

DEPOSIT & LOAN POLICY HISTORY

It has been the long standing policy of the Catholic Bishop of Spokane that parishes and institutions of the diocese are required to deposit excess funds (savings, building fund collections, etc.) with the diocese. This enables the diocese to provide loans for improvement and construction projects, without the need to borrow from outside sources. No parish or institution has legal standing to contract loans and, therefore, all indebtedness must be contracted by the Corporation Sole through the Deposit and Loan Fund. A number of years ago, the then Priests' Senate passed a resolution permitting priests to borrow from the diocese for the purchase of a personal car. This policy is terminated with the approval of this document. In 1961, at the inception of the Diocesan Development Fund, the Bishop promised that unused monies would be made available for loans. These funds are at present in the Deposit and Loan Fund as a Fund Balance, a permanent allocation from the DDF.

In 1971, a complete re-organization of the diocesan accounting system was put in place, complying with the guidelines provided by the National Conference of Catholic Bishops. This resulted in the segregation and grouping of funds of the same type. Thus a Deposit & Loan Fund was created, in which all the loans and deposits were recorded.

During early years, when interest rates were rising in the market place, interest rates in the Deposit and Loan Fund remained at 5% for deposits and 5 1/2% for loans. This dimmed the enthusiasm for repaying "cheap" loans or depositing excess funds with the diocese. This and a large number of building projects caused a serious decrease in the Deposit & Loan Fund. Thus, in 1981, an Ad Hoc Committee advised the Bishop that a long range interest rate of 8% on deposits and 8 1/2% on loans would be more realistic, but that this could not be done retroactively; it should be implemented as 5 1/2% loans would be paid off and new loans at 8 1/2% would be granted. It also advised the Bishop to set up reasonable repayment plans for all existing loans to bring the fund into balance and create a reserve for future loans. Both recommendations were accepted.

In 1982, the Finance Council recommended to the Bishop that all loans for building or capital improvements over \$10,000 be reviewed by the Finance Council to ascertain availability of funds before final approval, this to prevent depletions in the Deposit & Loan Fund and the granting of loans on projects, where half of the required funds have not been raised. The Bishop accepted this recommendation. Since the 1981 interest rate guideline was never implemented, the Bishop's Finance Council in 1987 recommended to the Bishop, which he subsequently approved, a new interest rate guideline policy which provided for a 1.5% positive rate spread on the interest rate for loans over the interest rate paid on savings with a maximum rate of 10% for loans and 8.5% for deposits--rates to be adjusted annually commencing July 1, 1988 based on an index compiled from the previous four quarters for 30 year U.S. Treasury Bonds. Implementation of this policy would occur over a three year period commencing July 1, 1988, which did take place.

In March 1991, after nearly three years experience utilizing the 1.5% spread, it was determined that the spread was not adequate for administering the deposit and loan fund. Therefore, following the recommendations of the Deposit and Loan Committee and the Bishop's Finance Council that positive spread be set at 2% with the maximum rates of 10.5% for loans and 8.5% for deposits, the Bishop provided his approval.

In January 1996, the positive spread between loans and deposits was increased to 3%. The Deposit and Loan Committee and the Bishops finance council recommended to the bishop that rate on the loans be changed to 7% and the rate on deposits be changed to 4%. The Bishop approved these changes.

In January of 2002, it again became necessary to review the Diocesan deposit and loan rates. Commercial rates for both loans and deposits had fallen dramatically during 2001 making the D&L rates higher than the market. The Fed discontinued the offering of 30 year bonds causing the long term loan rate to be pegged to other market instruments. The addition of the internet and network capability of the diocese has also changed some of the practices around approvals and submittals. It also is apparent that the spread between deposit rates and loan rates should not be fixed, but rather fluctuate with the market rates for each. All of this made it necessary to change the D&L policy to reflect the current processes and practices. The D&L and Bishops Finance Council recommended to the Bishop that the Deposit rate be decreased from 4% to 3% and the Loan rate be decreased from 7% to 6%. The Bishop accepted this recommendation and approved the new rates effective January 1, 2002. At this same time the overall D&L policy was reviewed and edited to be more in line with the current practice and procedures. [Revision: effective January 1, 2003] The Bishops Finance Council has recommended to the Bishop, and he has accepted, a rate change on monies deposited in the D&L. The rate change will be from 3% to

2% on deposits only. The D&L committee reviews commercial interest rates every month and the short term deposit interest rates are running between 1.25% and 1.5% and have been for some time now. The loan rate of 6% will still remain as this is still competitive with commercial mortgage rates. This change will go into effect Jan 1, 2003. Interest accrued through December 31, will be accrued at the present rate of 3%.

