



Financing Your Church Building

Baptist Church Loan Corporation

Discusses Key Issues related to

Church Building Finance



I N T R O D U C T I O N

Since 1952, the Baptist Church Loan Corporation (BCLC) has been helping Texas Baptist churches with their borrowing needs. The one thing that is obvious as we deal with churches across the state is that each church has a different personality. While one church believes that everything it does should be paid for with cash, another may find that a mortgage loan or a church bond program is its choice for providing the facilities needed for their ministry. This booklet does not intend to debate which method is best. It will, however, provide you with some suggestions and alternatives to use as your congregation makes its financial decisions.



FIRST THINGS FIRST



1. Define Mission and Ministry

As a prelude to beginning a construction project, we recommend the church start with defining its mission and ministry. The Baptist General Convention of Texas provides many wonderful resources to help in this process. The Church Life Resources website www.churchliferesources.com is available to help review the characteristics of a healthy church and provides information about the many resources available for churches.

2. Space Utilization and Needs Analysis

After the mission and ministry are firmly established, a needs analysis and space utilization should be accomplished. This can be done by a needs analysis committee or by the church staff. We suggest you contact the Church Facilities Center of the Baptist General Convention of Texas for assistance and guidance. Their web site, www.bgct.org/churchfacilities, offers fact sheets that will help in planning and needs assessment.

Remember to separate your needs from your “wants” in the event you have to scale back the project.



Once your church has established what facilities are needed to further its ministry, the next step is to determine the financial ability of the church to meet those needs.



FINANCING THE PROJECT

The church's total financial ability is determined by three interrelated approaches to project funding:

1. Cash on Hand

Building fund
Excess in operating reserve

2. Borrowing

Mortgage loan
Church bond issue

3. Capital Gifts Programs

Three-year pledges
Miracle day

Generally speaking, the preferred way to finance a construction project, purchase an existing building or to purchase land for a church site is by paying cash. Many churches maintain building fund accounts for this purpose. In addition to looking to the church building fund the church should also analyze its operating reserve account to determine if excess funds have accumulated that could be used.

We have placed Capital Gifts Programs as a separate category behind borrowing because in most cases only a portion of the pledges will be available in cash during construction and the remainder must be borrowed to provide construction funds.

Like it or not, many growing churches, like growing families, cannot accumulate enough cash to meet space needs as they occur. By the time the church accumulates the cash, the window of opportunity has closed.

Prudent borrowing is an essential part of most expansion plans.



ESTABLISHING DEBT LIMITS

How much can we borrow?

The real question is, "How much can my church afford to borrow and still maintain our ministries?" Many churches borrow too much money and then have a ministry of debt service. In our fifty-year history we have never seen a church express a desire to have a "ministry of debt service" as part of their mission statement.

In determining the borrowing capacity of the church, there are three things to consider:

1. Income and expenditures for the last fiscal year

Your expense allocation will help you determine to some degree your financial borrowing capacity. The maximum you should be using from your budget income for debt service is 30%. The percentage available for debt service has a direct bearing on how many dollars will be available for your church to borrow. If you have an existing indebtedness, that existing debt has to be taken into consideration. If the church has all the debt it can afford, it should not borrow any more money.

2. Value of the church property

Most lenders require some investment in the property. In other words, the lender generally does not lend 100% of the value of your church property, land and improvements. The percentage ranges anywhere from 60% to 85%. The maximum Baptist Church Loan Corporation will loan is 75% of the appraised value of your land and all of the improvements after completion of the proposed construction.

3. Terms of the loan

What will the interest rate be and how many years do you have to pay off the loan? Obviously, the length of the loan and the rate of interest have a bearing on the

monthly payment required. BCLC usually bases its loans on a 15-year pay back.

The chart below will give you an idea of the interest cost that you incur when stretching out your loan for a longer period of time.

