

# Sharing the Light

## **1. What is the Archdiocese of Detroit's Loan Deposit Program? How does it work?**

The Loan Deposit Program (LDP) is a cooperative savings, investment, and lending program consisting of deposit and loan accounts managed by the Archdiocese for the benefit of parishes, schools, and other Catholic organizations.

The Archdiocese, parishes, schools, and other Catholic institutions make deposits into the LDP on which they earn interest. These deposited funds make it possible for the Archdiocese to provide loans to LDP depositors. The LDP is not a federally or state-regulated bank and there are no FDIC-insured deposits in the LDP.

The LDP's primary source of income is interest earned on its loan portfolio to parishes and schools. For the fiscal year ending June 30, 2010, interest revenue to the LDP was \$7.4 million. Its returns from outside investments in the commercial financial markets totaled \$2.2 million.

In recent years, interest on savings deposits in the LDP was paid at three percent per annum, a rate significantly above that provided by commercial banks. As of July 1, 2011, the savings interest rate was lowered to 1.5 percent. In the fiscal year ending June 30, 2010, \$6.3 million was paid in interest on LDP savings deposits. The interest charged on most LDP loans is 5.5 percent per annum.

LDP interest rates are reviewed quarterly and adjusted periodically. A newly created LDP Committee, comprised of members of the archdiocesan Finance Council and the College of Consultors, recommends interest rate modifications to the Finance Council. The Finance Council is a nine-member committee comprised of lay financial experts and clergy that provides advice to Archbishop Vigneron and oversight on financial matters pertaining to the Archdiocese. The College of Consultors is the priest council of advisors to the Archbishop on administrative and financial issues.

## **2. Who started the Loan Deposit Program? Why and when?**

Cardinal Edward Mooney, Detroit's first Archbishop, started the LDP during the Great Depression. After becoming Archbishop in 1937, Cardinal Mooney became increasingly concerned about parishes borrowing from commercial lenders and falling behind or defaulting on their loans. Motivated to prevent banks from foreclosing on and owning sacred worship space, Cardinal Mooney envisioned the LDP as a way to enhance and stabilize the financial assets of the Archdiocese, parishes and schools, managing and investing the funds for the common good, rather than having Catholic entities individually borrow from banks with limited recourse if they were unable to pay. Funds in the LDP are invested on behalf of its depositors, with each entity retaining a separate account with separate ownership and access to its funds.

### **3. Is the LDP unique to the Archdiocese of Detroit?**

No. Many dioceses in the United States rely on internal, benevolent depository programs like the LDP in which depositors including parishes, schools, and other Catholic entities earn interest on their savings, while having access to capital through loans from the same source. These diocesan programs enable better diocesan financial management and limit the exposure of individual parishes and schools to commercial lenders.

### **4. How much is in the LDP?**

The assets of the LDP are its loan receivables from borrowers as well as its cash and invested assets. As of its most recent audited financial report for the fiscal year ending June 30, 2010, The LDP has \$155 million in total net assets, consisting of \$121 million in collectible loan receivables, \$21 million held by investment managers, and a \$13 million cash balance. Audited annual financial reports for the Detroit Archdiocese are available on the archdiocesan website.

### **5. What are the sources of LDP deposits?**

The LDP has \$201 million in deposits. Of that total, parishes and schools have \$138 million on deposit. Archdiocesan internal accounts including Central Services departments have \$36 million in LDP deposits. Archdiocesan Central Services operations include the pastoral and administrative departments of the Archdiocese. Other Catholic enterprises in southeast Michigan have deposited \$27 million in the LDP.

These deposits are considered liabilities because they can be withdrawn. An additional LDP liability is a commercial loan initially obtained by the Archdiocese in 2002 and renewed in 2007 to facilitate additional LDP lending. The Archdiocese presently owes \$18 million on this term loan from Allied Irish Bank.

### **6. What other Catholic organizations have LDP accounts?**

Catholic social service agencies and Catholic youth organizations in southeast Michigan are examples of other Catholic entities maintaining LDP accounts.

