



## **HOW TO GET YOUR CHURCH LOAN APPROVED**

Church leaders are excited about their new building. The artist's rendering is in the narthex for all to see. The architect's plans are ready and the construction contract is signed. Then it happens: The church leaders apply for a construction loan, thinking that groundbreaking is only a few weeks away, and the loan is turned down. The building project is put on hold.

Rumors circulate among the congregation, excitement begins to wane, and some newer members become discouraged and don't attend as often, and offerings begin to drop off. People want to know why their church was denied a loan.

The scenario I described happens all too often. I know from personal experience, because it happened to our church years ago. However, many times this scenario can be avoided if you know what steps to take beforehand.

- ✓ **Understand lending institutions are concerned with risk.** Statistically, about 3 percent of all churches who obtain loans will ultimately default on them (i.e., be unable to pay them back). In addition, about 10 percent of all churches who borrow money will have problems with late or missed payments over the life of the loan.

Therefore your church's ability to repay is a critical evaluation. A lending institution will study the risk, and if it's too high they will turn it down. One method to help build adequate reserves for meeting potential monthly payments is to conduct a capital funds campaign in your church. This gives the lender additional comfort level in the church's future commitment. Church Builders *Plus* can provide further information on Capital Campaigns.

✓ **There is a limit to how much your church can borrow based upon the value of your property.**

Lenders tend to look at risk from the worst-case scenario. They want to know if the church defaults on its mortgage and foreclosure is unavoidable, it can sell the property and get its money back. A general rule of thumb to remember: You probably won't be able to borrow more than 70 percent of the market value of your property. You should have a recent real estate appraisal done to establish the value of your church' collateral.

✓ **Make sure the monthly mortgage payment won't strap your overall budget.**

While a new building can help a church grow – it won't in and of itself grow a church. It is effective ministries that reach people. So, if a lender believes a church will have to cut the ministry budget to pay for its new building, the loan request could be denied.

As a general rule of thumb, most lenders won't loan a church more than three times its annual unrestricted income. This is income that is not for a specific purpose, foreign missions, for example. Another measurement is the monthly mortgage payment shouldn't exceed 30 percent of a church's monthly income if possible. Certainly at times there are exceptions.

✓ **Getting your paperwork in order.**

Even something as simple as not having your church incorporated can prevent you from qualifying for your loan. While it is of little cost, it does take some time to process through the Secretary of State in your state government.

Before you get to far into your building program you should seek some support in evaluating your church and ministry. Church Builders *Plus* works with a number of lending partners who specialize in churches, to find the right fit for you. Remember there is always more than one lending option. Fixed rate, variable rate, and construction loan to long-term bonds, can all fit a special need or situation.

Working together you can hear those coveted words: “Your loan has been approved!”

- Jim Tanner, Treasurer, Church Builders Plus

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Mindy Lathan is our loan underwriter for Church Builders Plus. She can be reached at 765.644.2555, extension 248. We are here to serve your needs.