

YOUR GUIDE TO THE CONSTRUCTION LENDING PROCESS

For Schools and RSOs



Critical Information and Steps to the
Lutheran Church Extension Fund (LCEF)
Loan Process



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Embracing The Lutheran Church—Missouri Synod

Lutheran Church Extension Fund (LCEF) exists to empower ministries in Kingdom work. Our goal each day is to identify opportunities to share our resources for expanding God's Kingdom as Christ commanded in the Great Commission. We want more people to hear and believe, be baptized, grow in the Word and join together in God's saving grace and the gift of eternal life.

LCEF serves only The Lutheran Church—Missouri Synod (LCMS) and its ministry partners in the United States and around the world. Through the dollars invested by more than 50,000 individuals, congregations, schools, organizations and businesses, LCEF offers low-cost loans, ministry solutions and real estate solutions that help leaders respond to growth and community needs.

We recognize that some of the terms and processes used may need clarification and explanation. This Q&A booklet provides ministry leaders the steps and critical information needed to understand our loan process and requirements.

Our goal is to make this process as efficient as possible and help you get back to focusing on putting your ministry's plans in action.



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This booklet is designed to assist you. Because of the unique nature of each ministry and its plans, state statutes, etc., some requirements for your situation may differ and are subject to change. Once a loan is approved, an approval letter outlining the specific requirements for the loan will be issued.

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LCEF's National Lending Team and Loan Specialists

“So we, though many, are one body in Christ, and individually members one of another. Having gifts that differ according to the grace given to us, let us use them...”

— Romans 12:5-6

LCEF strives to make the loan process as easy as possible for the borrower. The following helping hands can greatly ease the process and lead to a well-developed project:

- LCEF's National Lending Team.
- LCEF Loan Specialist.

Each has been through the process many times and knows the necessary steps to meet state laws and ensure fiscal responsibility. This booklet describes the steps and definitions of the terms in the loan process and the responsibilities of the individuals who will assist along the way.

LCEF's National Lending Team

Your ministry leaders have a vision and are ready to move forward with a building renovation, expansion or new structure. LCEF offers critical support, and they can be reached at 800-843-5233. You can expect the following services:

- LCEF's demographic services to provide valuable information as you seek to connect to your community and plan your outreach and building project.
- Funding will come from several sources, and LCEF can assist you in determining the mix of raising funds through a capital campaign with Ministry Solutions and/or an LCEF loan.
- The National Lending Team will meet with you to begin gathering information regarding strategic plans for the project. The timetable and initial plans for the project will be reviewed, including a preliminary budget estimate of the project.

Then, we will discuss your financials and the loan process, including your ministry's debt capacity along with a review of the guidelines and requirements.

Although this list of duties occurs early in the loan process, The National Lending Team remains your primary set of "helping hands." If any problems arise, particularly as the loan itself is being processed, they will be there to guide and advise you.

LCEF Loan Specialist

A Loan Specialist will assist you from loan approval to funding.

A Loan Specialist of the Approval/Post Close Team will:

- a. Provide an approval letter, loan terms and requests, details of the project and any unique requirements in the borrower's state.

LCEF's National Lending Team and Loan Specialists *(cont.)*

- b. Order and review the Articles of Incorporation of the borrower along with the Constitution and Bylaws in order to prepare the necessary corporate resolutions.

- d. Review the draw requests and issue checks along with Unconditional Lien Waivers and Releases to each subcontractor and supplier, as needed.

A Loan Specialist of the Commitment/Escrow Team will:

- a. Coordinate the order for title insurance through a local title insurance agent/attorney.
- b. Assist the borrower with meeting all loan requirements, defined in the loan approval letter.
- c. Assist the borrower in tracking and disbursing the construction loan dollars and congregation's building fund dollars.

A Loan Specialist of the Closing/Disbursing Team will:

- a. Prepare the loan documentation and corresponding support documents to be forwarded to the title company. Loan documents are prepared once all loan requirements are satisfied.
- b. Prepare the conversion documentation to be signed by the borrower and final loan disbursement is made after completion of the project and receipt of the appropriate occupancy permit.



