A Paradigm Shift in Christian College Finance
Paradigm Shift:

A paradigm is our perception of reality, our view of the world. It is our interpretation of events based on previous teaching we have received.
Paradigm Shift in Finance:

In finance, a paradigm shift occurs when the borrower can “speak bank”, takes control and dictates the terms and conditions to the lender.
Cost of Money

Historic data
Pros & Cons
Disadvantages

Tools to manage rates:
Swaps / Derivatives
Rate Insurance
Penalties
MMC Elite’s Cap Program
A Paradigm shift in Christian College Finance

Paradigm Shift in Finance:

1. Conventional
2. Capital Market
   - Taxable
   - Tax-Exempt
3. Hybrid
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Conventional Financing Structure

1. **Collateral**
   Including land & project improvements

2. **Loan**
   Bank or Lender

   With Current Prime at 3.25%*
   rates range up to 7.0%
   * As of 12/16/08

3. **Proceeds**
   construction loan converting to perm loan

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Capital Market Financing Structure - Credit

1. Collateral
   including land & project improvements

2. Loan
   Bank or Lender

Annual LOC costs
1 - 1.5%

3. Proceeds
   In the form of a Letter of Credit (LOC)

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1. Collateral
   Bank (LOC)
   Letter of Credit

2. VRO
   Issuance of Variable Rate Obligations sold by securities firm in the financial markets.

3. Proceeds
   Proceeds from sale of VRO’s funds the loan request & project

Current Rates
(depending on the credit)
Taxable:  2.80%*
Tax-exempt:  2.25%*
*(includes LOC costs)
Rates as of 04/01/09
Not an indication of future rates

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Church vs. State

Possible advantages in financing
Future Project Financing:
How to structure financing that includes future projects
Rate Management
Variable vs. Fixed

Historic data
Pros & Cons
Disadvantages

Tools to manage rates:
Swaps / Derivatives
Rate Insurance
Penalties
# Features and Benefits

<table>
<thead>
<tr>
<th>Feature</th>
<th>Conventional</th>
<th>Capital Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interim Financing</td>
<td>n/a</td>
<td>Yes</td>
</tr>
<tr>
<td>Balloon Payment</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Loan to Value ratio</td>
<td>65% max</td>
<td>Up to 80% *</td>
</tr>
<tr>
<td>Appraised Value - New Project</td>
<td>property &amp; project cost</td>
<td>As completed</td>
</tr>
<tr>
<td>Origination - Points to Lender</td>
<td>Yes</td>
<td>None</td>
</tr>
<tr>
<td>Fixed Rates</td>
<td>Possible and if so higher than Variable</td>
<td>Yes - 3, 5, 7 or 10 yrs but lower than variable</td>
</tr>
</tbody>
</table>

*A* some exceptions

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## Features and Benefits

<table>
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<th><strong>Conventional</strong></th>
<th><strong>Capital Market</strong></th>
</tr>
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<tbody>
<tr>
<td><strong>Rates</strong></td>
<td>Prime Based</td>
<td>22-40% below prime</td>
</tr>
<tr>
<td><strong>Terms</strong></td>
<td>typically 15-20 yrs</td>
<td>up to 25 yrs</td>
</tr>
<tr>
<td><strong>Pre-payment Penalties</strong></td>
<td>Possible</td>
<td>None</td>
</tr>
<tr>
<td><strong>Personal Guarantors</strong></td>
<td>Possible</td>
<td>None</td>
</tr>
<tr>
<td><strong>Minimum Loan amount</strong></td>
<td>None</td>
<td>$5 million</td>
</tr>
<tr>
<td><strong>Maximum Loan amount</strong></td>
<td>Depends on bank</td>
<td>None</td>
</tr>
<tr>
<td><strong>Interest Only</strong></td>
<td>Construction Period</td>
<td>up to 36 mos</td>
</tr>
<tr>
<td>**Future Capacity or Phases</td>
<td>None</td>
<td>Yes</td>
</tr>
<tr>
<td>without refinance**</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Loan Covenants

The good, bad & ugly
and
Why local attorneys can’t level the playing field.
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Dodd – Frank Act
(Wall St. Reform)

How it affects Christian College Finance:

Increased Bank Regulation
Regulation of Ratings Agency
Regulation of Bank Conflicts of Interest
Increased Regulation of Financial Advisors
Creates regulation of Municipal Advisors
Regulation of the Derivative (Swap) Market
Summary

Finance Paradigm Shift Advantages:
Levels the playing field
Much lower financing costs
Customized financing vs. one size fits all
Wholesale pricing for 20-30 years
Future project financing
Allows for loan covenant management
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Questions and Answers
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