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CHURCH FINANCING: THE ROAD AHEAD

A *Church Executive* Forum

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Church Financing:
The Road Ahead

Surveying the lending landscape

Supply chain issues. Rising interest rates. A reimagined worship environment. All these factors — and more — are likely to impact church financing now and in years to come.

David Lee, Sr.
Senior Relationship Manager
Thrivent Church Financing

***Church Executive:* Tell me about your organization and its history working with churches.**

David Lee: Thrivent has been serving the financing needs of churches for more than 115 years. Thousands of churches have been helped during that time.

Unlike most traditional church lenders, our loans don't mature in a few years with balloon payments, as we're able to offer simple-to-understand fixed-rate loans for up to 25 years.

Also, transitioning a church's banking / cash management services is *not* a requirement, which frees up the church to work with the lender of its choice.

***CE:* Compare 2022 to 2021 in terms of construction financing. What differences are you seeing?**

Lee: We continued to see historic low interest rates without much volatility through the end of 2021 — but that has changed. With overall construction costs rising (materials, labor, supply chain issues) — combined with the likelihood of continued rising interest rates in 2022 and beyond, according to many economists — churches are having to re-engineer the scope of their projects by possibly phasing their original plans.

Rising interest rates means a church may qualify for a lower loan amount, resulting in that church having to raise more funds for a project.

It's essential that a church obtains a GMP / GMAX (guaranteed maximum price) contract from general contractors to protect itself from rising construction costs that could derail its project, as most experienced church lenders will require it.

Finding lenders willing to extend rate locks during a rising-interest-rate environment may also be challenging.

***CE:* Likewise, how does financing right now compare to pre-pandemic?**

Lee: Construction financing requirements remain relatively the same — stable / strong giving, attendance, liquidity, adequate loan-to-value, and independent board governance. However, some critical metrics that lenders analyze might need additional clarification.

Pre-pandemic, physical in-person attendance figures were easy to identify. Because online attendance / viewership has now become an integral part of many churches, it's important that they're able to monitor, track and translate those figures.

Many lenders have begun looking at "giving units" as a more accurate measurement of church growth. As a main principle, be able to explain any significant variances of data submitted to the lender.

***CE:* Have you seen any trends related to the *kinds* of facilities churches are building, both during and post-pandemic?**

Lee: Time has yet to tell what sustainable trends will emerge due to the pandemic. But with current sanctuary seating capacities still not reaching pre-pandemic levels, we might see fewer "mega" 2,000-plus-seat sanctuaries; rather, we might witness the acceleration of building multipurpose facilities or acquiring satellite locations.

In addition, we might continue to see more struggling churches seeking to be acquired / merged. Often, these facilities appear outdated and require significant renovations.

***CE:* Do you anticipate any pandemic-centric construction financing "trends" carrying forward?**

Lee: Compared to the 2008 recession, many churches were much quicker to identify potential expense reductions when COVID struck. It will remain important for churches to be mindful about monitoring expenses in response to giving trends.

Some churches have experienced exponential growth in online viewership and giving; however, an experienced lender will want to know the sustainability of such growth.

While the financial health of a church has and will continue to be at the core of qualifying for financing moving forward, there continues to be emphasis on strong leadership governance that embraces accountability, transparency, and are led by a truly independent board.

> "Many lenders have begun looking at 'giving units' as a more accurate measurement of church growth [than in-person attendance]. As a main principle, be able to explain any significant variances of data submitted to the lender."

Also, the pandemic has provided an opportunity for churches to take a deep "pause" to reevaluate everything in the church — staffing, effectiveness of current programs, building use, technological capabilities, and the exciting opportunities associated with the birth of an "online" congregation for many.

Finally, please(!) talk with an experienced lender *before* you spend any money on your project to determine what your ministry can reasonably afford. Failure to do so could result in significant delays, unusable plans, increased overall costs, and broken trust / confidence with the congregation.