Any questions or concerns about the loan process after the loan has been approved should be directed to your LCEF Loan Specialist. The Loan Specialists are ready to serve you and work in conjunction with the National Lending Team to help resolve concerns, should they arise. Once a loan is approved, an approval letter outlining the specific requirements for the loan will be issued.

Q&A: Requirements for Construction and Permanent Loans

The Permanent Loan Process

Q: What does the typical process for a permanent loan look like?

A: After the loan application has been approved and the required items from the borrower and title company are received, LCEF—in consultation with the borrower and title company—will schedule a loan closing date and prepare the necessary closing documents.

Articles of Incorporation

Q: What is an Articles of Incorporation document and why does LCEF need a certified copy?

A: The Articles of Incorporation is a legal document filed with the state or county that establishes the borrower as an incorporated entity and identifies the governing body/bodies, legal name, terms of existence, borrowing limitations and other pertinent information regarding the corporate structure. In most instances, LCEF obtains this document on behalf of the borrower, and this certification verifies that the document is a true and current copy of the filed Articles of Incorporation. The title company issuing the title insurance policy will also require a certified copy.

Constitution and Bylaws

Q: What are the Constitution and Bylaws and why does LCEF require a certified copy?

A: The Constitution and Bylaws describe, in detail, the structure of the corporation, the responsibilities and duties of the officers and boards, membership, etc. This document will be examined to identify the governing body/bodies authorized to borrow money and mortgage the property and identify the person(s) authorized to sign legal documents on behalf of the corporation. A certified copy of the borrower's Constitution and Bylaws should be provided to LCEF at the time of loan request.

Resolutions

Q: What are resolutions and why are they necessary?

A: Resolutions are the means by which a corporate entity officially expresses its will or intentions and are needed to give assurance and direction to the lender and title company of the official acts of the borrower. LCEF prepares the resolutions for approval by the borrower.

Fire and Extended Coverage and Builder's Risk Insurance

Q: What is Fire and Extended Coverage and Builder's Risk Insurance? Does LCEF require the insurance to be written by a certain company?

A: Fire and Extended Coverage Insurance insures existing improvements against loss from fire, theft, storms, vandalism, etc. Builder's Risk Insurance provides basic coverage in the event of loss during construction or renovation/remodeling. Both types of insurance must be written in at least the amount of the loan or the value of the improvements, whichever is greater. The company must have a B++ or better rating by the A.M. Best Rating Company. The borrower is insured as the owner of the property with LCEF named as the mortgagee, as follows:

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Flood Zone Certification

Q: What is a Flood Zone Certification (FZC) and who orders this?

A: An FZC is a certification indicating whether or not a property is located in a flood plain. LCEF orders this on behalf of the borrower. If the FZC indicates the property is located in a flood zone,

Q&A: Requirements for Construction and Permanent Loans *(cont.)*

the borrower will be required to purchase flood insurance from the insurance agency providing Fire and Extended Coverage Insurance.

Property Valuation

Q: What types of property valuation does LCEF accept?

A: Below are the three types of property valuations that LCEF may require depending on the size of the loan request:

- 1. Appraisal Report**—The most complete report available, containing details on comparable data, area market analysis, etc.
- 2. Restricted Appraisal Report**—Contains a documented narrative or multi-page form with explanation of the appraisal procedure and data used in the valuation.
- 3. Broker's Price Opinion (BPO)**—This report includes neighborhood analysis of the property, comparable properties and local as well as regional market information.

Title Insurance Policy

Q: What type of title insurance policy does LCEF require and why is it required?

