

Count the cost before you design the building

By Dan Mikes

When churches start planning for facilities expansion, they usually seek counsel from an architect or design-build firm to determine how to best translate their ministry mission and vision into a building design or a master site plan. While these are certainly necessary first steps, the church should also immediately open a dialogue with an experienced church lender.

While a rendering or schematic is certainly an important consensus building tool, the church should not risk having to reel in the vision after it has been cast. Churches should always find out what they can afford to build before spending time and other resources on plans they may not have the capacity to pursue.

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Presenting the congregation with an overly aggressive building plan can have significant repercussions. People will be excited by the prospect of the new facilities and possibly become disillusioned if the plans must be dramatically scaled back. The only other option may be to put the project on hold for months or years to raise additional cash. However, as time passes ministry opportunities will be lost and construction cost increases will likely continue to outpace inflation.

Determine debt capacity

Churches need to determine their borrowing capacity. While the rule of thumb in church lending is that maximum total debt be approximately three times unrestricted offerings plus capital campaign receipts, this is only a rough guideline. Many factors come into play to determine total debt capacity.

- How rapidly is the church growing?
- What are the demographics of the community?
- Does the church have any existing debt?
- Has the church implemented a capital stewardship program?

These are just a few of the issues that will impact maximum debt capacity.

Once a church knows what its approximate debt capacity is, it can estimate what size building is possible by using standard cost-per-square-foot estimates. Check with a few local contractors on what these costs might be based on your desired size and function. Be clear about whether the rough cost estimate is limited to hard costs or if it includes architectural, site, furniture and equipment costs. Also try to determine whether your construction project has any special circumstances that could require above-normal soft costs, such as excessive grading, blasting rock and adding retention ponds.

As early as possible, open a dialogue with the county and/or city that will provide building permits. Learn whether a project such as the one contemplated will be predicated on the church paying for certain off-site improvements. Cash-strapped cities and counties are now pushing the cost of adding turn lanes, new turn signals, sidewalks and other improvements to the land owner when construction permits are granted.

As the time to build draws closer and hard costs are refined based on actual bids, don't forget to allow an adequate budget for furniture, fixtures and equipment. Most lenders will want the new facility to include all the costs necessary to make the facility fully functional.

Other costs to consider

Many churches are well into the budget and design process before discovering they have not allowed enough for sound and video. Audio and visual design has become a highly-specialized area. Have a clear discussion with your architect regarding lighting and sound needs early in the design process. Consider engaging a specialist to help define the plan and related costs.

Pay attention to costs related to financing. Most lenders charge a loan origination fee that is typically one-half to 1.5 percent of the loan amount. Title, escrow, documentation, environmental studies and appraisal costs are generally for the borrower's account, though they may be financed. It's wise to budget 1.5 to 2 percent of the loan amount to cover loan fees and documentation costs. >>

When comparing financing offers, read them carefully and ask questions about any loan terms or conditions that could result in additional costs. For example, some lenders require construction bonds or site inspections or may even have a "construction management fee." Ask the lender to detail all the costs and fees associated with the financing proposal.

Think about the future

Don't forget to also review the covenants, conditions and features as these can have a significant impact on future costs. For example, can you re-amortize the monthly payment following completion of a capital campaign? If the only option is to apply prepayments to the back end of the amortization schedule, you will not have the flexibility of a lower monthly payment after pledges stop coming in. If a

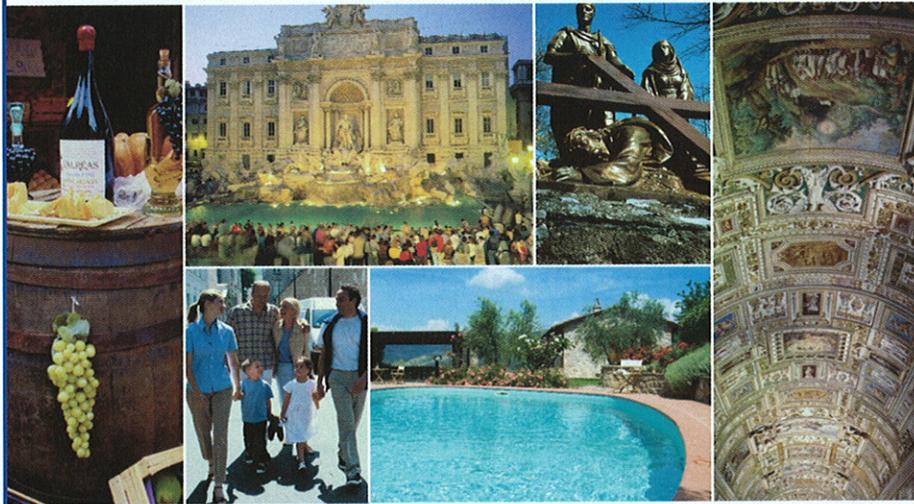
consecutive capital campaign is not desired unless you have the re-amortization feature, your only option may be to refinance the loan. This will bring another round of documentation costs and, worse yet, interest rates may be higher at that time.

The question is whether the lender provides valuable benefits that could save money down the line. If the lender offers high-quality service and beneficial features it may be worth paying a little higher interest rate or fee. One must simply weigh all the benefits of each financing proposal against the costs.

Most often, church finance committee members have little to no experience with financing a large commercial undertaking. Many commercial lenders do not differentiate between for-profit and not-for-profit borrowers when serving up their loan products and enumerating their financial performance covenants. These disconnects can leave the church prey to costly consequences.

The best way for a church to avoid worst-case scenarios is to seek an experienced lender at the earliest point in the design and planning process. Choose a lender that has made a long-standing commitment and significant financial investment to establish a reputation within the church lending marketplace. Such a lender will value its good name above the opportunity to make good on a single transaction.

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