Do you need to borrow $$$?

considerations on preparing the church for a loan

PREPARING FOR CHURCH LOANS

I. Planning Your Project

A. Building Committee
1. Lenders like to know that the planning and decision team includes elements of both vision and management.
2. Lay leaders that have experience in real estate, architecture, property development, construction, law, accounting, finance, and other related professions can be valuable.
3. The contractor and other venders should not be part of the decision making team. This could raise conflict of interest concerns.

B. Debt
1. Will the church need to borrow money for the project?
2. Will the debt be serviced from the operational budget or from a capital campaign?
3. What is the borrowing capacity of the church?
   A good rule of thumb for servicing the loan is 3 times the annual tithes and offerings, and no more than 30 % of the total budget.
4. What is your current average annual gift per adult attendee? Is it high or low? Can it be sustained? The target for a good balance is $3,000 or less; a higher average may indicate a few very large contributors, a lower average indicates the income is more evenly spread out.
5. If the church has a capital campaign, how much does the church expect to raise? 1½ to 3 times the annual tithes and offers is the normal range.

II. Land Acquisition

A. City Planning and Zoning
Before you buy, check with the city planning and zoning department to confirm the site is zoned for use as a church or confirm the availability of a special use permit.

B. Environmental liability
Your land purchase agreement should require the seller to provide a recent environmental study as well take responsibility for any remediation cost. If this is not negotiable in the contract, obtain a Phase I Environmental Assessment prior to closing.

C. Use a commercial land contract purchase agreement.

D. Consider the cost of developing the property (i.e. steep terrain, access to public utilities, city-imposed improvements such as widening streets, turn lanes, streetlights, etc.)

III. How much building can the church afford?

A. Look at the financial history
B. Agree on a conservative pledge assumption
C. Determine cost of doing a capital campaign
D. Look at the last three-year trend

Trend	2013	2014	2015
Average adult Worship attendance	____________	__________	__________
Tithes and Offerings	____________	__________	__________
Building Fund	____________	__________	__________
Total Contributions	____________	__________	__________
Average gift per attendee (Total contributions divided by avg. attendance)	____________	__________	__________
Net Income	____________	__________	__________
Add back depreciation (if taken)	____________	__________	__________
Add total current mortgage payment	____________	__________	__________
Total cash available for Debt Service	____________	__________	__________

Three year campaign would yield 1 ½ times your average annual income.
The amount expected to receive during the 12 months of building _____________
The church can borrow 3 times total contributions _____________
The current balance of the building fund is: _____________

This can determine your building budget _____________

IV. Establish a timeline

Consider the extra time involved if the property needs to be surveyed, appraised, or needs a Phase I Environmental Assessment prior to closing.

V. Applying for a loan

A. Obtain debt capacity verification from lender

B. Prior to closing the loan, request a terms sheet or commitment letter from the lender.

C. Complete lending process 60 days before breaking ground

VI. Preliminary loan application

A. Brief history of the church
   1. Year founded
   2. Denominational affiliation, if any

3. Prior experience with debt service, if any
4. Brief biography of the senior pastor and administrator, as well as the number of full-time and part-time staff
5. List of ministries, missions, and community outreach services
6. General description of decision process to incur debt (congregational vote, board vote, etc.)
7. Current and 3-year history of average adult worship attendance

B. Three years of financial statements
1. Internally generated statements are acceptable
2. Include balance sheets
3. Include interim income and expense statements if more than 90 days have passed since end of year.
4. Explain any significant variances

C. Describe past, current, or planned capital campaigns

D. Describe the projected project

VII. Types of Loans

A. Construction Loan
This is a short-term loan (usually up to 12 months) that provides funds during and for the construction. This loan generally matures at the end of the construction period. Funds are usually released as draw requests are submitted. Interest only payments are made on the outstanding balance during the construction period; at this time the loan balance is converted to a term loan.

B. Term Loan
The term (length of loan) is usually set for 3, 4, 5, or 7 years with an amortization over 20 years. Some lenders will use a 15 to 30 year span as an amortization factor. At the end of the initial term, the interest rate may be modified and the current principal balance recalculated within the remainder of the amortization factor.

C. Interest rates are usually set for the term of 3, 4, 5, or 7years and usually work off the 5-year US Treasury Note, New York Prime Rate, or Libor Rate. Generally there is a spread of points between the different rates.

D. Loan fees
1. Origination fee is usually a percentage of the loan. 1% is normal.
2. Construction fees. Sometimes construction fees will be added to cover inspections.
3. Other closing costs include loan review, attorney, title insurance and recording fees.