

# Becoming Financially Prepared To Build In A Changed Economy

**Presented by:**

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# In This Presentation

- It's a whole new ball game, so what has changed and what does it mean for the church?
- What does it mean to be financially prepared to build?
- The alpha and omega of church financing – the two keys to qualifying.
- Your strategy for obtaining financing in a changed economy.

# Key Verse

*Prepare your work outside  
And make it ready for yourself in the field;  
Afterwards, then, build your house..*

Proverbs 24:27

## It's a New Ball Game

- New game – new rules. The relatively easy financing of the past is now a footnote in history, possibly not to be seen again in our lifetimes.
- There is money available, it's just harder to get, and you will get less of it.
- There are fewer lenders lending to churches.
- You will need more cash for your building project because you will be able to borrow less of the project cost.

# Understanding the Building Budget

- Determining the preliminary budget.
  - Based on what you can demonstrably afford
  - Not based on cost of project, but churches financial ability.
- The 4 components of a preliminary budget.
  - Cash on hand
  - Amount you can borrow (\* this is what has really changed)
  - Sale of assets
  - Portion of funds raised from a capital campaign

# What's Changed?

- It's harder to qualify for a loan, a key element in determining what you can afford to build.
  - Lenders are very risk adverse.
  - Higher level of documentation required.
  - Lenders are looking for reasons to say "No".
- Loan to Value (LTV) is much lower
  - The % of the total value a lender will provide has dropped from 80% to as low as 65%
  - Some lenders are not looking at LTV, but as a % of construction costs.

# What's Changed?

- Lenders want to see that the church can make the mortgage payment.
  - This is the biggest challenge to the church who has not become financially prepared to build.
  - Lenders no longer willing to trust the church will be able to make the payment.
  - Lenders want to see 110% - 120% of the loan payment already on the bottom line of the income & expense report **AND** they want to see a history of this for 6-12 months.

# What's Changed?

- Most churches run a zero sum budget, whatever comes in, goes out. Very few churches can demonstrate retained income on a monthly basis equal to or greater than the future mortgage payment.
- It used to be you could sit down with a loan officer and show where you could cut discretionary expenses to make the mortgage payment.

# What's Changed?

- Lenders no longer accept a plan to come up with a loan payment. They don't care what you think will happen in the future or how much you think people will give if needed.
- They want to see a history of the church already having made the loan payment as retained income to savings, or equivalent.
- In effect, you need to show a history of having made the mortgage payment to yourself for 6 months or more before the lender will make the loan.

# What Churches are Learning

- Churches are showing up at the lenders door steps only to be denied for the amount of money they need to build due to inadequate cash flow and/or inadequate cash on hand to bridge the difference between the loan and the project cost.
- The problem is, there is no quick fix! It may be a year or much more before the church can qualify for the loan they need.

# Becoming Financially Ready to Build

- Since lenders are lending a smaller portion of the building project cost, the church needs to come up with more money before building. The church needs cash on hand.
- Since lenders need to “see” a 6-12 month history of the church being able to make the mortgage payment from cash flow, the church needs to improve actual cash flow. The church needs net positive cash.

# Becoming Financially Ready to Build

*“Cash flow is King, &  
Cash on Hand is Queen.”*

# How to Become Financially Ready

- Reducing project size/cost will not eliminate the need for adequate cash and cash flow, it will only reduce it.
- Therefore, well before approaching a lender, the church must take steps to start accruing cash and improving cash flow.
- There are only 3 ways to do this:
  - 1) Reduce expenses
  - 2) Increase income
  - 3) Do a combination of the above

## 2 Key Steps to Financial Preparedness

- As we affectionately refer to them, these two steps are the alpha and omega of becoming financially prepared to build.
  - Reduce Expenses
  - Increase Giving
- It would be wise to start this a year or more in advance of approaching a lender. If it is already too late for that, better to start now rather than later. The sooner you start, the sooner you will qualify for financing.