***CE:* What are your thoughts on when (or if) church financing will be 'back to normal'?**

Lee: That's very difficult to say. Regardless of when (or if) "normal" comes, reputable church lenders that have been serving ministries for many years will adjust accordingly to the unique growing needs of churches and continue to lend. Churches will continue to be evaluated based on the same general criteria.

The most significant pandemic-related disruption for churches was their inability to have in-person worship, which brought some anxiety to lenders as to how giving would be impacted. Proven once again, the Church, despite facing extraordinary challenges, has come out stronger and is more committed to accomplishing the Great Commission. CE

David Lee *holds a bachelor's degree in Finance from Cal State Fullerton and a master's degree in Christian Education from Talbot Seminary.*

Setting up your church for successful financing

Every day, I talk to church leaders who are looking for additional financial support. They've grown frustrated with their current loan (or lack thereof).

All too often, the conversation becomes an explanation of why a bank isn't likely to be interested in a project or loan and then a few basic changes to consider for putting the church in a better financial situation.

Charity Kuehn
Vice President of Church Financing
Union Bank & Trust
President
Emanate Consulting

Union Bank & Trust's church financing area lends throughout the United States, with a strong focus on the Central and Midwest parts of the country, so I've worked with many different denominations and in cities with varying economic circumstances. In the spirit of total candor, I want to share that there's always a common thread among church loans that are successfully approved: *preparation.*

Preparation is key

The truth is, it's easier to be prepared if you have a better understanding of what your bank is weighing in its decision. Between documentation of articles and bylaws, a comprehensive church history, an outline of leadership, vision and mission statement, and a detailed account of your fundraising campaigns, you'll want to provide your financial institution with an organized and accurate portrayal of your church that extends far beyond the financials.

When it comes to the financials, no matter what bank or financial institution you work with, they will want to see your church's financial history. If you have to ask them to decipher your system, it can limit the number of financial institutions willing to consider your request. Personally, I love to get the financials from a new church, but it can often take multiple conversations to ensure I'm giving the church a fair look because the financials are difficult to interpret.

My first recommendation is to have an accountant do a full review of your finances *before* you make your request for financing. Any church with an annual giving budget of more than $350,000 per year should consider getting a professional involved on an annual basis. If nothing else, an accountant can compile your financials into a format that will be more easily presented in a loan request. Presenting finances that have an accountant's credibility behind them will give you a tremendous boost in the eyes of your lender.

Talk early and often

The earlier you speak with a lender, the better off you are. You'll want to choose people who understand church lending and want to work with your organization. It's best for your church to be prepared to present your financial information to your congregation as well as to potential donors and lenders to get your project fully funded.

> "My first recommendation is to have an accountant do a full review of your finances before you make your request for financing. Any church with an annual giving budget of more than $350,000 per year should consider getting a professional involved on an annual basis. If nothing else, an accountant can compile your financials into a format that will be more easily presented in a loan request."

It might be wise to engage a professional with the right skills to prepare you for this next financial step — someone who's going to make certain your project is financially viable, can speak to the bank on your behalf, and will have your church's best interests in mind as they're negotiating loan terms.

This is not a mortgage broker, but a true financial consultant who helps balance the needs of the church with the operational and financial demands of a major project. This consultant should be willing to work closely throughout the entire project with the rest of your professional team. This means the architect, your general contractor, your capital campaign manager, and your financial consultant/lender are all on the same page, all the way to completion.

With preparation, prayer, and all the right players, your church's vision can become reality. CE

Charity Kuehn *has been a banking professional for 25 years and has worked exclusively with churches on their financial needs for the past 11 years. Visit the UBT website for more information: www.ubt.com/business/loans-lines-credit/church-financing.*

Think "borrow" is a bad word? Think again

By Jerry Vaughan

Jerry Vaughan
Chief Lending Officer
WatersEdge

"Debt" isn't a popular word in churches. As church lenders and people of faith ourselves, we understand: it's difficult to preach about being debt-free and then turn around and borrow money for a building project.