A: A title insurance policy is a contract with a title insurance company to provide coverage for lenders who use real property as security for their loans. An American Land Title Association (ALTA) Extended Coverage Policy is required, which ensures that LCEF has a valid, enforceable first mortgage. This title commitment contains a list of the title company's requirements and exceptions on the property, which must be eliminated or insured prior to loan closing. LCEF uses this commitment to prepare the documents needed for the loan closing. If the borrower wishes, LCEF can place an order for this through any title insurance company and is usually issued within days following receipt of the legal description.

Survey

Q: What is a survey? What type of survey is required for survey coverage? When does it need to be completed?

A: A survey is a boundary measurement of a parcel of real property. The title insurance company may give survey coverage only upon receipt of an acceptable survey. **Please contact LCEF before ordering a survey.** An ALTA survey prepared by a registered or licensed surveyor with a current date must be furnished and it must:

- Establish the exterior boundaries and acreage to the nearest hundredth acre.
- Document any encroachments of any structure or fences as well as any improvements on the property.
- Document all existing utility services, ditches, waterways, roadways, paths and any and all easements or rights-of-way.
- Establish any public roadway adjoining the property.
- Contain the legal description and be certified to the borrower, LCEF and the title insurance company.



Q&A: Requirements for Construction and Permanent Loans *(cont.)*

Q: Does the survey need to be updated and recertified when the new construction's foundation footings are put in place?

A: Yes. The new foundation footings must be located on the survey which must then be recertified by the surveyor and provided to both LCEF and the title insurance company.

Quick Tip



- If the borrower can locate an earlier survey, it could be cost and time effective to use the same company/surveyor.

Loan Closing

Q: What is a loan closing and where is it held?

A: A loan closing is the final procedure in the process. The loan is completed by the execution of documents. LCEF and the borrower together establish a mutually agreed upon date, normally 10 business days from the date of receipt of all requirements by LCEF. Closings are generally handled by the title insurance company at its office; however, in some cases, it may be handled by an independent escrow company or an attorney.

Closing Documents

Certificate of Incumbency

A verification that as of the day of closing, the Articles of Incorporation and Constitution and Bylaws are true and valid with no changes and the resolutions approved by the governing body/bodies of the corporation are still valid.

Construction/Permanent Promissory Note (the "Note")

A contractual, legally binding agreement between the borrower and LCEF. It defines the terms of the loan (amount, payments, interest rate, maturity date) along with other provisions such as late charges, default measures, collateral, etc.

Mortgage or Deed of Trust

A document by which real property becomes security (collateral) for a loan. The borrower gives LCEF a security interest in the property. It is signed by the authorized signers of the borrowing corporation and then placed on record with the county recorder.

Settlement Statement

A list of fees and charges associated with the loan. It also shows interest due on an existing loan that is being refinanced and the final amount of the loan to the borrower.



Additional Requirements for Construction Loans

Q: What is the usual process for a construction loan?

A: The entire loan documentation process usually takes two to four months, although it may be shorter. Your LCEF Loan Specialist will be ready and willing to help with each step. In addition to the requirements for a permanent loan, the following items also must be submitted to LCEF prior to setting a loan closing date for a construction loan:

- Builder's Risk Insurance.
- Contract(s) and change orders.
- Performance and payment bonds (if required).
- Project budget statement.

Upon receipt of these additional items, LCEF will schedule a loan closing date and prepare the necessary closing documents. Prior to the first disbursement of funds, LCEF must be provided the following:

- Title insurance policy.
- Fully executed and recorded Mortgage/Deed of Trust.
- Executed Certificate of Incumbency, Construction/Permanent Promissory Note and Construction to Permanent Loan Agreement.
- Building fund dollars (see next question).
- Owner's Statement (if required).
- Contractor's Statement.

For each disbursement, LCEF must be provided the following:

- Fully executed Application and Certificate for Payment.
- Invoices and unconditional lien waivers.

Before the second disbursement or after the foundation footings are in place, the borrower must obtain an updated survey to be presented to the title insurance company for the issuance of a foundation endorsement. Once construction is complete and LCEF has received a copy of the Occupancy Permit, a permanent loan closing date will be established, and LCEF will prepare the conversion documents to be executed by the borrower.