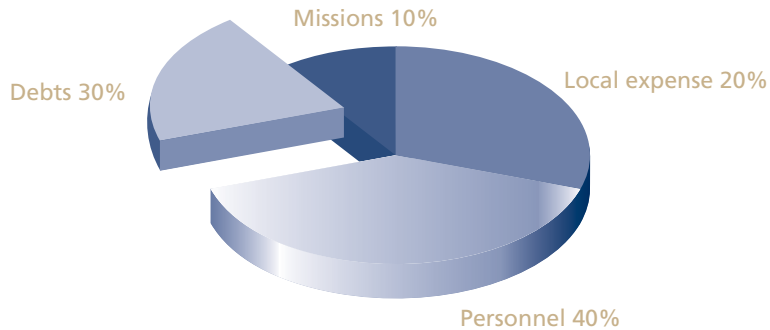
INTEREST COSTS			
Assume a loan of \$130,000 at 8.0%			
	15 Yr.	20 Yr.	30 Yr.
Monthly Payment	\$ 1,245	\$ 1,088	\$ 954
Interest Cost	\$94,100	\$131,120	\$213,440

Let's look at the following example. It assumes a budget of \$100,000. However, you can multiply or divide to approximate your situation.

THE BAPTIST CHURCH

Debt Calculation
Assume \$100,000 church budget

Local Expense	\$20,000
Missions	10,000
Personnel	40,000
Debt	<u>30,000</u>
Total	\$100,000



HOW MUCH DEBT?

Evaluate your budget

30% of Annual Budget = \$30,000

Payment per Month = \$ 2,500

15-Year Loan @ 8.00%

\$2,500 = \$260,000 Loan

We see that 30% of \$100,000 is \$30,000 which divided by twelve would give us \$2,500 a month. If you look at an amortization schedule based on 8%, that \$2,500 would purchase \$260,000. Under these circumstances, a church with \$100,000 income can afford a maximum of \$260,000 of indebtedness.

Let's suppose that local expenses run \$30,000.

We Have:	Local Expense	\$30,000
	Missions	\$10,000
	Personnel	\$40,000
	Debt Service	<u>\$30,000</u>
	Total	\$110,000

If your income is \$100,000, it won't work! You don't have that much money. It doesn't matter that debt service is within the 30% guideline. ***Guidelines mean nothing unless there is enough cash flow to cover the expenses.*** In this example, assuming that local expenses, missions and personnel expenses cannot be reduced, only \$20,000 would be available for debt service. That would limit borrowing to \$174,000 on a 15-year, 8% loan.

Look at budget income to see how many dollars are available for debt service. If there is not enough in the budget and it cannot be adjusted, it does not mean the church cannot borrow the amount of money it needs. It just means it can only use budget receipts to pay for part of it. It will be necessary to use a capital fund-raising program to be able to afford the whole project.

CAPITAL FUND RAISING



WHAT IS A CAPITAL FUND-RAISING PROGRAM?

There are many organizations that can lead your church in a capital fund-raising program. While the programs differ slightly, the basic approach is the same. The church asks the congregation to make a contribution over and above their normal giving for a 156-week period. This is a good experience for a church to go through because it not only raises money for the church that will let it reduce borrowing, but it will also enhance the spiritual awareness of the people. In a properly run fund-raising program the emphasis is on stewardship of the total person and that person's relationship to Jesus Christ. As a part of that the billfold will be touched, and money will be raised, but also the spiritual awareness of the people will be enhanced as to the totality of stewardship of giving themselves in the Lord's work.

HOW MUCH CAN WE EXPECT TO RAISE?

Most churches can expect to raise one and one-half to two times their annual undesignated budget offerings. A note of caution — when you interview professional fund-raising companies, don't make the selection based upon the company that promises to raise the most dollars. Insist on interviewing the person that will be working in your church and then select the company that will fit in best with your congregation.

HOW ARE FUND-RAISING GIFTS USED?

Gifts received from a fund-raising program can be used in a couple of ways — to pay debt more quickly and/or to expand borrowing capacity.

Let's assume that your church is going to use a pledge program to pay debt more quickly. The church needs \$1 million. At an 8% interest rate with a 15-year amortization, the monthly payment is \$9,557. Assume the church income would permit it to borrow that much

money but it does not want to pay all the interest required for a 15-year, \$1 million loan. The church has a capital fund-raising program that results in pledges of \$900,000 payable over a 156-week period. As the funds are received they are applied directly to the debt in addition to the required \$9,557 payment.

