BASIC CHURCH FINANCE

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A point-to-point guide to comparing loan offers

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Church leaders are often surprised to hear that the terms and conditions of a church loan are significantly different than residential mortgages. Since churches are organizations, the loans they obtain are considered *commercial loans*. Commercial loans are structured differently and have different requirements than a homeowner might get for his or her personal residence.

Before your church obtains a loan for a new building purchase or construction project, it's important to understand the differences — in other words, how to compare the different loan offers which lenders present.

Term: Would you be surprised to find out that commercial loans do not have a 30-year term with a fixed rate for the entire length of the loan? Commercial loans have a shorter term of three, five or 10 years. Since payments are amortized over a longer period, the mismatch between the term and the amortization schedule means the loan will not be fully repaid at the end of the initial term. This creates a balloon payment, where the church will either pay off the remaining loan amount or refinance the amount for a new term.

As such, you should discuss what will happen if the economy weakens or if your church is going through a transition. Will there be additional fees? It's important to understand what is expected of your church at the end of the initial term, as well as what to expect from your lender.

Fees: We've all heard the radio or television ads promoting a mortgage at "no cost, no fees." Unfortunately, commercial church loans are not free, and you should carefully evaluate the costs that lenders charge to originate a loan. Depending on the size of your loan request, your church could pay several thousand dollars in origination fees, appraisal costs, loan costs, document fees and other related costs.

The good news is that fees can vary from lender to lender. So, it's important to shop around and get the best deal for your church.

Rate: Residential mortgages come with a long-term fixed interest rate of 30 years, in most cases. Commercial church loans could see a fixed rate of several years, but it will likely adjust or reset at some point during the term of the loan.

As you evaluate loan offers, it's important to know how the rate will reset (normally a spread to an index such as Prime or Treasury rates), and how often / if it can adjust up and down if rates were to go lower. Many lenders are becoming wary of rising interest rates, but some will still consider adding an interest rate cap to limit the amount of the rate adjustment for the church.

Relationship:. With rates at historic lows, we see more lenders entering the church market. Church lending is a specialized field; if you choose to partner with a lender without enough experience, you could be in for a bumpy road. Make sure your lender has a long history in serving churches and is committed to churches in good times and bad.

Many times, you can see a lender's commitment by the staff it hires and the depth of expertise displayed in its church lending operations. Working with experienced church lenders might provide compassionate and valuable counsel during a transition, a downturn, a building campaign, or countless other issues that can affect a ministry. Unlike a residential mortgage, your church will be closely engaged with the lender for many years to come. At a minimum, you will be expected to provide annual financial statements, proof of insurance and updates on leadership changes. The church should consider who they like doing business with and if the church's mission is consistent with the lender's mission. Many churches prefer to partner with a local lender because that lender is involved in the community, much like the ministry. It's important to choose a lender which understands your ministry and proves to be a partner through *every* season of the church's life.

As a matter of stewardship, your church is obligated to seek the best possible terms and rates and to negotiate the lowest fees. However, when you evaluate loan offers, it's important to consider the value provided by the lender relationship — the expertise, the affinity, and the long-term relationship that's created when a loan funds.

Ultimately, your church should select a lender that offers competitive terms, rates and fees, but also one that provides peace of mind over the long term through expert staff and a commitment to providing banking and financing solutions that will help your ministry reach its goals.

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