Building Fund Dollars

Q: What are building fund dollars and when are they to be used?

A: Building fund dollars are monies pledged and collected by the borrower for the construction project to be deposited into an LCEF Loan Escrow Account under the borrower's name. These dollars are to be used before any loan dollars. LCEF's Loan Specialists are authorized to withdraw funds from the borrower's Escrow Account to be disbursed in the same manner loan dollars are disbursed.

Contract

Q: What is a contract and who must sign this contract?

A: A contract is a legally binding agreement between the borrower and the general contractor or subcontractors. It details the labor and materials to be provided by the contractor or subcontractor for the construction project. The borrower and the contractor must sign all contracts, and the contracts must be submitted to LCEF prior to loan closing to ensure the entire construction project can be funded by the building fund dollars and approved loan dollars. LCEF requires a guaranteed maximum cost, or stipulated sum contract. It is preferable to use the standard AIA guaranteed maximum cost contract. The contract must allow for retainage (see next question below), and

Additional Requirements for Construction Loans *(cont.)*

change orders should be approved by LCEF before execution to be certain there will be sufficient funds for the payment of all invoices.

Retainage

Q: What is retainage and when is it released?

A: Retainage is an amount withheld from each payment that is due to contractors and subcontractors until the project is complete. This ensures completion of the project and payment by the general contractor to all subcontractors and suppliers. Retainage is released upon total completion of the construction project, receipt of an Occupancy Permit, receipt of full insurance binder, final title insurance update and receipt of all Final Unconditional Lien Waivers, and the construction loan is converted to a permanent loan. In those instances where the borrower acts as its own general contractor, LCEF will consider the release of retainage on certain subcontractors earlier in the project.

Each construction contract must provide retainage in accordance with one of the following methods (unless otherwise specified by state statute):

- 10% of each disbursement.
- 5% of each disbursement.
- 10% of each disbursement through 50% completion of the total contract amount, with no additional retainage thereafter.

Performance and Payment Bonds (if required)

Q: What are performance and payment bonds? Who furnishes these bonds?

A: A performance bond ensures that the contractor(s) will complete the project and all subcontractors and suppliers will be paid. A payment bond ensures that the payment will be made to all subcontractors and material suppliers. The bonding company is responsible for providing

monetary restitution, so the project can be completed without placing additional financial responsibility on the borrower. The general contractor (or in some cases, each subcontractor) obtains performance and payment bonds in the amount of the contract(s). All bonds must name the borrower as “owner” and LCEF as “co-obligee.”

Quick Tips

- Bonding is not usually required, but LCEF reserves the right to require a bond(s) if circumstances warrant.



Project Budget Statement

Q: What is the Project Budget Statement?

A: This document details the cost of the entire construction project, providing a financial overview of the project and verifying that funds are available (building fund dollars and loan dollars) to complete the construction project. It is furnished to the borrower as an enclosure to the Approval Letter. It is to be completed by the borrower after all contracts have been signed and submitted to LCEF prior to the loan closing.

Pre-Start

Q: Why does LCEF require that there be no commencement of construction before the loan closing?

A: The commencement of a construction project prior to the recording of the Mortgage/Deed of Trust is referred to as a pre-start. A pre-start will exist regardless if loan funds or borrower building fund dollars are used. In certain states, Mechanic's and Materialmen's Liens (see page 11 for definition) would take priority over the Mortgage/Deed of Trust in the event a pre-start takes place prior to the recording of LCEF's Mortgage/Deed of Trust. This often results in significant delays in the loan closing process and may impact the project timeline.

Additional Requirements for Construction Loans *(cont.)*

Construction to Permanent Loan Agreement

Q: Why does LCEF require a construction to permanent loan agreement?

A: This agreement is required in order to outline the provisions under which both parties are legally bound to perform. It lists the required documents and instructions for completing them when disbursements are required.

Escrow Disbursing and Procedures

Q: What is escrow disbursing and what are the requirements and procedures?

