Ωmega Church Consultants, Inc.
Church Designers and Builders

"What Can We Afford?"

Whenever a church begins to think about expanding its facilities, a formidable battle is sure to ensue between two giants: "Needs" and "Resources". The titan "Resources" must be the eventual winner in this contest if the church is to successfully build new facilities. Therefore, if the church must borrow money to complete the facility they envision, it is important in the early planning stages of any project to look at the finances and assets of the church (its resources), from the perspective of a lender.

Lenders deal with hard numbers and have developed underwriting standards in order to manage the risk on the loans that they make. The lending industry is undergoing change, so just because you spoke to your banker two years ago and it didn't look feasible for you to build at that time, do not despair. Capital is available to churches for projects that are well conceived. In fact, recently we have seen interest rates fall and loan amortization terms expand which have created favorable conditions for churches seeking funding for expanding facilities and growing ministries. There are lenders who specialize in church funding and who understand the unique finances and operations of churches. Please contact Omega for more information on lenders that desire to fund churches today.

While the qualification procedures and formulas will vary from one lender to another, here are some guidelines:

Loan to Asset Value Ratio: Most lenders will loan 70% to 80% of the appraised value of the completed project, including the land and existing improvements. The new loan amount usually includes the payoff of any existing debt. For example, let's say you are paying $4,000 per month for your land currently and you still owe $200,000. The new building and site development costs are budgeted (and appraised) at $2,000,000. Your land is appraised at $400,000. Therefore, the total appraised value is $2,400,000. The bank is willing to loan 80% of $2,400,000, which is $1,920,000. From this loan the bank will pay off the balance on the land of $200,000 which will leave $1,720,000 to put toward construction costs. In our example the construction budget is $2,000,000 which means the church needs a down payment of $2,000,000 - $1,720,000 = $280,000. The church is no longer paying $4,000 per month for the land, so these funds can now be put toward the new mortgage payment. Let's say the loan amount is $1,920,000 at 6% for 25 years = $12,370 per month - $4,000 = $8,370 per month of additional mortgage payment for land and buildings.

Amortization: Church loans may be amortized over a period of 15 to 30 years. Amortization is the calculated amount of equal monthly payments that are needed to pay off the loan within a set period of time. For instance, a $2 million loan, if amortized over 20 years at 6% interest would require 240 equal monthly payments of $14,389. The same loan amortized over 30 years would require 360 payments of $11,991. Using a longer amortization term allows the church to borrow more money for the same monthly payment. In this example, if the church can afford to pay $14,389 per month, it has the choice of borrowing $2 million and paying it off in 20 years, or the church could decide to borrow $2,400,000 and pay it off over 30 years.

Loan Amount to Gross Income Ratio: Lenders like the ratio to be less than 3 to 1. Therefore, if the church wants to borrow $2,000,000 it should have gross revenue of about $670,000 per year.

Cash Flow should exceed the proposed new loan payment by 20%. In other words, the church should have a little money left over at the end of each month after paying the new monthly mortgage payment and all of its other expenses. Your cash flow would include your current monthly cash surplus, plus any payments that will no longer exist after the new loan is in place. (Such as payments on current debt that will not exist after the new loan is made. The church may even expect a reduction in the costs of utilities and maintenance in the new building.) Furthermore, the lender often will include congregational pledges obtained in a capital campaign that will be collected over future months.

How much you can afford to build is a function of the loan amount that you qualify for, plus any assets that you can add to the loan amount. If the church is selling land or buildings, the equity from those sales can be combined with cash in savings accounts and the expected cash from pledges to determine how much the church can afford to spend for new facilities.

For additional information about church funding in general or to discuss your unique ministries, please feel free to contact me directly at any time.

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