

Strategies and tools for determining if, when, why, and how much, a church should borrow.

# WISE DEBT!

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## Webinar Overview

- Using Debt as a Tool for Ministry
  - Should the church consider borrowing
    - How much should they borrow
      - What if they borrowed too much

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### Using Debt as a tool for ministry

- Wise Debt can produce growth in mission, ministry, or members
- Wise Debt is managed, planned for, and temporary
- Wise Debt helps churches fulfill long-term goals not short-term financial relief

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### Should the church consider borrowing?

- What is the vision for the church?
- Does the project further God's Mission?
- Is acquiring debt the most effective way to achieve that vision?

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### It's a good time to borrow if...

#### ...Leadership is solid

- The pastor has been in place long enough to know the congregation
- Pastoral change may affect membership
- Session and staff work as a team

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### It's a good time to borrow if...

#### ...Congregational demographics are strong

- No significant decline in membership
- No significant decline in attendance or church engagement

#### ...and understood

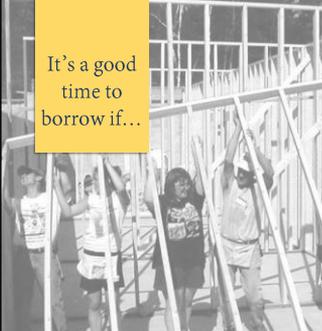
- Church membership rolls are accurate
- Are age demographics disproportionately skewed to one age bracket?

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It's a good time to borrow if...

**...Buy-in from congregation for project is high**

- Enthusiasm for project is not localized to a few members
- Session is transparent with congregation



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It's a good time to borrow if...

**...Financials are in good shape.**

- No significant deficits to operating budget in the last three years
- Reserves are in place
- Giving per giving unit is strong



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It's a good time to borrow if...

**...It is necessary!**

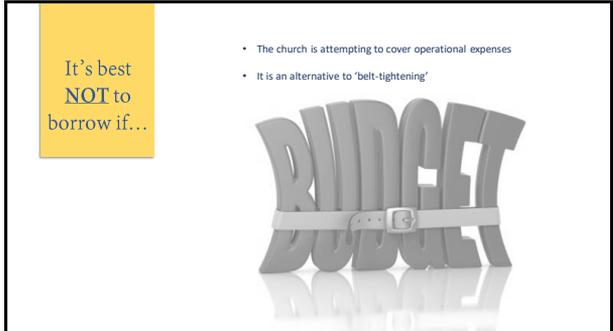
- Unforeseen maintenance issues that must be fixed immediately – HVAC, leaky roof
- Building code violations
- Natural disaster



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It's best NOT to borrow if...

- The church is attempting to cover operational expenses
- It is an alternative to 'belt-tightening'



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How much should they borrow?

**Financial Considerations:**

- Savings/Endowments
- Operating Budget
- Capital Campaign



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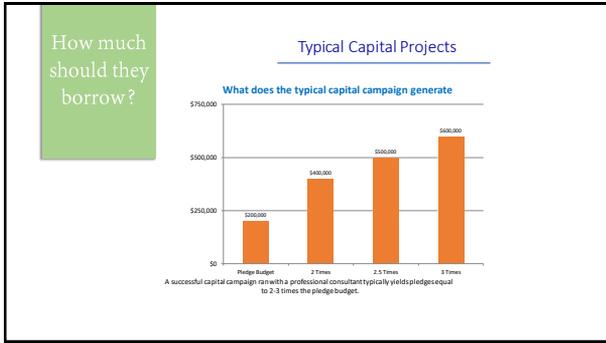
How much should they borrow?

**Capital Campaign**

- Congregational support for capital campaign
- Will the congregation use a professional capital campaign consultant?
  - Internal campaign raises on average 1-1 1/2 of church's pledge budget
  - Professional campaign raises on average 2-2 1/2 times pledge budget
  - Professionals know how to help you make the ask
  - Pay the fee upfront or...pay interest for 20 years!



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How much should they borrow?

### Key ratios to consider:

- Debt per giving unit is less than \$10,000
- Cash flow coverage is more than 1.25 times
- Debt is less than 25% of total budget with capital campaign or less than 10-12% of total budget without capital campaign

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How much should they borrow?

### Consider pay back period of the loan

- How long will it take the church to pay off the loan?
- To how many capital campaigns will the congregation have to commit?
- Focus for the congregation should be on managing principal reduction not managing monthly payments.

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How much should they borrow?

### To recap...

...How much the church should borrow should be determined by available liquid assets, how much they can raise, and how long the congregation is willing and able to sustain debt service.

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What if they borrowed too much!

Circumstances change in the life of the church, sometimes beyond the control of the congregation – pastor leaves, church splits etc. This can leave the congregation in a situation in which they are no longer able to handle their current debt service.

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What if they borrowed too much!

### Determine what has changed in the financial life of the church since the debt originated.

- Has the church increased the operating budget too much?
- Did the church do the second capital campaign that they said they would do?

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What if they borrowed too much!



- Debt reduction campaigns are typically the most challenging.
- Consider adding a mission component, or small project to the campaign in order to generate enthusiasm and excitement.

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What if they borrowed too much!



- Encourage the congregational leadership to contact Presbytery early so that you as mid-council leaders can be part of the resolution discussion (key reason for guaranty)
- Keep making payments, even if you are only paying interest
- Don't wait to contact the lender if they are having trouble making the payments
- Communicate with the congregation early and often

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What if they borrowed too much!



- Consider other actions that could be taken with current assets (reserves, property, budget cuts, leasing a portion of space)
- Modification/refinancing options

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Questions and Contact information

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