

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



WISE DEBT!



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Workshop Overview

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

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



MISSION

Should my church consider borrowing?

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

VISION


VALUES

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



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

...Congregational demographics are strong

- No significant decline in membership
- No significant decline in attendance

...and understood


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

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





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

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

It's best
NOT to
borrow if...

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



How much
should we
borrow?

Financial Considerations:

- Savings/Endowments
- Operating Budget
- Capital Campaign



How much
should we
borrow?



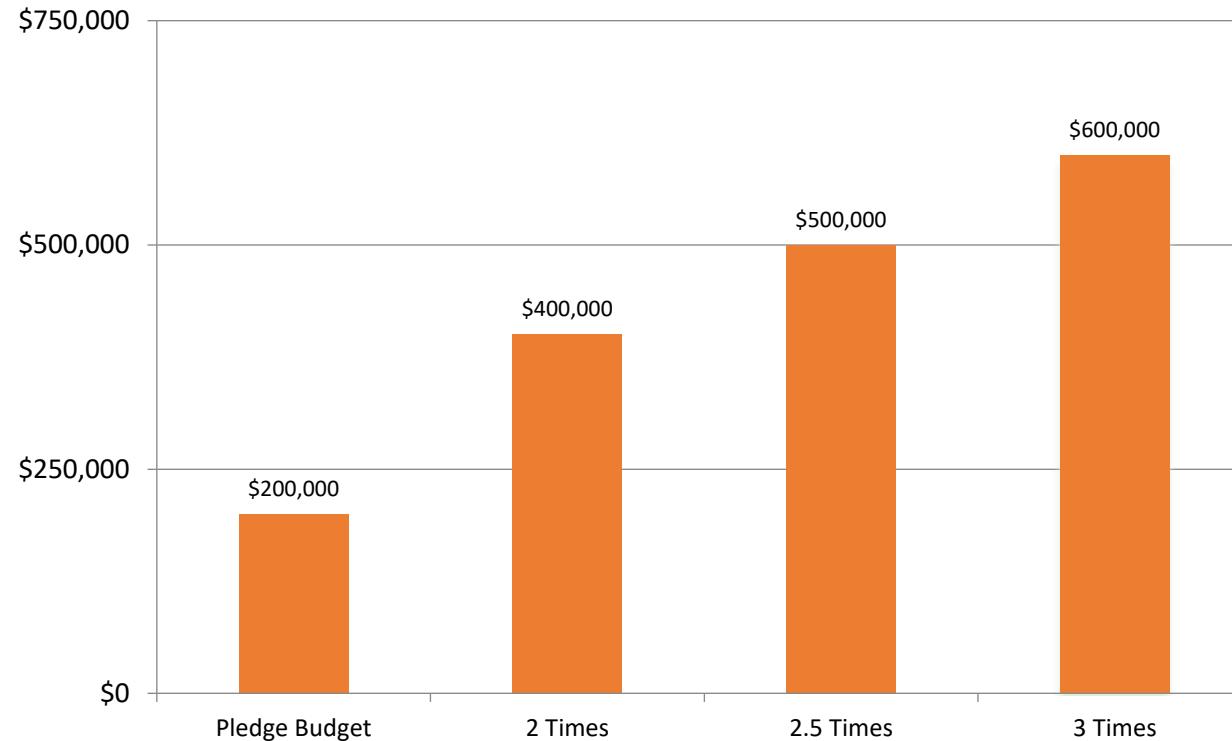
Capital Campaign

- Congregational support for capital campaign
- Will the congregation use a professional capital campaign consultant?
 - Internal campaign raises on average 1-1 ½ of church's pledge budget
 - Professional campaign raises on average 2-2 ½ times pledge budget
 - Professionals know how to help you make the ask
 - Pay the fee upfront or...pay interest for 20 years!


How
much
should we
borrow?