So when cautioned against committing *too* heavily to raising funds ahead of construction — compared to financing some of those costs upfront — we "get" the skepticism.

Given today's environment of rising construction costs and sky-high inflation, however, our rationale is proven out. Here's why.

Shifting goalposts: A church was planning to add an education building. When the church leaders reached out to me, the project cost was $3 million. They'd committed to the congregation that the church would raise half of the total amount and finance the remainder.

The church *did* raise the $1.5 million, but it took two years. When leaders circled back to their architect and contractor, inflation had increased the project cost to $4 million.

Still committed to the original goal, it took the church six months to raise another $500,000. By that time, project costs had risen again — to $5 million. Church leaders ultimately asked the architect to engineer $1 million in costs out of the new building. The only way to do this was by substantially shrinking its footprint.

Putting off the inevitable: Since late last year, I've been talking with another church whose project is estimated at $13 million. When we connected, leaders had yet to start a capital campaign. The fundraising goal was $3 million — about twice the church's yearly budget — a metric most capital campaign firms consider doable.

Raising these funds would take nine months. The church wanted to kick off the campaign by February 2022. As such, it would be November before church leaders even approached their architect to start designing. Further, they wouldn't break ground until mid-2023.

I cautioned church leaders that the $13-million project would probably cost closer to $15 million by the time of groundbreaking — and that was *before* inflation started raging. (Right now, some contractors won't even quote prices until they take delivery of materials.)

Knowing the church could likely raise $3 million at any point, I posed that it might make more sense to start planning the project at $13 million, and borrow the rest upfront, rather than wait for the project to cost millions more. Otherwise, roughly $2 million of the $3 million the church could raise would be eaten up by inflation.

Ultimately, they decided to stay the course and wait to build. Had they borrowed instead, they'd break ground about a year earlier and save the $2-million cost increase. As-is, the church will likely be forced to scale back the project scope when the time comes.

How did this happen — and can it be avoided?

Generally, with every year you wait to build, material and labor costs increase the cost of a project by 15% to 20%. Knowing this, if you can borrow money at 5%, doesn't it make more sense to do so than to incur those inflation costs?

Generally, most church leaders aim to raise 25%, 33% or 50% of the total project cost, but this doesn't happen overnight — it often takes two to three years. The best time to enlist a lender, then, is when the church has received some fairly accurate cost estimates for its project — even before the project is out for bid, since an architect can usually provide accurate cost estimates.

> "Generally, with every year you wait to build, material and labor costs increase the cost of a project by 15% to 20%. Knowing this, if you can borrow money at 5%, doesn't it make more sense to do so than to incur those inflation costs?"

Put simply, a construction project is really just an equation: A (the expected cost) – B (the funds on hand and/or likely to be raised) + C (the amount of financing needed). So, if a church is planning a $5 million project, has $1 million on hand and plans to raise another $1 million, it will need $3 million of financing.

Often, a church will also need to secure financing for a portion of the project to bridge the receivables of campaign pledges.

In the *best-case* scenario, the lender is enlisted at the very front end of a project before any plans are drawn up. This way, church leaders can know upfront how much the church will qualify to borrow. With this figure in hand — plus a realistic capital fundraising goal — the church can essentially say to its architect, "The cost of this project can't exceed X."

Don't get me wrong: I believe a church *should* raise building project funds. Even so, financing can be your friend, not your enemy, if enough funds can't be raised within six months. If a church saves 15% to 20% of increased material costs over a one- or two-year period, then it's actually *borrowing* money to *save* money. As long as the amount financed isn't burdensome, that's just good stewardship. CE

Jerry Vaughan *is Chief Lending Officer at WatersEdge Ministry Services. [www.WatersEdgeServices.org] WatersEdge supports hundreds of Christian causes across the United States and around the world. Through biblically grounded giving solutions and ministry-focused financial services, the organization helps individuals, families, churches and ministries transform lives with the Gospel of Jesus Christ.*

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