(Revision: effective July 1, 2003) At its July meeting, the Deposit and Loan Committee of the Bishop's Finance Council recommended to the Bishop that the interest paid on deposits be lowered to 1.5% and that interest paid on loans be reduced to 5.5%, effective July 1, 2003. The deposit rate is very competitive in the market with savings deposit interest rates at less than .75%. The loan rate is also competitive with the market with commercial 30 yr mortgage rates at about 5.8 – 6.0%. The Bishop accepted this recommendation.

April 29, 2004. The D&L committee proposed several changes to the "Deposit and Loan Policy". The first was to incorporate other factors in parish life beyond the percentage of funds deposited in the D&L as criteria for evaluating whether or not a parish is capable of carrying the requested loan. The new criteria are; the needs to the local parish Catholic community; the history of the parish's debt service; the strength of the parish council and parish finance council; the completeness of the plans, drawings and cost estimates from 3 contractors; the parish's ability and consistency in meeting it's goal's for ACA, World & US Missions collections and other fund raising events, and whether or not there are parishioners who would potentially step forward and help the parish meets it's obligation if needed. These criteria are included in a new "Parish Loan Request Evaluation Form" that will be attached to the document and will be used by the D&L for loan evaluations.

The second change to the document is to make it consistent with the document titled "Policy for Building and Remodeling". In this document minimum building contracts of \$30,000 or less do not have to go to the Bishop to be signed. In the "Deposit and Loan Policy" document this same limit is defined as \$20,000. The Deposit and Loan document will be changed to reflect the \$30,000 level contained in the "Policy for Building and Remodeling."

POLICIES OF THE DIOCESE OF SPOKANE

1. EXCESS FUNDS

All excess funds in the parishes and institutions of the Diocese must be deposited with The Catholic Bishop of Spokane. These funds include all ordinary savings, large gifts and monies from estates, building fund proceeds in anticipation of capital improvement, etc. Annually, when each parish and institution is required to complete and present its financial report to the Bishop, the amount scheduled as savings must be on deposit with the Diocese. If not, that parish or institution may not borrow from the Deposit and Loan Fund. Further, an explanation must be provided as to why the savings are not on deposit with the Diocese. Only with the Bishop's written approval may an exception exist. All checking account balances should be of reasonable size to fund day to day operations with any excess sums to be deposited as savings in the Deposit and Loan Fund. Priests, at their option, may maintain their savings with the Deposit and Loan Fund.

2. SAVINGS ACCOUNTS

Parishes, Institutions and priests will have ready access to their savings with the diocese, normally within two (2) working days. All parish withdrawal requests, must be made in writing and made by the parish pastor, and all institution withdrawal requests, must be made in writing by the administrator of the institution. Withdrawal requests may be made by phone to the Vicar General or the Secretary for Business Affairs if a written e-mail request from the pastor is sent concurrently.

3. GRANTING OF LOANS

No new loans will be made to a parish or institution should that parish or institution be delinquent in repaying existing loans.

4. CAR LOANS FOR PRIESTS

The practice of the diocese making car loans to priests is at this time discontinued.

5. LOANS TO PARISHES AND INSTITUTIONS UNDER \$30,000

These loans do not require a recommendation by the Finance Council, but should be reviewed by the Deposit and Loan Fund Chairperson. Such loans do require the approval of the Bishop in writing.

6. LOANS OVER \$30,000

These loans require recommendation by the Finance Council which might take several months. Hence, some advance planning is needed for these loans. The Bishop will allow or disallow the loan after the Finance Council's recommendation has been made.

