



Ignoring Real-life Factors Can Cost You Dearly!

"Terms and Conditions Advance Sheets" / "Commitment Letters"

What YOU need to Know and Understand before Signing

Fact Number One:

Terms and Conditions Advance Sheets and Commitment Letters are ALWAYS, ALWAYS, ALWAYS contingent upon a series of factors. The lender builds into commitment letters for its protection many appropriate exceptions to making the loan in the amount and at the rates, terms and conditions initially stated to the borrower. If the situation proves to be more difficult, more expensive, or not as attractive as initially thought the lender **might ethically back out of making the loan (or increase the cost or interest rate, decrease the amount its willing to loan, etc)** no matter how far down the road the client has gone with the lender.

Fact Number Two:

No construction or permanent finance lender will proceed with the loan unless the lender is assured that there is sufficient money to complete the construction and obtain a Certificate of Occupancy, often referred to as a "C-O".

Fact Number Three:

Commercial banks and bond companies are limited in flexibility to several real-life considerations:

- Most commercial banks use the conservative "Robert Morris Agency Standards" when calculating how much a church, Christian school, or other nonprofit organization may borrow and how much it can reasonably afford to repay in debt servicing.
- Most commercial banks are regulated by the *Federal Deposit Insurance Corporation* (FDIC) and RESPA laws.
- If you are seeking a church bond or other mortgage-backed security as to a commercial bank loan, then *The Financial Industry Regulatory Authority* (FINRA), the largest non-governmental regulator for all securities firms doing business in the United States, will also impose rules and regulations concerning lending ratios.
- *FDIC* and *FINRA* rules and regulations may require the initial assumptions of the Terms and Conditions Advance Sheet or Commitment Letter to be modified as the lender performs its due diligence on your loan package to ensure that the loan made is in full compliance with federal and/or state regulations.

Fact Number Four:

Other commercial lenders such as **Church Bond Companies** (*SEC* and The Financial Industry Regulatory Authority a/k/a *FINRA* guidelines) and **Real Estate**

Investment Trusts (also known as REITs) are also restricted, but the standards are not generally as restrictive as commercial bank lenders.

- Generally these lenders will loan more money to an organization than a commercial bank.
- Generally are more flexible in terms and conditions than a commercial bank.
- Can give church 10, 15, 20 or 25-year fix-rate terms with no balloons. (30-year fix-rate terms are rare these days, but may be possible in certain circumstances.)
- Can give open-ended mortgage so that church can grow without refinancing current mortgage.
- Will not include interest swaps or prepayment penalties (after construction phase is completed).

Churches are not good candidates for “equity lenders”. These organizations are generally land speculators and will lend you more than you can realistically afford to repay with an eye toward your default so they can purchase the land at a “fire sale price” in a foreclosure.

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