Using Pledge Program to Pay Loan Quickly
 Loan Need = \$1 Million
 Monthly Payment = \$9,557 (8% with 15-year payback)

Assume \$900,000 in pledges payable in 156 weeks
 with 80% collection of pledges or \$720,000
 Assume 40% payment Year 1 - \$288,000
 30% payment Year 2 - \$216,000
 30% payment Year 3 - \$216,000

Total debt will be paid in 44 months at an interest
 cost of \$131,600 for a savings of \$588,700

Generally, you can plan to receive from 80% to 90% of funds pledged. A rapidly growing church with a good follow-up program can receive more than 100% of pledged funds. Typically, 40% to 45% of the pledges are received during the first year. The chart assumes that 80% of the pledges, or \$720,000, will be collected with 40% the first year and 30% during each of the next two years. An assumption the chart makes that will not happen is that the pledge payments come in equally each month. They will not do that. If the church, out of the budget, continues to make the required \$9,557 monthly payment, plus use the money that comes in from pledges each month, the loan would pay off in about forty-four months at an interest savings of \$588,700.

The church can also use a pledge program to expand its borrowing capacity to a level that is more than the budget can support.

Let's assume the proposed building will cost \$1 million. If the income of the church is \$300,000, the church debt potential, based on 30% of income, is \$784,000. That is a

Pledge Program used to Expand Capacity

Assume debt need = \$1 Million
 Assume budget income = \$300,000
 Maximum debt service at 30% = \$90,000

Debt potential from budget = \$784,000 (15 years at 8%)
 Amount Pledged = \$450,000
 Loan potential from pledges at 80% = \$360,000

Loan Structure

\$360,000 4-year pledge loan
 \$640,000 15-year budget loan

little short of the \$1 million you need. If you have a capital fund-raising program, raising pledges totaling \$450,000, BCLC could make a loan to your church based on 80% of that amount – a \$360,000 loan payable over a 4-year period. The 4-year period gives you a 1-year buffer for slow pledge receipts. The balance of the loan, \$640,000, would be based on receiving payments from budget receipts. That would make possible the \$1 million with \$360,000 paying off very quickly from pledge program receipts. The payment on the \$640,000 would require less than 30% of budget, giving the church more dollars available for programs and ministries.

The chart below demonstrates the interest savings related to the capital funds proceeds.

Loan Need = \$1,000,000

\$640,000 with 15-year Amortization: Payment = \$6,117
 Interest cost at 8% = \$461,060

\$360,000 payable in 4 years: Payment = \$8,789
 (Assumes 48 equal payments of \$8,789)
 Interest cost at 8% = \$61,872

Total interest cost using pledge program = \$522,932

Conventional 15-Year Amortization: Payment = \$9,557
 Interest Cost at 8% = \$720,260

Total savings from using Capital Fund Raising
 \$720,260 - \$522,932 = \$197,328

This is important for two reasons. You want to pay off your indebtedness as quickly as possible because of the interest cost. But more importantly, as debt is reduced you can look to future needs of your church. If you are in a new or growing situation, you want to get rid of as much of the debt as quickly as you can because you will need to build again in a few years. As the church reduces debt, it will have credit capacity available for future building projects and other needs.

What about a miracle day offering?

In a Miracle Day Offering, sometimes called a Jubilee Offering, the church attempts to raise needed funds on one day. These offerings are not as simple as they sound and require three to four months to plan and promote. If properly conducted, the church can expect to raise between 25% and 40% of its annual budget income.

For more information about capital fund raising contact the Congregational Stewardship Center of the Baptist General Convention of Texas.



THE PROJECT COST

After you have considered cash on hand, fund raising and borrowing, and identified how much the church can spend on the total project. You are now ready to look at what the project will cost.

WHAT DOES THE TERM "PROJECT COST" MEAN?

The cost of the project includes more than just the construction cost. It includes the purchase of the land, unless it has already been paid for. It includes all costs necessary to construct and occupy the building. You have to look at the total cost from beginning of the construction

project. When your church has determined how much it can afford for the project, it must keep in mind that not all those funds will be available for constructing the building.

HOW DO WE DETERMINE THE PROJECT COST?

To determine the project cost the church should look at everything that will be needed to complete the construction.

There will be substantial fees for the architect and engineering work related to the building. You will also have costs and fees to provide utility connections for power, water, gas and sewer to the property. There may be city permits and inspection fees. You must have builders risk insurance while the project is under construction. Even if you are using volunteers, you need insurance. The church will incur interest costs on the interim/construction loan. The interim loan will also have some costs for appraisals, surveys, title insurance, and closing fees.

After allowing for all of these “soft costs” only about 85% of the amount the church can afford will be available to spend for actual construction. After accounting for site preparation, parking, sidewalks, driveways and furniture, you may have only 60% to 75% available for construction of the building itself.

