Sydney Anglican Loans Board

Assisting Low Income Parishes Policy

Key Points
• This policy documents the Board's practices to assist low income parishes, including the ongoing position of offering concessional interest rates and/or application fees on a case by case basis.
• After discussion with the Board's working group, several new areas have been considered that the Board can discuss and provide direction on.

Purpose

1. The purpose of this report is to provide analysis and recommendations to the Sydney Anglican Loans Board ("the Board") for assisting low income parishes.

Recommendations

2. The Board note this report.

3. The Board maintain the position of offering concessional interest rates and/or application fees on a case by case basis.

4. The Board discuss the possibility of (i) loan guarantees and (ii) a parish buddy system and provide guidance on its priorities and how to proceed.

5. The Board decline the high risk lending proposal.

Background

6. For the purpose of this report, low income parishes are defined as those with total income of less than $150,000 per annum. Parishes that fit this description will have little or no ability to undertake material capital works without substantial parishioner contributions above and beyond normal giving. They will also have limited ability to hire additional staff (beyond a fulltime rector) other than part-time, student or MTS workers.

7. Since 2014 the Board has discussed the possibilities of providing assistance to low income parishes with their loans and/or capital activities. At the November 2014 meeting the Board considered a report on assisting parishes with obtaining maintenance plans. At the time, the ACPT was not willing to financially assist with the proposal and thus the proposal did not proceed.

8. In 2017 the ACPT received a form of maintenance report on each parish as part of the triennial property review for insurance purposes. These reports were considered to be of such low standard that the ACPT did not send them out to Parishes. The ACPT may seek improved reports that can be distributed to parishes in the future.

9. In March 2015 the Board considered the report *Responsible Lending and Assisting Small Parishes*. The section below noted the cost pressures facing low income parishes:

> *"For the 2015 year, the minimum staff and Parish Cost Recovery ("PCR") expense for a parish with a fulltime rector is approximately $93,000. Once utilities, ministry resources, administration costs and minimum maintenance items are included the bare minimum costs of running a parish with a fulltime Rector will be approximately $100,000. This is confirmed by the two smallest parishes by income that have loans*

with the Board. Denham Court at $100,902 (2015 budget) and Greystanes–Merrylands West at $113,889 (2014 actual).”

10. In November 2021 the Board approved the *2022 to 2024 Strategic Plan*. Item 2.3 has an action item for the Board to have a policy for assisting low income parishes, which is to be reviewed annually.

11. During April 2022, the only low income parish borrower, Greystanes Merrylands, made the final repayment on its loan. Pleasingly, three parishes (Denham Court, South Coogee and Wentworthville) have graduated above the low income threshold in recent years. The Parish of Belmore with McCallum’s Hill and Clemton Park is close to the threshold at $167,054 for 2020 but should improve materially in coming years via rental income. Hornsby Heights would also be close to threshold if not for substantial government payments in 2020.

12. In February 2022 the Board approved an updated *Lending and Investment Policy*. This included a section on Responsible Lending, which is particularly relevant for low income parishes. Point 12 from this report is below:

    “For smaller parishes, their ability to afford loan repayments for anything more than a modest project may be doubtful. In its deliberations, the Board should be careful to separate situations where more equity is required from situations where the parish can clearly prove its ability to repay the loans. The Board is not the only avenue for parishes to obtain funds and by lending to a parish with insufficient ability to repay loans the Board may simply be delaying inevitable change at the parish.”

13. The 2016 review of the *Assisting Low Income Parishes Policy* considered four possibilities for assisting low income parishes. These were: lower interest rates and fees, maintenance plan grants, capital grants and ministry training strategy scholarships. The Board determined not to seek to have power within its updated ordinance to make grants. Without a change in the Board’s ordinance, this largely limits the Board’s options in assisting low income parishes to lowering the rates and fees it charges.

Lower Interest Rates and Fees

14. Like many lenders, the Board’s cost of assessing and establishing a loan is approximately $1,000 to $2,000, regardless of the loan size. This means that for all but the largest loans, the Board uses the interest rate to recoup the cost of assessing an application. As the Board has a sliding application fee of 0.1% of the amount applied for, subject to a $100 minimum, this means that larger parishes are already providing a subsidy on application fees.

15. The Board could consider reducing or eliminating the $100 minimum application fee to assist low income parishes. However, there is no evidence that the application fee is discouraging low income parishes from applying for a loan. Conversely, reducing the minimum fee could encourage speculative applications as there would be almost no dollar cost (but a material time cost) in making an application.

16. With the current interest rate settings, the Board does not differentiate between borrowers based on loan size. This is unusual compared to banks, who would typically offer discounts on the standard variable interest rate to larger borrowers as there is scale efficiency from larger loans.

17. Recent feedback has the Board’s interest rates and application fees as competitive for commercial property activities. However, banks are currently very aggressive in seeking to win residential property backed lending, typically offering interest rates more than 1% lower than the Board. Notably, this competition is primarily impacting medium and large parishes that offer residential property as security.

18. For parishes borrowing less than $300,000 the Board is likely to be the only borrowing option they have. Below this threshold, banks are likely to consider potential loans to be sub-economic. When construction is involved and/or church property is used as security, banks have recently been less interested.

19. In theory, the Board could offer interest rates discounts to low income parishes. However, the monthly repayments from smaller parishes are primarily principal with the interest component small. Even if an interest rate discount of 1% was given to a low income parish borrowing $50,000, they would benefit by only $500 per year. This would reduce their cost base by a fraction of 1%.

20. It is therefore recommended that the Board retain its current ability to offer reduced interest rates and/or application fees on a case by case basis. It is not recommended that the Board adopt as standard lower interest rates or applications fees for low income parishes.