A: Escrow disbursing is a service provided by LCEF to the borrower to assist in the construction project. An LCEF Loan Specialist collects documentation to establish an account for the purpose of tracking and disbursing the construction loan dollars and building fund dollars throughout the building project. The borrower is required to submit an application and Certificate for Payment to the Loan Specialist along with any invoices and unconditional lien waivers for review and audit. The Loan Specialist will obtain a clear update to the lender's title insurance policy and then issue payment to the general contractor and suppliers.

Owner's Statement

Q: What is an Owner's Statement?

A: This form will be supplied to the borrower by LCEF in advance of the first disbursement in the states that require such a statement. It will need to be completed by the borrower and signed in the presence of a Notary Public, reflecting the names, addresses and costs of companies providing services relevant to the construction project (architectural firms, engineers, surveyors, etc.).

Contractor's Statement

Q: What is included in a Contractor's Statement?

A: The Contractor's Statement is completed by the general contractor and signed in the presence of a Notary Public, reflecting the names and addresses of all subcontractors and suppliers, what they are providing, the kind of work and/or materials supplied and the total amount of their contract or purchase order. This form will be required with each request for payment.

Application and Certificate for Payment

Q: What is an Application and Certificate for Payment?

A: An Application and Certificate for Payment is a two-page form, designed by the AIA (form G702TM), to be used when requesting payment on a construction project. (See aia.org for details.) The form is supplied and completed by the contractor, signed in the presence of a Notary Public and submitted to the architect for certification. Upon completion, any authorized representative of the borrower must evidence their approval by signature with the word "approved" and the date on the face of each application. Once the application is completed, it should be sent to LCEF for processing.

Unconditional Lien Waivers

Q: What is an Unconditional Lien Waiver?

A: An Unconditional Lien Waiver is a document signed by the general contractor, subcontractors and/or suppliers relinquishing their right to claim a lien against real property. This document is required from all parties performing work and/or providing materials for a construction project as it progresses. The general contractor is required to collect Unconditional Lien Waivers from each subcontractor and supplier including partial payments. The borrower is required to collect

Additional Requirements for Construction Loans *(cont.)*

Unconditional Lien Waivers for any ancillary/ miscellaneous payments made. All Unconditional Lien Waivers are to be submitted to LCEF with each application and Certificate for Payment.

Mechanic's and Materialmen's Liens

Q: What is a Mechanic's and Materialmen's Lien Coverage and why is it required?

A: A Mechanic's and Materialmen's Lien is a legal right to claim, hold or encumber property to satisfy a debt or obligation. This coverage is required to protect LCEF against loss if Mechanic's and Materialmen's Liens are filed, and they gain priority over LCEF's mortgage lien. Typical title company requirements include: no construction pre-start; financial statements of both the borrower and the general contractor; indemnity agreements to be executed by both the borrower and the general contractor; and an owner's affidavit to be executed by the borrower.

Foundation Endorsement

Q: What is a Foundation Endorsement and when is it required?

A: The title insurance company issues a Foundation Endorsement to LCEF upon receipt from the borrower of the updated and recertified survey, reflecting the new footings and foundations. This is an endorsement to the lender's title insurance policy, ensuring that the improvements do not encroach upon adjoining lands or easements.

LCEF will only make one construction loan advance before receipt of the Foundation Endorsement.

Construction Inspections

Q: What is a construction inspection?

A: A construction inspection is issued by a third-party service provider to confirm that budgeted items that are disbursed by LCEF are on-site, in process or completed as expected, as a means to ensure that construction is proceeding on schedule and within budget. Construction inspections may be required depending on the scope of the project.

Occupancy Permit

Q: What is an Occupancy Permit?

A: An Occupancy Permit is a certificate issued by the county or city official that gives approval for use of the facility, and a copy of the permit is to be sent to LCEF. LCEF then prepares the documentation for the final disbursement and conversion to a Permanent Loan.



Lutheran Church Extension Fund

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