Places of worship, not financial institutions

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SINGAPORE — Churches should not give out loans to individuals.

The general-secretary of the National Council of Churches in Singapore (NCCS) says so because they are places of worship and not financial institutions.

But some do anyway.

Giving out loans was an area for improvement highlighted by the Commissioner of Charities (COC) two years ago, in a “health check” of seven large charities here including City Harvest Church, which is currently involved in a probe by the COC and the Commercial Affairs Department.

In that review, the COC had observed that some loans were extended to related parties without documented approval of their boards, and there was no policy on the granting of loans to subsidiaries and related parties.

The Commissioner called for the charities — without naming specific organisations — to seek “proper approval for all loans”, to monitor the outcome of the projects that loans are used for, and ensure the money is repaid on schedule.

Corporate governance experts and observers are divided on whether churches and religious charities should even give out loans. It is not common practice for churches to give out loans, said Mr Lim K Tham, general-secretary of the NCCS.

“Churches are primarily worshipping communities, not set up to provide loans of any sort,” he said. “Indeed, some churches have very strict rules about not giving any loans to individuals at all.”

However, loans are sometimes given to sister congregations to finance development projects like the acquisition of a new building, Mr Lim said.

Finance don Gao Huasheng of Nanyang Technological University said loans are typically to help members in financial difficulty. Sometimes, churches also give pastors loans to help with home mortgages.

But loans may cause legal concerns and tax implications, Assistant Professor Gao said. If a church loan comes with interest charged, for instance, the church may be considered as using tax-exempt funds for non-tax exempt purposes.

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Giving money, rather than lending, can be a better choice if churches decide to help someone financially, he said.

Current guidelines do not dictate the types of loans that charities may give out, focusing instead on the need for proper authorisation and disclosure of loans.

According to the Code of Governance for charities, loans or donations made by the charity should be approved by the Board.

And according to the National Council of Social Service’s Guide on Internal Controls for Charities in Singapore, loans and donations should be strictly administered and fully disclosed. Loans to board members should also not be allowed.