### **7. Who has loans from the LDP? What is the status of those loans?**

There are approximately 87 LDP loans to parishes as well as parishes with affiliated schools. About 12 independent Catholic schools have LDP loans. Outstanding loans to parishes and schools total approximately \$97 million.

Sacred Heart Major Seminary, The Michigan Catholic newspaper, and archdiocesan Central Services departments have \$37 million in outstanding LDP loans.

The Pope John Paul II Cultural Center Foundation and Pontiac Area Vision 2000 Schools bond project have \$63 million in LDP loans or loans backed by LDP assets.

Approximately 40 percent of parish, school, and other LDP borrowers are not making their required payments on time, in full, or both. An LDP analysis in 2010 found that only 16 percent of parish and school loans being serviced to some extent would be repaid in full within five years.

Of the \$196 million in outstanding LDP loans, about \$78 million is being reserved for these doubtful accounts. The Archdiocese made this accounting allowance (a non-cash charge) of \$78 million to address the possibility these LDP loans may not be paid in full. Interest charges are not accruing on these nonperforming loans.

As of June 30, 2010, the \$78 million in reserved funds resulted in the LDP having a net deficit in assets totaling about \$64 million due the large amount of uncollectable loans.

The \$78 million accounting allowance for uncollectible loans was determined through a review of outstanding LDP loan balances and the financial condition of the related parishes and other organizations. The \$78 million total is considered adequate to cover all possible uncollectible LDP loans as of June 30, 2010.

## **8. How have LDP funds been used?**

LDP loans to parishes and schools have typically financed renovation and construction projects to upgrade or build parish life centers, gymnasiums, multipurpose additions, and faith formation offices. LDP loans have also facilitated repairs to roofs, parking lots, boilers, and other property needs. From the mid 1990's, LDP loans were made to stand-alone Catholic schools and parishes with struggling schools, providing operating funds to enable these schools to remain open until the end of the academic year.

Beginning approximately ten years ago, the Archdiocese loaned and secured about \$52 million in LDP funds to the Pope John Paul II Cultural Center Foundation in Washington, D.C. to design, construct, operate, and maintain the building and grounds where the Cultural Center is located.

Between 1994 and 2006, the Archdiocese invested \$30 million in LDP funds into renovations and construction at the former St. John's Provincial Seminary in Plymouth Township, repurposed as the St. John's Center for Youth and Family, which later became the Retreat Center at St. John's. The majority of these funds were transferred in the 1990's when LDP was realizing substantial investment returns.

Funds were also transferred from the LDP to cover operating shortfalls in archdiocesan Central Services departments as well as at Sacred Heart Major Seminary, the Cathedral of the Most Blessed Sacrament, and the St. Aloysius parish and community center in downtown Detroit. In the fiscal year ending June 30, 2008, more than \$11 million was transferred from the LDP to cover these shortfalls. In the fiscal year ending June 30, 2009, more than \$10 million was transferred for this purpose. While supporting worthy programs or struggling areas in transition, these transfers were subsidies that covered operating losses on which there were limited expectations for repayment.

The Archdiocese stopped loaning and transferring funds from the LDP to cover Central Services budget shortfalls and subsidies to other institutions in the 2009-10 fiscal year. No such transfers have since occurred.

## **9. Is the LDP still making loans?**

While parishes, schools, and other depositors can continue to access their LDP deposits, an LDP loan freeze is in effect. The LDP has satisfied all depositor withdrawal requests through \$34 million held in cash and investments.

## **10. What impaired the LDP's ability to make loans?**

The LDP's net deficit in assets, or net negative equity, results from a combination of factors. The LDP's former lending policies were too broad, its terms too generous, oversight was limited, and responsive action was inconsistent when borrowers fell behind or stopped making payments.

Loans and transfers totaling \$52 million to the Pope John Paul II Cultural Center and \$30 million in transfers to the St. John's project reduced LDP loan capacity. As of June 30, 2010, more than one third of the \$78 million in LDP doubtful accounts – \$26 million – is from parish and school loans not being paid on time, in full, or both.

