Common Threads From Church Loan Underwriters

We talk to hundreds of church leaders about their mortgage, loan needs, debt philosophy and construction projects every year. As you might guess, there are common threads to many of these conversations. Thinking this might be helpful information for many church leaders, we interviewed four church loan underwriters and are bringing their thoughts to you! The question posed to our underwriters was “What are some common concerns in conversations as churches apply for a mortgage?”

This is the first in a series sharing their responses, experience and wisdom to help you better prepare for your church’s next mortgage. Whether it’s a refinance, new construction, purchase of a subsequent site, or any other church mortgage need, we hope their observations better equip you to seek the best financing for your unique situation.

Common Thread No.1: Understanding the differences in financing options

Commercial mortgages are not all the same. It can be difficult to make an apples-to-apples comparison. The two most common forms of financing for church mortgages are a commercial mortgage or bond financing. There are some common features, but many differences. Let’s look at some of the variables.

Balloon payment

Some loans are set up to require a large lump sum, a balloon payment, at the end of the mortgage term. Loans that have balloon payments commonly mature in five to seven years. Often, a church needs to refinance to cover the balloon payment, which takes time and money. Refinancing sets the mortgage clock back to zero and resets your amortization. (Wait for it; definition to come.)

Fees

Mortgage contracts have a variety of fees, including an origination or commitment fee, prepayment penalties and swap fees, as well as third-party fees, such as recording fees and title insurance. Ask your lender about how these are calculated and what fees apply to your situation. You’ll want to understand not only the percentage but the actual dollars involved, to help you compare more accurately—and be able to explain them to your church’s decision-makers.

Covenants

Covenants are rules the church must follow to remain in good standing with the lender. They cover details like prepayment fees, how much a church is expected to have in savings, and financial reporting requirements. A church can be in technical default without ever missing a payment if the covenants are not kept. While the covenants generally don't impact the cost of the loan, they can restrict how a church conducts its ministry or require reporting the church may not want to provide.

Interest rate

Lenders use terms like fixed rate, adjustable rate, resetting rate, floating and variable rate in different ways. If a lender says "Your rate is fixed for five years," she may mean the same thing as the lender saying "Your rate resets every five years." To clarify how the terms are used, you'll want to ask what happens after the five-year mark. Your lender can also provide information about the interest costs over the life of your loan. And remember to consider amortization and maturity when evaluating interest rates. Which brings us to our next point ...

Amortization

If you have a balloon mortgage, your amortization is longer than the loan period. For example, a 20-year amortization on a five-year loan results in a balloon payment. The payments during the five years of the loan are calculated as if the loan would be paid over a period of 20 years. On the other hand, when the amortization and life of the loan are the same length of time, the resulting loan is at zero dollars after the final payment.

We admit this is a lot of "finance speak." However, when churches seek financing, these terms and their ramifications are very important and can mean thousands of dollars to a church.

On our website, we have a tool that can help you lay out these points of consideration for a variety of lenders to help make the best decision for your church's unique ministry. There's also a glossary that provides definitions for other common terms used in church mortgage financing.

Lender Comparison Tool: Thriventchurchloans.com/tools-resources.

Glossary: Thriventchurchloans.com/faq.

Next in our series

Common Thread No. 2: Understanding which construction costs don't add to property value.

Call 800-984-9425 or visit ThriventChurchLoans.com to start a conversation about your church mortgage.

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