

## Refinancing Your Debt:

### Is Now the Time?

“Summertime and the livin’ is easy,” or so the lyrics of Ella Fitzgerald’s song would have us believe. While summer conjures up images of family vacations, lazy days in the shade, and trips to the beach and the golf course, we all know there are still things to be thinking of back at the office.

One of the things you may be considering is whether or not the time is right to refinance your existing debt. Interest rates continue to be attractive, and despite the gyrations in the financial markets, lenders are still looking to place loans with creditworthy borrowers.

There are three primary reasons why you might want to refinance a loan. The most obvious reason would be to save money and improve your monthly cash flow. This may be a particularly good reason if your donations have fallen off recently due to the problems in the economy. Typically, a refinancing can provide you with a reduced payment by lowering the interest rate, extending the maturity date of your loan, or a combination of both. While converting to a lower interest rate is fairly easy to understand, the implications of extending your debt may be more complex. It is best to be cautious when extending the term of your loan, particularly if it involves an extension greater than five years.

Another reason to consider refinancing is a desire to remove onerous terms in your existing loan agreement. As time goes by and your financial position strengthens, a refinancing may allow you to shed covenants in your current agreement that you needed to accept at the time the loan was originated. Some examples of this would include restrictions on the amounts held in and the use of your savings accounts, unusually high debt service coverage ratios, and

requirements for dedicated debt service reserves. Being able to rid yourself of certain covenants may give you much needed flexibility in your financial affairs.

The third reason you may wish to consider refinancing is to exit an unfavorable lender or depository relationship. No matter how hard everyone strives to remain on good terms with all of their business contacts, relationships can sour for many reasons. We have had a number of parish clients that have experienced massive sea changes in the personal relationship with their lender, as ownership and staff turnover created a whole new set of relationship rules and challenges. When this occurs and it is irreversible, it sometimes is best for everyone to seek a change of venue.

When deciding if refinancing is the right thing to do, it is important to take into consideration the costs of the transaction. Your current loan may contain prepayment penalties or breakage fees for paying the loan off early. Depending upon the lender and current market conditions, those fees may be extremely high. Also, in connection with re-writing a loan, you may be subject to attorney fees, additional bank origination fees, and new title and mortgage registration costs. It is necessary to assess all of these potential costs to know if a refinancing will actually save you money.

CFC has helped many of our clients analyze the advantages and the pitfalls of refinancing their debt. If you are considering this important step, give us a call and we can help you determine if now is the right time to make this move.

## **Congratulations to Bishop Lee Piché and Fr. Paul Sirba**

The Holy Father has appointed Reverend Lee Piché as Auxiliary Bishop of the Diocese of St. Paul and Minneapolis. Bishop Piché, who had been serving as Vicar General of the Archdiocese, and thus as a member of CFC's Board of Directors, will remain Vicar General of the Archdiocese and serve as Episcopal Vicar for the Cathedral of St. Paul. His ordination as Bishop was held on June 29, 2009.

Fr. Paul Sirba has been appointed to succeed Bishop Piché as Vicar General of the Archdiocesan Corporation. As such, he has joined the Board of Directors of CFC as of July 1, 2009. Our heartfelt congratulations go out to both Bishop Piché and Fr. Sirba on their new appointments.

## **Deanery Meetings a Success**

CFC recently concluded a series of eight deanery meetings in the Archdiocese of St. Paul and Minneapolis. Presenting jointly with Vicar General Fr. Lee Piché (now Bishop Lee Piché), CFC staff presented to meeting attendees on the topic of "Being Good Stewards in Challenging Financial Times." In total, nearly 800 people attended the meetings. Participants responding to a questionnaire regarding the meetings rated the presentation very favorably. The entire staff of CFC was pleased to assist the Archdiocese with this project and to reconnect with many old friends during the process.

## **Dioceses Reconsidering Management of D&L Funds**

The tough economy is causing several dioceses to re-evaluate the management of their Deposit and Loan Fund ("D&L Fund") programs. In the recent past, these programs provided above average rates of return for their depositors and below market loan rates for their borrowers. Many dioceses thought their D&L Fund was positively contributing to the diocese's bottom line.

The drop in general diocesan revenues has revealed that many dioceses were subsidizing the operation of their D&L Fund programs, often without a conscious decision to do so. The sustained decline in the value of the equity market, the historically low rates of return on fixed income investments, and the lack of underwriting practices have negatively impacted the economics of these funds. Out of necessity, dioceses are evaluating options for their D&L Funds, including restructuring loan/deposit rates, privatizing the management of the fund, or even liquidating the fund's assets to enable the diocese to exit the business. CFC can help simplify what is often a very complex analysis to determine the best course of action. Give us a call at (877) 232-2250.

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