



## Stay the course with consistency to secure church loans

Having been a church lender for almost 20 years I have experienced and financed churches through two recessions which had minimal impact on houses of worship. The economic challenges we are currently facing, however, combined with the volatility in financial markets, makes for difficult times for many churches. In keeping with previous economic downturns, churches generally report increases in attendance but decreased or flat giving.

This recession feels more like the Great Depression due to its length and scope. There are also a number of failed lending institutions and others with little or no liquidity. This has significantly reduced the number of overall lenders. Those of us remaining, hold to the time-tested lending standards we know will benefit churches in the long run. Therefore, churches seeking to refinance existing loans should carefully consider some important issues given this "new normal."

The most important thing to now consider in refinancing a loan is the viability and experience of the lending institution. Finding a well capitalized and liquid financial partner to refinance existing debt, as well as one that is experienced, committed, and cost effective is a must today. Finding a partner who specializes in providing financial services to this market and understands the unique circumstances churches find themselves in is

crucial to the long term vision of building God's Kingdom.

### Consistency is helpful

Over the years I have seen some consistent practices that will be helpful in these times. Begin the process early. It's important to start well before the loan is due to mature in order to determine whether you can refinance the entire loan balance given the current levels of giving and current value of the property. The limited availability of lenders and tight-

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er credit standards can result in a loan amount of less than what you qualified for five years ago. In the past, some lenders structured loans with high loan to values and assumed generous giving trends would continue indefinitely.

We are now in a down real estate cycle with reduced property values and giving levels of many churches flat or declining. Given the state of the financial markets, lenders are being scrutinized by regulators requiring many lenders revert to conservative underwriting standards with lower loan to values.

What we are also seeing is that

church default and foreclosure rates are increasing to historical rates due in part to liberal lending practices over the last five years. All of which could result in the loan amount your church now qualifies for being less than the existing loan balance, which means you may need to use cash reserves to reduce the loan balance in order to refinance and cover costs and fees. It could also mean covenants and conditions may be more restrictive, not relevant to churches or higher interest rates.

These challenges present a good time to review expenses. Are you doing all you can to reduce expenses without negatively affecting the ministry? Volunteerism increases in recessions, which tracks unemployment, so there is an opportunity to use volunteers instead of staff for mission critical projects. Now is the time to make the hard decisions on what can be reduced, eliminated or recommitted to other areas of the ministry.

### Interest rate environment

Another equally important issue to consider is the interest rate environment. Refinancing should certainly be considered to fix a floating or adjustable rate while fixed rates are relatively low, as inflation could be a factor in the future leading to higher rates. Securing a fixed rate loan also makes for proactive budgeting, predictable debt service and ensures that ministry and outreach

programs will continue to be funded as well as expanded. Thought should also be given to securing a commitment from the lender for any proposed projects that will update or expand facilities.

After selecting your lender, be sure to meet the team as well as the relationship manager. In the event of turnover, you won't have to explain your important work again. In preparing a loan package, presentation is everything. You want to present a well organized, professional, and thorough loan package that represents how important you consider your stewardship responsibilities to be.

The better the quality of your information, the more successful you will be in securing the best financing available. Making the lender comfortable that checks, balances, processes and procedures are in place will ultimately benefit the church in terms of loan amount, lender confidence and the best pricing available.

#### **Comprehensive business practices**

Proper accounting and financial systems with appropriate protocols, controls and up to date technology will ensure accurate reporting and tracking of contributions, members, attendees and donors. Developing comprehensive business practices will improve the business office and the quality of information disseminating from there.

Do not let the cost of the audit be a barrier to making this one of your best practices. When requesting financing, it benefits the church if the lender knows it is an important part of your commitment to good stewardship. The management letter accompanying your annual audit will also give you suggestions for improvements that should be considered carefully, especially during this current economic cycle.

Refinancing in these tough times provides the opportunity to not only fix the interest rate but to also consider other important initiatives such as recasting the vision, improving the

business office and streamlining the organization.

While doing the necessary preparation to determine if refinancing is cost-effective for your church and presenting the best possible loan request package may be a lot of work, it is well worth the time. Recovery is in sight and when

we cycle through the tough times the church will be stronger, leaner and the vision brighter.

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