Typical Capital Projects

What does the typical capital campaign generate



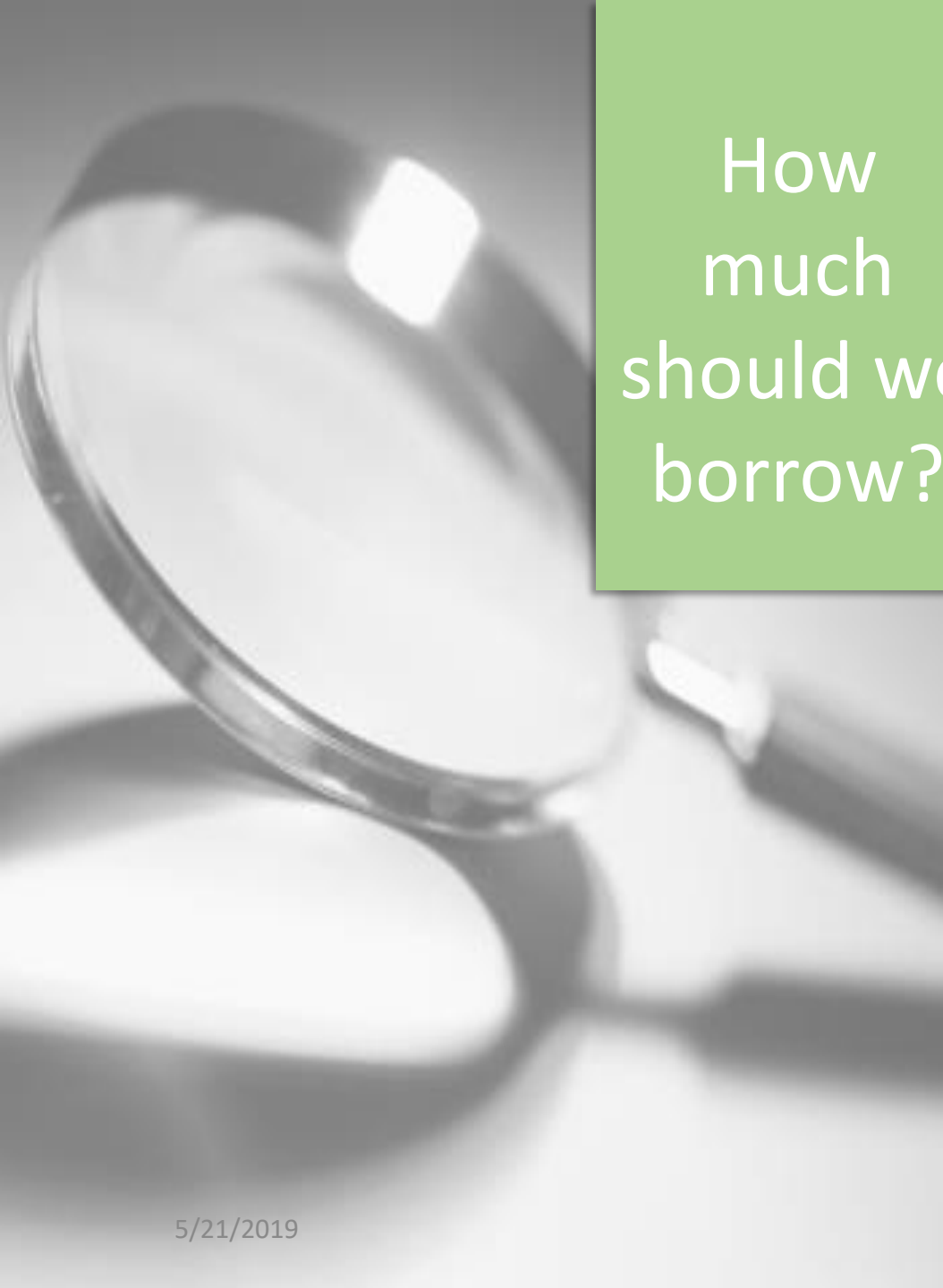
A successful capital campaign run with a professional consultant typically yields pledges equal to 2-3 times the pledge budget.



How much
should we
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



How
much
should we
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.



How
much
should we
borrow?

To recap...

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

What if we
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.



What if we
borrowed
too much!

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


- Have we increased the operating budget too much?
- Did we do the second capital campaign that we said we would do?



What if we
borrowed
too much!

Debt

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



What if we
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

What if we
borrowed
too much!



- Keep making payments, even if you are only paying interest
- Don't wait to contact your lender if you are having trouble making the payments
- Communicate with your congregation early and often
- Contact your Presbytery

Questions
and
Contact
Information

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