

Debt Refinancing & Borrowing Considerations

Episcopal Church of the Ascension
June, 2019

Recent Efforts

Ascension has long maintained debt associated with the construction of the Nave in the late 1980's, much like a mortgage. Over the years, the debt has been refinanced several times to accommodate the need for maintenance and upgrades to our facilities, as well as to support the parish in financially challenging times.

In early 2016, the parish had roughly \$650,000, in long term debt, financed through Pinnacle Bank. Its terms allowed us to borrow up to roughly \$800,000 on an open ended line of credit, with a variable interest rate. The financial circumstances of the parish were:

- Annual pledges totaling roughly \$1.5 million, and growing
- No longer using the line of credit or Endowment to meet regular operating expenses
- Dedicated debt reduction in the annual budget
- Needs to renovate the nursery and replace the Sunday School wing's HVAC system

Taking a more holistic approach to managing debt, the Finance Committee, Vestry, and Wardens developed a plan to:

- Refinance the debt in order to fix the interest rate at historic lows, as well as to accommodate temporary borrowing needs
- Fund renovation projects and some debt reduction through a targeted fundraising campaign called Foundation 60

Solutions

To refinance our debt, we solicited offers from five banks. Our request was to fix terms for \$500,000 of the debt at the most favorable long term rate, and roll \$150,000 onto a flexible line of credit, with the idea that the Foundation 60 campaign would repay all or a substantial portion of the \$150,000 within 6 months.

In a process spanning nearly 6 months, we finalized a refinance package with Home Federal Bank, who had the most competitive terms:

- \$500,000 fixed loan, at 3.50% fixed rate for 5 years, with payments calculated on a 15 year amortization
- \$400,000 maximum line of credit, at Prime Rate (no less than 4%)
- No requirement to collateralize the church property – negative pledge agreement
- Requirement to move the church's checking and savings business to Home Federal

Further, the Foundation 60 fundraising campaign raised \$450,000, applied as \$250,000 for the Sunday School Wing HVAC system, \$30,000 for the nursery renovation, and \$120,000 to reduce the balance on the line of credit.

Current Situation

We currently find ourselves in a transition involving our leadership, finances, and the sustainability of our physical worship spaces. Including replacing the roof, we will have spent in excess of \$1.2 million on renovation and acutely deferred maintenance in the past 5 years. Of that, almost \$400,000 has been privately raised, and thus not rolled onto our long term debt balances.

As we face the need to replace the Nave roof, it has been recommended by the Building and Grounds Committee, and approved by the Vestry, to proceed without delay to avoid further damage to the Nave.

Meanwhile, our financial situation is more challenging now than in previous years, with 2019 pledges totaling less than \$1.3 million, and additional debt of \$325,000, for the HVAC system in the Nave.

Considering our current debt structure and immediate need for capital to replace the roof, we approached our partners at Home Federal to inquire about the best way to proceed. Given that we have almost paid off our line of credit (current balance less than \$30,000), and that the fixed rate of 3.50% on the original long term loan (current balance of \$406,000) cannot be matched now, they advised an additional long term loan for \$500,000, with terms similar to our original long term loan (fixed rate of 4.75% for 5 years, payments based on a 20 year amortization).

This proposal has several advantages:

1. It can be immediately secured so that roof construction can occur this summer.
2. Refinancing with another institution would take at least 3 months, and require transitioning *all* loans and operating accounts, as no bank would accept a lien status secondary to Home Federal, thereby losing the competitive terms on the existing loan.
3. Our financial situation is not as positive as it was three years ago, and we could find that we do not qualify to borrow from institutions previously willing to lend to us.
4. Refinancing would involve approval by the Diocese, from whom we recently borrowed \$325,000, and to whom we have been unable to meet the requested annual commitment.
5. For collateral, Home Federal accepts a “negative pledge”, in which we simply commit *not to encumber* the church’s property to any other lender. Most other lenders would actually require a deed of trust, or the formal transfer of property rights to protect against default. Again, Diocesan approval is required.

Proposal

The Finance Committee therefore recommends that the Vestry approve acceptance of the terms attached from Home Federal to secure the additional borrowing capability necessary for replacement of the Nave roof.