

Church building is booming, evidenced in a survey by Leadership Network and *Church Executive* [November 2006] showing that of overall church capital spending in 2007, 44 percent will be on new property or building. *Church Executive* interviewed Reid about this expanding church market:

How large is the church finance market and what are the key drivers?

A research study conducted by Lambert Edwards Analytics, sized the church finance market at \$28 billion in 2005. Over the next few years, they expect this market to grow by 40 percent, which would place the church finance market at \$40 billion in 2010.

There are two key factors driving the growth potential in this industry. The first driver is the exponential church attendance growth. Average American church attendance grew 12 percent from 2000-2005 and hit a seven-year high of 45 percent of Americans in 2005. The second driver is the proliferation of megachurches. Weekly attendance at megachurches — defined as churches with weekly attendance of 2,000 or more people — is greater than 30 times the average church in the U.S., and average attendance at megachurches increased 57 percent from 2000-2005, creating the need for larger sanctuaries and campuses.

What industry trends are you seeing in the church finance market?

I've noticed in the past few years the increase in the size and the scope of projects. This year our average project will exceed \$6 million, when just five years ago that number was nearly \$3 million and 10 years ago it was \$1 million, which speaks to the increase in church attendance and larger churches.

I've also seen an increasing number of mortgage brokers being contacted by churches to help them find financing. There is a cost

associated with contracting with a mortgage broker, both in hard dollars and in a lack of knowledge about the nuances of church lending. The Internet has created an environment where people can search and access lenders directly, so it is surprising to me that this trend has developed when there are specialists in the market.

Where do you see the overall church finance market and players like Strongtower Financial headed in five years?

Churches and the church finance market are growing both in

sophistication and size. I think there continues to be a consolidation in the marketplace to larger, more professional church finance firms. Churches desire not only people who understand the way they function, but that also offer sophisticated financial concepts. The industry is starting to take part in more efficient financing vehicles that have worked within other industries. A good example of this forward movement in the industry is the increasing use of church bonds which offer long-term fixed rate financing that is very attractive to many churches.

Having sat on both sides of the table, what advice would you give to a mid-sized or large church looking to pursue a building project?

The best advice I can give a leadership team is to use professionals that have a very good track record. Also be sure that you build to your financial resources not the other way around. I have seen too many times where an architect has "over drawn" — creating a design that the church can not afford — and the >>

What lenders look for in providing financing

Lenders apply many of the same criteria to churches as they do to commercial enterprises. One commonly used rule in lending to churches is that a church can qualify for a loan that is four times its annual income. Most lenders want churches that are at least three years old and/or have three years of positive cash flows. Likewise, a \$10 million loan request may require CPA-audited financial statements, while church-prepared statements may suffice for a \$500,000 loan.

Interest rates normally range from prime rate minus 1 to prime plus 2, and other costs can include a loan fee of up to 1 percent and closing costs of about 1 percent. One rule of thumb is that the loan may be less than or equal to 75 percent of the total value of collateral, largely real estate in the case of a church (< 75 percent loan-to-value ratio). Another is that the annual mortgage payment amount should be less than 33 percent of the last year's total revenue.

Some churches are reluctant to use commercial lending instruments because the interest rate is often variable; banks can impose a higher interest rate if a church falls out of its covenants and there may be prepayment penalties.

While there are notable exceptions, churches generally will opt for mortgages and bank loans for smaller projects and improvements, while church bonds are more applicable for larger projects. The bond industry generally will not recommend issuing bonds for projects less than \$500,000, and most bond projects are greater than \$1 million. In contrast, loan minimums can start at \$100,000. Reporting requirements and sophistication of due diligence increases proportionally with the size of the loan or offering.

When ministries thrive, pastors can face the daunting task of serving dual roles — as both spiritual leaders and CEOs. The need for growth is often the hallmark of a sound ministry and in order to realize God's vision for a church, it is essential to identify viable funding avenues, set realistic spiritual and financial goals and follow a prayerful path to reach them. It is vital to work with an institution that you trust, that understands both the way a church functions as well as sophisticated financial tools and terminology. As awareness of the church finance market grows, so too will the sophistication of the financing, which improves financing terms for churches and allows for exponential growth of the Kingdom.

— Chester Reid

