thrivent
Church Financing

THIRD IN A SERIES

Common Threads from church loan underwriters

If you're joining us for this third post in our series on insights from a church loan underwriter, we invite you to check out our first two posts.

- Common Thread No. 1: Understanding the differences in financing options.
- Common Thread No. 2: Understanding which construction costs don't add to property value.

Common Thread No. 3: Understanding why underwriters value different income sources differently

Isn't a dollar worth a dollar no matter its source? Well, yes and no. Before you think we're speaking out of both sides of our mouth, let us explain.

Churches are unique entities—even among nonprofits. Traditionally, churches have relied primarily on tithes and offerings to pay the bills, do ministry and support their communities. In these days when many churches are experiencing lower attendance, tithes and offerings don't always provide the necessary resources to carry out the ministry your church feels called to.

Four common revenue sources we see on church loan applications

Tithes and offerings

Church leaders are familiar with this source of income, which historically has been the most significant source of funding. For most churches, this is still true. Lenders value donations differently. Those who have experience with lending to churches are going to be comfortable with evaluating tithe and offering income. In fact, the lender may consider only this source of income.

The experienced lender will ask for trends in the church's number of giving units (sometimes referred to as annual tax statements issued) and giving per giving unit, regular adult attendee or member. You should also expect that the lender will review the bracketed breakdown on giving to understand whether the church has "giving concentration risk."

A church has giving concentration risk if it has an inordinately high percentage of its total giving coming from very few donors. It's not unusual to see 80% of giving come from 20% of donors. The broader the base of engaged donors, the lower the concentration risk. The lower the risk, the more a lender likes a loan and the better the interest rate the church can secure.

If a lender has limited experience lending to churches or nonprofits, the donation income of a church may be "haircut" in value (counted as a percentage of actual dollars received) because the lender isn't comfortable evaluating the donation base or isn't comfortable evaluating the income stream or its consistency.

Education services

Churches have been sponsoring schools almost since the beginning of church as we know it. Revenue and expenses related to running a school, preschool or Bible school can be accounted for in numerous ways.

It can be a:

- Ministry of the church, so all tuition and expenses are handled like all other ministries of the church.
- Subsidiary with its own financial statements.
- Separate entity with its own employer ID that pays rent.

There are also many variations in between.

Generally, school revenue will be evaluated differently than other ministries of a church. School attendance trends, percent to capacity, profit margin, property condition and whether the school is more ministry than business (net use of proceeds rather than net income) all go into evaluating this revenue stream.

Product sales

Remember when every growing church had a bookstore inside? Sales of this sort generally make up a lower percentage of church revenue. Experienced church lenders will often haircut or fully ignore this revenue source. Increasing sales numbers are often tied to a "hot item" that won't be very hot in a short time. Product sales also come with inventory, which, when left unsold, has other impacts on a church's financials.

Ministry venture income

This source of income takes numerous shapes and probably warrants an article of its own or maybe even a series. The type of income we're referring to is that which comes from a rental property, event center, coffee shop, or senior care facility. Any revenue source or ministry whose purpose is in part income would fall into this category.

This category is likely to be treated with the most variance between lenders. Don't be surprised if a lender actually counts the expenses but not the revenue in select cases. Traditional commercial or business lenders may prefer this source of income.

If your church is going to undertake an income-earning ministry, most lenders will strongly recommend that you hire people who have successful experience in that specific line of work to lead it. Lenders will also need to see a track record of success, generally a minimum of three years, if you want to count it toward a church mortgage debt service. If this is a significant source of revenue, lenders will likely review this revenue source as they would review a for-profit business venture.

In short, not all income is equal in the eyes of underwriters, and the lens they use to review the revenue will depend on the lender's perspective and experience and how well church leaders can explain their unique situation.

Call 800-984-9425 or visit ThriventChurchLoans.com for more information.

thrivent®
Church Financing