the Board. In this regard the valuer should be:

i) a member of not less than five years standing of the Australian Institute of Valuers and Land Economists;

ii) the holder of a licence to practise as a valuer of the kind of property offered as security, including holding an appropriate level of professional indemnity insurance.
iii) Active in the relevant market; and
iv) Experienced in valuing property of the kind offered as security.

c. The valuation must be addressed to the Board such that the Board is able to rely on it.

d. The valuer must acknowledge in writing that their report has been given for mortgage purposes

e. The cost of the valuation is to be met by the applicant.

f. Where the mortgage term is to be extended or additional funds advanced, the valuation must be either updated by the original valuer or a new report provided.

g. The valuation report is to provide the valuer's opinion as to:

i) Fair market value as at the date of the report
ii) Replacement cost for insurance purposes, and
iii) General environment issues. Should the valuer raise any concerns in this regard, formal Environment Report should be considered.

h. Where the Fund Manager becomes aware of any material change in value of any underlying property securities in an area or region, a new formal valuation may be obtained.

8. Insurances

a. A policy of insurance in respect of each security property must be kept current for the term of the loan and until the mortgage is discharged.
Such insurances are to:
i) be for the full insurable value of the property on a replacement and re-instatement basis and include the cost of demolition, removal of debris and professional fees;
ii) be taken out with an insurance office or company acceptable to the Board;
iii) contain conditions acceptable to or required by the Board;
iv) have no exclusions, endorsements or alterations unless first approved in writing by the Board; and
v) be taken out in the names of both the mortgagor and the mortgagee as the insured for their respective rights and interests.

b. The mortgagor is to pay all premiums and other moneys payable as they fall due and produce a receipt for the last premium and a certificate of currency whenever reasonably required to do so by the Board. Such evidence to be required on each anniversary date.

c. Where a policy of insurance is not renewed as required (or a new policy is not effected), to protect Board's interest, the Board will pay the premium as a charge under the mortgage.

d. Public risk insurance in an amount of not less than $10 million is to be provided by the mortgagor either as part of the comprehensive building insurance or as a separate policy.

9. Interest

a. Interest rates are to be set as fixed or floating for each loan having regard to the requirements of the Borrower and the terms of the loan approval.
b. Rates will vary with the market generally in line with the movement in the cost of funds or other rate as applicable to each loan as advised by the Board.
c. Interest rate margins are determined at the time the loan is approved and will be reviewed each three years unless as alternative arrangement is specifically noted in the original loan application/loan documentation.
d. The higher rate for late payment is to be three per cent per annum above the nominal rate established for each mortgage. With irregular arrears, a two week period of grace may be applied at the discretion of the Fund Manager.
e. The interest rate for bridging loans will be set by the Board from time to time.
f. Interest is to be charged monthly in arrears.
g. Wherever possible payments are to be effected by the direct debit system.

10. Fees

a. A loan establishment fee is payable on each loan. The preferred fee is to be 0.5% of the loan sum.
b. A line fee is payable where a loan will not be drawn in one amount within 30 days of the loan being approved. The preferred fee is to be 0.5% per annum and is payable quarterly in advance on the Facility Limit on the 1st day of January, April, July and October each year.

Where to line fee applies, the interest rate margin may be reduced by 0.5% per annum.

The fees referred to above may be varied by the approving parties following a recommendation outlined in the relevant Credit Proposal.

11. Arrears

a. Where a regular interest payment is not received on the due date or should such payment be dishonoured, the Fund Manager is to contact the borrower by telephone requesting immediate payment.

b. Arrears in excess of 30 days are to be reported to the Board at its next meeting with advise of action taken.

c. A commercial view of arrears management is to be adopted. The Board will not allow mortgagors to use the threat of adverse publicity to prevent it from following a professional approach to the default process. Sensitivity and reasonableness are to apply in all such dealings.

12. Principal Reductions

a. At the borrower's request provision may be made for principal reductions to be made to the loan in excess of any minimum payments required.

b. Security is not to be sold by the mortgagor except with the prior approval of the Board and subject to full repayment of any outstanding debt on discharge of mortgage.

c. Where part of the security is to be sold by the mortgagor approval must be first obtained from the Board. Such approval will only be given provided that no less than 85 per cent of the net sales proceeds are applied to the reduction of the debt and the LVR on the remaining security is no less than that determined when the loan was originally approved.

13. Maturing Loans

a. Three months prior to maturity date a letter is to be forwarded to the borrower seeking an indication as to whether the borrower:

   i) intends to arrange repayment
   ii) will seek to renew the facility; or
   iii) seek to renew with additional funding.

b. Where a Facility is to be extended and/or additional funds are sought, the following information is required:

i) an update valuation
ii) current financial status of borrower
iii) confirmation of insurance; and
iv) request for any other relevant information.

c. Loans not repaid or renewed within one month of their maturity date are to be subject to constant review and follow up. The penalty interest rate is to apply if repayment or renewal is not by the maturity date.

14. Declined Loans

If an application is declined, the most relevant reasons for the decision must be given to them in writing. Where the decision was based wholly or partly on a credit report, then the name and address of the credit rating agency needs to be included and that the applicant has a right to obtain their credit information file held by that agency.