# Reducing Expenses

- Almost every church budget has room to trim the expense side of the operations.
  - Nobody likes it.
  - Its not easy, or fun.
  - It has to be done.
- Over time, things creep into the budget that never creep back out again.
- Budgets tend to bloat over time. As a general rule, older churches have much more bloat than newer churches.

# Reducing Expenses

- If your income from tithes and offerings dropped 35% next month and you knew it would be a year or more before they went back up.
  - Would you find places to trim and make it work? or
  - Would you close the doors of the church?
- Almost all churches would find a way to make it work.
- Approach your budget in this mind set and you will find areas that you can cut or reduce - guaranteed.

# Reducing Expenses

- Consider implementing a fairly broad but temporary reduction in spending across many of your programs and ministries and trim programs/ministries that are not producing fruit.
- Consider what Jesus said in John 15:2
  - *Every branch in Me that does not bear fruit He takes away;*
    - *and every branch that bears fruit He prunes,*
      - *that it may bear more fruit.*
- Consider a view of 10 years or more. A temporary cut in spending now can allow your church to grow, providing much more total money for ministry over time.

# Increasing Income

- There are two ways to increase giving for building.
  - 1) Increase giving to the general fund by clearly preaching and teaching good stewardship.
  - 2) Execute a capital campaign to bring in additional income, specifically for the building program, over a fixed period of time (typically 3 years).

# Annual Stewardship

- Clearly teaches biblical giving in clear, compelling, and unapologetic manner.
- Exhorts people to action; making them doers and not just hearers.
- Typically results in annual increases of 10-30% or more to the general fund on an ongoing basis.
- A good example of this type of structured approach is the *Dynamic Giving Program*, by Dr. Rod Rogers.

# Capital Campaign

- A program wherein God's people give an offering above and beyond regular tithes and offerings for a fixed period of time to provide funds for a building project.
- A biblical process that is a time of spiritual growth and faith building that will stir the heart and spirit of the members.
- A thoughtful process that results in a 3-year giving commitment, normally raising between 1 & 3 times the church's current annual receipts in tithes and offerings.
- In today's economy, a campaign is often required by the lender.

# Summary

- Financing makes up the lion's share of your building budget.
- What used to be true with respect to financing is gone and won't be back, certainly not before you need to build.
- Your church should begin to become financially prepared a year or more before it intends to seek financing.
- Becoming financially prepared entails a 3-part strategy.

# Financial Preparedness 3-Part Strategy

- Step 1
  - Reduce expenses.
    - Today would be a good time to start.
  - This will improve the church's net cash flow to help demonstrate its ability to service a mortgage payment.
  - This will help put money into savings to improve the church's cash on hand position and to bridge the gap between project cost and financing.

# Financial Preparedness 3-Part Strategy

- Step 2
  - Increase giving to the general fund through an annual stewardship program.
    - This can be done in a few weeks for a few hundred dollars – an excellent investment of time and money.
  - This will improve the church's net cash flow to help demonstrate its ability to service a mortgage payment.
  - This will help put money into savings to improve the church's cash on hand position and to bridge the gap between project cost and financing.

# Financial Preparedness 3-Part Strategy

- Step 3
  - Implement a capital campaign which can be expected to raise 2x your current annual giving over 3 years.
    - This will take a minimum of 3-4 or more months in which to prepare - 6 months or more of preparation time is better. Think of the Christmas play, it's a one-day event that most churches begin to prepare for in September. This is even more complicated and important to the life of the church.
    - This will improve the church's net cash flow to help demonstrate its ability to service a mortgage payment.
    - This will help put money into savings to improve the church's cash on hand position and to bridge the gap between project cost and financing.

# In Closing

We opened this presentation with a proverb about preparing for the future and then building.

Proverbs also tells us to consider the wisdom of the ant that prepares in advance by gathering and storing up in the summer and the harvest for the winter to come.

As Jesus repeatedly said, *“Let he who has ears, hear.”*

# Questions & Answers