These unpaid loans and transfers reduce LDP capital that would otherwise be available for loans to financially stable parishes and schools. While archdiocesan transfers drew down LDP funds, parishes and schools that fell behind on servicing their LDP loans also stressed the LDP, limiting the ability of other parishes and schools to obtain LDP loans.

Some parish loans were made in recent years with an unfortunately timed confidence that the loans were backed by real estate and other property holdings carrying greater value than the loan. The recession-driven declines in the real estate market have significantly affected the use of property sales to offset nonperforming LDP loans.

While LDP depositors continue to accrue interest earned on their savings deposit accounts, because of the significant volume of nonperforming loans, LDP capital is not available to the extent it once was for parish or school construction projects and other needs.

The uncollectible loans from parishes, schools, and other entities directly contributed to a financial situation that a committee appointed in 2009 by Archbishop Vigneron determined was in need of significant reform.

The Archbishop accepted several reforms proposed by the committee including an extensive examination of the LDP's books and records, its operations and oversight, its lending practices, and the interest rates paid on deposits and charged on loans.

### **11. How do these delinquent or uncollectable loans affect the LDP? How does the LDP stay solvent?**

A stable and healthy LDP serves as a source of advantageously priced capital for the Archdiocese as well as parishes, schools, and other Catholic entities in southeast Michigan. When LDP borrowers fail to repay their loans, they in effect fail to repay their sister institutions whose money they borrowed. This hurts all depositors and limits the amount of money available to invest in new initiatives. The ability of the LDP to issue new loans is impaired by the \$78 million reserved for nonperforming loans. In addition, unpaid interest on the \$78 million in nonperforming LDP loans adds up to \$3.9 million annually in lost revenue to the LDP, which affects all LDP depositors.

The LDP is a cooperative depository and lending program with parishes and archdiocesan schools required to keep their cash on deposit in the LDP beyond what is needed for 30 days of operations. The LDP has satisfied all depositor withdrawal requests through \$34 million held in cash and investments.

The Archdiocese is stabilizing the LDP by steadily reducing and eliminating the net negative equity to restore the LDP as a reliable source of capital for its depositors and qualified borrowers.

### **12. What is the Archdiocese doing to stabilize the LDP?**

Shortly after his arrival in 2009, Archbishop Vigneron appointed a commission of lay financial experts and priests to investigate all archdiocesan finances, including the LDP. This commission found many LDP borrowers were not making loan payments on time or in full; LDP recordkeeping did not meet contemporary accounting standards; LDP loan procedures lacked appropriate oversight and enforcement; and, the LDP was in a substantial net negative equity situation.

The commission made several recommendations including reorganizing the LDP under a different financial model, charging viable interest rates to better reflect the market environment, and advised taking action to reactivate payments from LDP debtors. The Archdiocese has verified LDP books and records to determine who owes how much, and has pinpointed LDP loans that can and should be serviced. Over the past year, the

Archdiocese has taken several steps to stabilize the LDP. The goal of these efforts is to ensure a financially sound and disciplined LDP, improve LDP loan repayments, and strengthen LDP liquidity:

- Reformed LDP lending policies and procedures
- Enhanced archdiocesan Finance and Administration staff with a clearer definition of responsibilities and separation of duties. Hired a treasurer and assistant treasurer to provide internal checks and balances and better day-to-day management of the LDP.
- Adjusted interest earned on savings deposits and interest charged on loans
- Initiated in January 2011 the pilot phase of the Changing Lives Together fundraising initiative to help parishes meet their pastoral and financial needs. Each parish is retaining 70 percent of the funds it raises, with the other 30 percent supporting priorities to benefit the entire Archdiocese. Parishes with outstanding LDP loans or other debt to the Archdiocese or the Michigan Catholic Conference will apply 75 percent of the funds they raise toward paying down these outstanding balances.
- LDP debt is being evaluated on a parish-by-parish basis for possible loan modifications and new payment schedules based on repayment capacities for parishes with a realistic possibility of managing their LDP debts. The parish-by-parish loan analysis and recommendation process now underway has four objectives:
  1. Increase the liquidity of the LDP as quickly as is reasonable;
  2. Develop an equitable solution for each parish loan wherever feasible;
  3. Make each loan as healthy as is attainable; and,
  4. Incentivize parishes to pay off their loans as soon as possible.