Additional Mechanisms

21. At the Board's meeting in July 2021, members raised several areas for further consideration. These were; guarantees by larger parishes of loans made to smaller parishes, interest free loans to smaller parishes, making higher risk loans with a small portion of the Board's capital, tiered interest rates depending on parish size, making grants to low income parishes, making distributions to other Sydney Anglican organisations, considering ministry outcomes more heavily in the loan approval process and linking repayments to ministry success (e.g. % of total income).

22. The Board determined that a working group should be established to further discuss these issues. All board members were offered the opportunity to join the working group with Mr Michael Jones and the Rev Daniel McKinlay volunteering. Along with the Board's Secretary and Lending Consultant, the working group met on 28 July 2021.

23. The working group discussion narrowed down the areas for further consideration to; guarantees by larger parishes of loans made to smaller parishes and making higher risk loans with a small portion of the Board's capital. The other areas were not dismissed completely but were considered low priorities and/or have been addressed sufficiently already.

Loan guarantees

24. An initial discussion was held with Diocese's Head of Legal Services regarding any technical issues that could occur with loan guarantees. The initial view was that these could create issues with the sole purpose test under tax and charitable trust legislation. There is a concern that parishes providing financial support to other parishes, whether by loan guarantees or other financial measures, could fail to meet their sole purpose requirements.

25. This issue has been repeatedly followed up with the Head of Legal Services over the last year. He has not allocated any time to further consideration of the issue and there is no indication that this will change. Without a clear legal view on these issues, it would be unwise (and technically impossible given documentation changes required) for the Board to implement such a substantial change.

26. The Board does not a have a history of approving loans guaranteed by third parties. The Board would need to develop additional loan documents (with the assistance of SDS Legal Services) to sit alongside the existing loan documents that would allow for the inclusion of a guarantee. The Board would look for the Parish Council of the larger parish to hold a meeting and agree to guarantee the loan, with post approval documentation that formalises this intention required.

27. Separate to the mechanics of loan guarantees, there are two broader issues for the Board to consider. First, the development of a wider "buddy system" between parishes and second, whether loan guarantees are solving a problem that should be solved by another method. (e.g. grants or parish mergers)

28. The Sydney Diocese does not currently have a formal buddy system for parishes, but Board members have mentioned several informal arrangements known to be operating. After discussion with the Diocesan Secretary, the most logical path to pursue would be for a question or request to be raised at Synod regarding the current level of inter-Parish arrangements. This could be put as a request for report to be prepared, which could include; the number and type of such arrangements and lessons learnt for other parishes considering similar arrangements.

29. A triannual report might be an appropriate way to have ongoing monitoring of this. There is also the potential for a committee to be established, however there is currently an effort being made to reduce the number of Diocesan committees so a request for an ongoing committee could be seen as excessive. Whilst these arrangements could be left at a Bishop level, it is likely that the majority of larger parishes will be in different regions from the majority of smaller parishes.

30. The establishment of a more formal buddy system is likely to include many more elements than loan guarantees and would typically encompass multiple ministry and financial support mechanisms. Examples could include; mentoring of younger rectors, preaching support, scripture in school programs, holiday programs, sharing financial/property/technical skills, community outreach events etc. Whilst the Board is not positioned to run such a system, it could be part of the process to engage Synod and generate wider support for this initiative.

31. As noted in point 12, loans to small parishes that they cannot comfortably service could become a temporary diversion from a better, long term solution. Whilst a guarantee from a larger parish would provide comfort that the Board's capital is not at higher than usual risk of being impaired, it does not solve broader issues that a parish may be facing. (e.g. sub-scale attendance, ministry team, evangelism, ministry style etc.) In some cases, a small parish will need to merge with other congregations or another Parish to overcome these limitations. The Board needs to bear this issue in mind when assessing each loan and should be comfortable declining applications where the involvement of the Regional Bishop is required to restructure a Parish's position.

32. The Board is encouraged to discuss these matters and to provide guidance on its priorities and how to proceed. Board members who are Synod members may be best placed to advance these initiatives.

Higher Risk Loans

33. The second major area identified by the working group was the potential to change the Board's risk appetite to make higher risk loans to low income parishes. A suggestion was that $1 million of the Board's capital could be set aside specifically for loans of up to $50,000 to low income parishes where the serviceability of the loans is doubtful at the outset. These loans may have a reduced or 0% interest rate and may also have an initial period of interest only or no repayments. Loans would continue to be for capital purposes, with the hope that small upgrades to buildings would spark a turnaround in the Parish's attendance and offertories.

34. These higher risk loans would blur the lines between a loan and a grant in several ways. First, the Board would need to be prepared to lose the capital it lent, as Standing Committee is unlikely to force the sale of Parish property to repay a small loan that was made on a high risk basis. Second, the loans would need to be immediately provisioned once made, likely by at least 50%. These provisions would be an immediate reduction to the Board's surplus, and if sufficient loans were made within a calendar year could see the Board record a deficit.

35. The Board should also consider the wider implications of approving high risk loans. The Board has a history of never losing capital on a loan, though loans have been extended and interest rates reduced for some parishes. This could impact the Board's perception and relationships with other Diocesan organisations. The Board could also come under pressure from other borrowers or Diocesan organisations to forgive other loans or make grants.

36. Given the high likelihood of losses, the number of high risk loans would have to be limited. There would be difficulties determining which parishes were approved for the limited number of loans and what the criteria would be. (e.g. financial versus ministry) Similarly, difficult decisions would have to be made about when to forgive loans and by how much.

37. Considering the substantial complexity, difficulties and risk involved in making high risk loans, it is not recommended that the Board pursue this option.

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