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COMMERCIAL LENDING SCHOOL

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Religious Organizations

The Good

- Tremendous potential source of community goodwill
- Good source of new business credit requests (through interaction with members of the borrower’s governing board)
- Potentially large, long-term deposit relationships
- Generally simple credit needs
- Community Redevelopment Act (CRA) credit in some cases

The Bad

- Underwriting the Primary Repayment Source may be difficult with reliance on projections
- Finding any other repayment source may be nearly impossible
- The loan may be highly competitive with other banks, leading to concessions or thin pricing
- Religious Org Loans do go wrong....

The Ugly

- And if things go wrong, what do you do.....
  - Guarantors? probably not
  - Collateral?
- HEADLINE – “Local Bank Shuts down the First Sunday Church”
- And if you do take it back, what do you do with a sanctuary?
  - How about a gymnasium and a sanctuary?
  - What is the value of the fancy sound system?
- How many people will you alienate?

Religious Organizations

- The financial condition is a result of Leadership, Management, and Membership
- Most issues with church lending is rooted in non-financial activities, including:
  - Organization's Age and Stability
  - Clergy and Congregational Leadership
  - Membership Characteristics
  - Organization Programs and Emphasis
  - Parent Denominations

Age and Stability

Established Church

- Represent lower risk than a new church
- Typically have several generations of members that are tied and committed to the church
- Run programs and activities that are deeply rooted in the community
- Benefits from the knowledge of its membership and its commitment to new projects and/or debt
- Build equity in assets and financial reserves (cash savings!)

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Clergy vs Congregational Leadership

- Who runs the Religious Organization?
- Is the clergy (minister) the leader / decision maker?
- Is the clergy an employee and are the membership the real decision makers?

THIS IS A MUST KNOW BEFORE LENDING A DOLLAR TO THE ORGANIZATION

Clergy vs Congregational Leadership

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The church is led by a charismatic minister

- How established is the minister?
- How long can / will the minister be active?
- How is the minister replaced and does the church have a strong assistant in the wings?
- Does the minister have any skeletons in the closet?
- A Clergy driven Religious Organization means:
    - The minister controls the membership
    - The minister controls the books and bank accounts
    - A strong minister can squeeze cash from a rock if needed!!!

Clergy vs Congregational Leadership

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The church is led by its membership

- Some churches expect minister turnover
- New ministers are chosen by Committee/Membership
- Strengths and Weaknesses include:
  - The members should be active and professional; including significant business and construction experience
  - Decision typically represent the membership (those that give money)
  - Timely decision may be impossible (find the leader of the group)
  - Determine how often the Committees turnover
  - Financial misconduct is harder to hide
  - Individual misconduct is easier to resolve

Membership Characteristics

- Is the membership stagnant or growing?
- What is the mix of age groups?
- How often are membership rolls purged?
- How many members attend regular services?
- What percentage of members tithe regularly?

Rule of Thumb: The ratio of Members to Giving Unit should be 2.5x or 40%

Organization and Program Empahsis

- Does the church appeal to the community?
- Do the church's programs fit in or are they exclusionary or tailored to a specific group?
- Program expenses may be discretionary in some cash flow models
- HOWEVER, a church's mission is to save souls, not to payoff debt

Parent Denominations

Good – The Parent may support the Church:

- Financially
- Providing management advice
- Replacement of clergy
- Membership support/programs

Bad

- Churches pay a percentage of offerings to the parent
- Real estate may be owned by the parent which requires approval to secure a loan or to incur new debt
- The church may be harmed by activities of the parent or others in the group

Underwriting: Religious Organizations

Most organizations do not offer guarantees

- It is acceptable to require a guaranty to fortify the loan request
  - Ensure adding guarantor fortifies the loan
  - Consider the consequences; the guarantor may expect to play a larger role in the church due to their financial support
- Any guarantor support should be well documented including any considerations to the guarantor

Underwriting: Religious Organizations

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What type of real estate is offered?

- Traditional church with steeples and pews
- Non-traditional church; large non-defined space
- Repurposed building; theater, office, warehouse

Perform a liquidation analysis

Negative Pledge

- Included as a promise in the loan package
- Depends on the strength of the borrower
- Competition may force a Negative Pledge

Underwriting: Capital Campaigns

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- Treat collected funds as equity into your deal
- Funds raised should not be included as cash flow
- Pledges should retire the majority of bank debt
- Test success of prior campaigns
  - Benchmark is 90%
- Is there a constant Capital Campaign?
- Is the campaign goal reasonable?
  - Consider Membership
  - Consider Giving Units

Underwriting: Religious Organization Worksheet

Tracks pertinent information Including:

- Denomination and Governing Body
- Age of the organization; Time at current location
- Tenure and salary of key staff
- Membership data including age categories
- Giving Unit data
- Capital Campaign information
- Financial Data

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Case Studies

- First Church of Guilford County
- Chippenham Square United Church