### **13. What causes parishes and schools to get behind on their loans?**

For parishes, difficulties typically begin when fewer parishioners participate in parish life and offertory collections decline amid rising costs for building and grounds maintenance. These problems amplify in financially stressed parishes operating Catholic schools.

Independent Catholic schools – those not connected to or affiliated with a parish – get behind in servicing their LDP loans when enrollments decline and tuition revenue drops. Like parishes, schools have increasing operational costs to manage, which do not lessen when fewer students enroll.

For many parishes and schools, these problems have compounded over the years, exacerbated by the recession. Like many families in southeast Michigan, some parishes and schools have been forced to make minimum payments on only the most necessary expenses.

Parishes and K-8 schools throughout the Archdiocese are currently engaged in phase two of the Together in Faith pastoral planning process in which they are assessing their ministries and resources in the context of their communities and in collaboration with their neighboring parishes. The process calls for parishes and schools to complete their recommendations in November 2011.

### **14. What actions are underway regarding parishes not paying their LDP loans?**

The Archdiocese is working to create solutions with parishes that stopped making LDP loan payments. Changes in loan terms are being recommended to enable financially struggling parishes and schools to restart servicing their LDP debts.

The Archdiocese has also launched the Changing Lives Together capital stewardship initiative through which each parish will retain 70 percent of the funds raised in the parish, some of which will be used to address LDP loans in applicable situations.

**15. Have any parishes or schools been restricted from accessing their LDP deposits? Can they make withdrawals for things like roof and parking lot repairs or school year startup expenses?**

LDP depositors continue to have access to their funds for appropriate purposes. All depositor withdrawal requests have been satisfied through \$34 million held in cash and investments. Archdiocesan approval is required on parish or school withdrawal requests for capital expenditures exceeding \$25,000 and for any unbudgeted expenses over \$25,000.

**16. When the LDP is able to make loans, who will review the loan requests?**

Among the reforms now in place, all LDP loan requests are first received by Archbishop Vigneron and the College of Consultors, which is the priest council of advisors to the Archbishop on administrative and financial issues.

If the Archbishop and Consultors agree the loan request fulfills a legitimate pastoral need, the request is routed to a newly constituted LDP committee. This committee includes the archdiocesan treasurer, two representatives from the College of Consultors and two members of the archdiocesan Finance Council. The committee conducts a credit analysis of the request, and ascertains whether the requesting entity has the wherewithal to service the loan. The loan committee votes to approve or deny the request. The decision goes to the Consultors and Archbishop Vigneron, who makes the final decision.

Any LDP loan request above \$500,000 requires the additional review and approval by the archdiocesan Finance Council.

**17. Has the Archdiocese previously communicated about the nonperforming loans?**

Problems with the LDP's nonperforming loans were reported in the October 22, 2004 edition of *The Michigan Catholic*, which noted increased loans to parishes and schools, combined with lower deposits, had caused a \$50 million disparity in the LDP, resulting in a cash flow challenge for the Archdiocese.

At the time, loans from the LDP had more than doubled since 1998 to more than \$169 million against total deposits of about \$119 million. Loan delinquencies had increased to the point that more parishes and schools were in arrears on their loans than were current. Only 62 parishes and schools at the time (35 percent of those with loans) were making regular payments, while 84 (48 percent) were making only sporadic payments and 30 (17 percent) were making no payments at all.

The problem then, as now, with parishes and schools failing to service their LDP loans is that other parishes and schools with good payment histories and legitimate needs are restricted from borrowing from the LDP.

