

LOANS TO CHURCHES

Introduction

This note is offered as guidance to PCCs in the Diocese of Chichester. Each PCC is an independent charity and the PCC members, as charity trustees, are responsible for day to day administration. This guidance particularly focuses on loans from individuals to PCCs. The Diocese of Chichester discourages PCCs from taking loans from individuals. If a PCC is considering entering into a loan arrangement with an individual then we recommend that the PCC considers this very carefully, and if it decides to proceed does so with extreme caution. There have been too many recent examples where loans have gone wrong and caused significant financial or pastoral issues.

Reasons for Borrowing

A PCC is permitted to borrow money. From time to time a PCC may consider doing so to fund a particular project such as:

- Constructing a new building or enlarging or renovating existing church buildings
- Purchasing a property for church use
- To bridge the gap between buying one property and selling another

Sources of Loans

1. Archdeacon loans – interest free loans up to £50k repayable over seven years available from the DBF for church building projects. Please contact your Archdeacon for details. This is a straight-forward and reasonably quick process.
2. Commercial Institutions – PCCs may apply to commercial lenders or to lenders who specialise in making loans to Christian charities. Please note that the property ownership arrangements for church property are not standard. Not all lenders can accommodate this framework. They may also struggle to accept the way churches gain income as being sufficiently robust to lend against.
3. Individuals – usually church members. Some PCCs have seen this as an easy option, but it needs to be handled with much greater care than any other loan source. See below for guidance.

General Consideration

PCC members, as charity trustees, have important legal and financial responsibilities. These include ensuring that any loan taken out is in the best interests of the PCC, and that the PCC can repay the money.

If a loan is being taken out with a commercial lender (e.g. a bank) then a formal legal charge document may be required and there are specific legal requirements to consider.

The Charities Act 2011 governs the borrowing of money by a PCC – or any other charity – against the security of charity property. Under sections 124 and 129 of the Act the Charity Trustees must obtain and consider advice from someone who has no financial interest in the loan and who is believed by the Trustees to be qualified by ability and practical experience of financial matters to offer advice. The advice must cover the following points:

- Whether the loan is necessary.
- Whether the terms of the loan are reasonable.
- The ability of the charity to repay.

Loans from Individuals

Churches are sometimes offered personal loans from individuals, which may be interest free. The Diocese of Chichester advises against accepting loans from individuals unless all other avenues have been exhausted and the following steps must be taken:

- The PCC must approve the borrowing and pass a resolution at a meeting which is recorded in the minutes. The following is a suggested resolution of the PCC:

‘It is resolved that in connection with the church’s (building project) the PCC, as trustees, have agreed to receive a loan from [name] over a x year period interest free / at interest of *% per annum/to be repayable in equal instalments [monthly/quarterly/annually] or within three months after the death of a lender.’

- The terms of the loan must be agreed in writing with the lender. Loans must be accepted by the PCC and the lender on the understanding that they are unsecured. The repayment terms must be set out clearly. If interest is to be paid the rate must be agreed and stated, including how the interest will be calculated. A sample loan agreement template is provided in Annex One.
- Special consideration must be given to the potential problems if a person to whom interest is paid is a PCC member (i.e. Charity Trustee). Charity Trustees and their families are not normally able to benefit financially from the income of the charity.
- The written loan agreement must make it clear that there is no personal liability for repayment on the PCC members.
- If significant loans are being obtained (such as for a building project) contingency arrangements must be made in advance so that funds will be available to meet any requests for repayment. An individual could face unexpected financial problems and need the money to be repaid quickly. The PCC also needs to remember that the person might die and the money become due to their family or estate.

- If loans are promised to fund part of a project the money must actually be received by the PCC before the PCC commits itself to the project.

After a loan has been made the lender may offer to convert the loan, or part of the loan, into a gift. There should be no expectation or suggestion from the PCC that this should happen. If the lender does offer to do this, then careful consideration should be given to dealing with the gift in the most tax efficient way, for example by Gift Aid. The loan can actually be repaid by the PCC and then the sum paid back to the PCC as a gift assuming that the lender has paid sufficient tax to cover the gift.

Important Note

Cash loans are considered to be a provision of credit and may be regulated under the Financial Conduct Authority's consumer credit regime. Legal advice should be sought where a PCC or individual has any concerns in this regard.

EXAMPLE LOAN AGREEMENT

THIS AGREEMENT is made on [Date/...../.....]

BETWEEN:

[Name and address of Individual] ("the Lender")

AND

[Name of PCC] ("the Borrower")

Introduction

This agreement formally acknowledges the PCC's grateful thanks for an interest free loan of £*/a loan of £* subject to payment of interest by the PCC at [x]% per annum.

The Lender and the Borrower agree the terms as set out in this document.

Loan Repayment

The PCC covenants to repay the loan over [x] years in [monthly/quarterly/annually] instalments, with the first repayment due on [date]. In the case of the Lender's death the loan will be repaid by the PCC to the estate within three months of death. The PCC will be free to repay the loan at any time.'

Loan Interest

The Borrower shall pay interest on the Principal Amount of the Loan at a rate of [x]%.

Simple interest will be calculated and is repayable over the course of the loan/with the final repayment.

The Lender is responsible for declaring any taxable income arising from the arrangement and paying any tax due.

Other

The loan is accepted by the PCC on the understanding that it is unsecured and that no PCC members are personally liable for the repayment of the loan.

Confirmation

By signing this agreement both parties are agreeing the terms on which the loan will be made.

Signed on Behalf of the PCC:	Signed by the Lender
Name:	Name:
Position:	
Date:	Date: