



## Loan Defaults Resulting in Impairment

The purposes of the WELS Church Extension Fund, Inc. (CEF) are to serve WELS through the sale of investments and receipt of gifts to provide loans and grants to mission congregations for parsonages, land, and other necessary facilities and grants to mission congregations and Home Mission. CEF also makes loans to non-mission congregations if loanable funds are more than adequate to meet loan demands.

Loans to mission and non-mission congregations are memorialized through a legally enforceable, contractual obligation between CEF and the congregation. Generally, congregation can honor the terms of their loan contract. However, there are times when a congregation's financial condition deteriorates to a point that it is unable to honor its contract with CEF. When this occurs, the loan is in default and CEF can either foreclose or approve modifications to the loan terms to facilitate the congregation's retention of its land and facilities.

When a congregation defaults on its contractual obligation, the loan is generally classified as an impaired loan. A congregation may request a modification of its contractual loan terms when it's loan is not in default. If the modification request is approved by the CEF Loan Committee (LC), the loan will be considered a troubled debt restructuring and classified as an impaired loan. Impaired status requires the following from the congregation:

- Congregation, working with Home Missions through the district mission board or if no longer a mission works with the district presidium, is required to develop a five-year ministry plan and a supporting financial forecast.
- Congregation must prepare a loan application and the specific terms it wishes to have modified.
- In support of the modification request:
  - Congregation must provide information explaining their situation and specific modification of terms that is being requested.
  - Approval of the request for modified terms from the congregation's voters.
  - Congregation must provide financial statements (income statement & balance sheet) for the last three years and year-to-date actual results compared to plan/budget for that period.
  - Support for the modification request from the district mission board or the district presidium.
- If the modification terms are approved by CEF's Loan Committee, the loan will to be moved to non-accrual interest status. A required reserve amount for a loss on the loan will be calculated and reported on CEF financial statements.
- Establishment of a specific reserve or non-specific reserve amount requires the following documentation:
  - An appraisal of the real estate collateral – CEF initiated, generally takes place following the LC decision for impairment modification.
  - Title Insurance policy update – a “date down endorsement” is performed to ensure the title to the property remains clear or to identify any issues.
  - In case by case situations a survey may also be performed.



If the congregation and CEF cannot reach agreement on the modification of loan terms, CEF may be compelled to initiate foreclosure action on the property.

A loan that is classified as impaired status also affects CEF. Specific and non-specific reserve amounts and non-accrual of interest status decreases the availability of funds for loans and grants to Home Missions and mission congregations. An impaired loan also affects the ability of CEF to lend to non-mission congregations.

Therefore it is very important for the congregation to return to its original contractual loan terms so that it can be removed from impaired status.

While it is important to understand the significance of impaired status and the implications of impairment to congregations, the Church Extension Fund, the CEF Board of Directors, and the CEF Loan Committee's primary goal in this situation is to work with WELS congregations so that the gospel message of Jesus Christ continues to be proclaimed. May the Lord bless us as we work together to His glory.