**18. Is it possible to write off the nonperforming loans and start over?**

LDP loans involve money that belongs to LDP depositors – the sister institutions of parishes, schools, and other Catholic entities whose resources provide the capital for fellow depositors to advance the mission of the Church. It is not feasible to write off all delinquent LDP loans at this point because many of those loans still have value. In addition, parishes and schools with positive LDP loan histories would bear the negative effects of dismissing troubled LDP loans. To write off all nonperforming LDP loans would adversely affect the sister institutions whose deposits made the loans possible.

The Archdiocese has reserved \$78 million for doubtful accounts in the LDP. Some of the nonperforming LDP loans, including to the Pope John Paul II Cultural Center and some parishes and schools, will be partially

recovered from property sales, which is a challenge in the current real estate market. Some nonperforming parish loans are being restructured to facilitate the resumption of loan payments.

## **19. Will tighter lending policies and property sales stabilize the LDP?**

These actions are a necessary start, but will not be enough to fully stabilize and strengthen the long-term liquidity of the LDP.

As part of the 2009 reforms put in place by Archbishop Vigneron, the archdiocesan Finance Council analyzed options to stabilize the LDP. The most viable actions included immediate reforms to tighten the LDP's lending and management practices, utilizing property sales to compensate in part for nonperforming loans, refinancing LDP debt, and requiring parishes with debt to allocate part of the funds they raise through Changing Lives Together to meet their loan obligations.

The Changing Lives Together formula specifies each parish will retain 70 percent of the funds raised through the parish, with the other 30 percent supporting priorities to benefit the entire Archdiocese. Parishes with outstanding LDP loans or other debt to the Archdiocese or the Michigan Catholic Conference will apply 75 percent of the funds they raise toward paying down their loan balances.

Applying parish-specific funds raised through the Changing Lives Together initiative to outstanding parish LDP obligations will help stabilize the LDP. Combined with the aforementioned actions, it is anticipated within approximately five years a limited restoration of LDP loan activity will occur with a gradual return to making new loans from the LDP on tighter credit standards.

## **20. Do parishes and schools have deposits and debts outside the LDP?**

Very few parishes have outside debts or loans with commercial banking institutions. Those that do were approved by the College of Consultors. Parishes are required to deposit into the LDP all parish funds in excess of 30 days of parish operating expenses.

Parishes and schools can continue to make investment deposits into the Archdiocese of Detroit Endowment fund in which 64 parishes, schools, and organizations have 71 accounts in the fund totaling \$19.6 million.

Some parishes and schools collectively owe the Lansing-based Michigan Catholic Conference (MCC) more than \$8 million in overdue healthcare benefit payments for priests as well as pension and healthcare benefits for lay people in parish service, and for property and liability insurance coverage. The MCC operates the retirement and benefit plans covering all lay Church employees in the state. The MCC also facilitates property and liability insurance for parishes and schools.

The Archdiocese is addressing these and other debts outside of the LDP in the financial planning it is facilitating with parishes.

## **21. Who manages LDP assets and investments?**

The LDP is part of the archdiocesan general investment fund and is managed by the archdiocesan Finance Council's investment committee. The Finance Council manages LDP investments, assisted by CapTrust, an investment consulting firm.

Plante & Moran, PLLC annually audits the financial statements of certain Archdiocesan funds including its central operations, designated funds, properties, the Loan Deposit Program and archdiocesan collections. The

Archdiocese has consistently received unqualified (also known as clean) audit opinions from Plante & Moran. The annual reports in their entirety are published on the archdiocesan website.

## **22. Where are LDP deposits invested?**

LDP deposits are invested in a diverse portfolio of domestic equity, international equity, fixed income, and alternative asset funds. Because the LDP is a cooperative depository and lending program operated for mutual benefit, deposits into the LDP make it possible to extend loans to depositors. In this regard, LDP deposits are invested in loans made to parishes, schools, the Archdiocese, and other LDP borrowers.