7. LOAN QUALIFICATIONS

In order to qualify for a loan and to begin a construction project, the amount of monies (excluding pledges not paid and in-kind donations) which the parish or institution must have on deposit in the Deposit and Loan Fund is as follows:

Total Project Cost	% on Deposit
\$ 30,000 - \$ 99,000	20%
\$100,000 - \$199,000	40%
\$200,000 - \$299,000	60%
\$300,000 - +	75%

In addition to the percentage of money on deposit in the D&L, six other factors will be used in considering a parish's ability to payback the requested loan. They are; the needs of the local parish Catholic community; the history of the parish's debt service; the strength of the parish council and parish finance council; the completeness of the plans, drawings and cost estimates from 3 contractors; the parish's ability and consistency in meeting it's goal's for ACA, World & US Missions collections and other fund raising efforts, and whether or not there are parishioners who would potentially step forward and help the parish meet it's obligation if needed. These are contained in the attached form titled "Parish Loan Request Evaluation Form." The D&L committee will complete this form for each loan request and then present their recommendation to the Bishop's Finance Council for recommendation to the Bishop.

8. REPAYMENT OF LOANS

At the time of application for a loan by a parish or institution, a repayment schedule must be included. Loan size and purpose should dictate the repayment period. As an example, a small

building improvement loan should not exceed 5 years whereas a large new building loan may require up to 15 - 20 years. The repayment schedule has a direct effect on the Deposit and Loan Fund's ability to grant additional future loans.

For remodeling projects, the repayment schedule should use the project completion date as the reference point for defining the date of the first loan payment. For example, the parish or diocesan entity might put in their proposal that the loan repayment schedule will begin sixty days after completion of the project.

For new construction projects, the reference point for the repayment schedule should be the occupancy date. For example, the parish or diocesan entity might put in their proposal that the repayment schedule will begin sixty days after occupancy is granted.

It is the responsibility and mandate of the D&L, at its discretion, to review loans as necessary for loan repayment with the borrowing entity.

9. DOCUMENTATION

All existing and new loans which have been or will be granted will be evidenced by a note (copies attached and made part hereof). The note form is to be signed by the parish priest, the chairperson of the Parish Finance Council, and the chairperson of the Parish Council.

10. DEPOSIT AND LOAN FUND BALANCE

Whenever the available funds in the Deposit and Loan Fund equal \$500,000 or less in historical value, the Bishop will advise all parishes, institutions, and priests of such fact in writing and which of the following options he plans to exercise, if either.

- a) A moratorium on all major loan requests.
- b) Have the Deposit and Loan Fund borrow from endowment fund(s) of the Diocese, with the total of such borrowing not to exceed 25% of total endowment funds. The interest rate paid on such borrowings will be equal to the then existing interest rate paid on loans from the Deposit and Loan Fund. Prior to such borrowing, the Deposit and Loan Fund must give at least 30 days prior written notice of loan conditions to the Presbyteral Council.

11. REVIEW

This policy is subject to review by the Bishop's Finance Council with appropriate consultation including the Presbyteral Council.

12. RATES

The deposit and loan rates are determined as follows:

- a) The interest rates for both deposits and loans will be determined using commercial financial indices that are appropriate for the previous and current year.
- b) The maximum rate will be 10.5% for loans and 7.5% for Deposits. The rates will be monitored regularly and adjusted accordingly when there is documented evidence of changes in the commercial market. The rates should be set, if possible, so that the deposit rate is slightly higher than the market and the loan rate is set slightly lower than the market.

13. BISHOP'S FINANCE COUNCIL

- a) The Finance Council will appoint a standing Deposit and Loan Committee which will be charged with reviewing all requests for loans above \$30,000 and submit their recommendation to the Finance Council.
- b) The Deposit and Loan Committee will recommend policy on granting of loans and repayments of outstanding debts.
- c) The rates for the Deposit and Loan Fund will be monitored regularly by the Committee and its recommendations submitted to the Bishop.

(The rates approved as of July 1, 2003 are:)

Loans: 5.5%

Deposit: 1.5%

APPROVED BY BISHOP SKYLSTAD

MAY 15, 1991

(Revised January 1, 1996)

(Revised January 1, 2002)

(Revised January 1, 2003)

(Revised July 1, 2003)

(Revised April, 28, 2004)