This has been a very general discussion on project costs. We recommend you go to the BGCT Church Facilities Center web site, www.bgct.org/churchfacilities, for a more detailed discussion of construction costs. The site is interactive and will allow you to calculate the estimated cost of your particular project. If you do not have access to the Internet, call BGCT and ask to be connected to the Church Facilities Center. They have fact sheets covering these topics that can be mailed to you.

Church Bonds

Mortgage Loan





SECURING FINANCING

IF WE DON'T HAVE ENOUGH CASH TO PAY FOR THE WHOLE THING, HOW DO WE FINANCE THE PROJECT?

There are two basic methods you can use to finance your project. One is a mortgage loan, and the second is a church bond program.

HOW IS A MORTGAGE LOAN DIFFERENT FROM A BOND PROGRAM?

The basic difference between a mortgage loan and most bond programs is that a bond program usually involves an organized effort to sell the bonds within the congregation of the church. You sell bonds to several people and pool the funds all together. A mortgage loan will usually have either a balloon or an interest rate adjustment feature whereas a bond issue will fix the interest rate and payments for the life of the loan.

WHAT ARE SOME SOURCES FOR A MORTGAGE LOAN?

There are three primary sources of church loans for Texas Baptist Churches: 1. Banks; 2. Baptist Church Loan Corporation; and 3. Church Finance Ministry of the North American Mission Board.

Many banks, including the large national banks, are actively pursuing mortgage loans for churches. Some of the small communities still have independent banks that are interested in working with local churches. We recommend that churches always check with their bank to determine if they are interested and to get enough information to compare terms and rates between various lending agencies.

The Baptist Church Loan Corporation deals exclusively with Texas Baptist Churches that are affiliated with the Baptist General Convention of Texas. The church may be affiliated with more than one denominational group. To obtain an application, or to complete an application on line, go to our web site at www.baptistchurchloan.org.

The Church Finance Ministry of the North American Mission Board in Alpharetta, GA is a good source. They do church loans in all 50 states. They operate basically the same way as Baptist Church Loan Corporation. For more information go to their web site at www.churchfinanceministry.com.

WHAT KIND OF PAYMENT PLANS ARE AVAILABLE FOR MORTGAGE LOANS?

The payment on your mortgage loan is payable on a monthly basis and each payment is designed to pay accumulated interest with the balance being applied to principal. The period of time on which the payments are calculated is called the “amortization” period. The usual amortization on a church loan is 15 years. However, some may be for 20 years. Mortgage loans for churches that exceed 20 years are very rare. Be careful to fully understand the terms of a loan when dealing with a bank. While you may have a payment based on a 15 or 20-year amortization most loans have a five or ten-year renewable or balloon feature. That merely says that the bank has an obligation to you for five or ten years. At the end of that time period, the bank has the option to call the loan or renew at whatever terms are available at that time. Ask direct questions.

WHAT ARE THE ADVANTAGES AND DISADVANTAGES OF A MORTGAGE LOAN?

One of the advantages of a mortgage loan is that it is a relatively easy process. You don’t have to go around to all the members and ask them to invest. You go to one place and they write a check and it is all done. A loan also builds business relationships for future needs.

The most notable disadvantage is a floating or adjustable interest rate. The rate that you are going to get from the bank or anywhere else generally will have a provision that allows the interest rate to be changed. It may float daily against some index, usually prime rate, or it may adjust on an annual basis, a three-year, or a five-year basis. It is very rare that you will be able to get a loan with a fixed rate for the full amortization period of the loan.

Another disadvantage is that sometimes the bank requires a personal guaranty from church members.

HOW DO WE APPLY FOR A MORTGAGE LOAN?

Regardless of where you apply to borrow money, whether it is a bond program or a mortgage loan, you are going to have to provide the same information. For the purpose of this illustration we will assume that this is a mortgage loan.

The first step is to get an appointment with the most senior officer of the lending institution that you can find. There are two reasons for that. 1. He will probably be there when you go back next week. That is important because mid-level bankers are highly mobile. 2. A senior officer will be able to make decisions. Remember, all loans have to be approved by some form of a loan committee. When the banker says he would like to work with your church or is interested in making a loan to your church, he is not making a commitment — don't confuse this with an approval of your loan.

The second step is to prepare a presentation to take with you. The presentation should be typed and at a minimum should contain:

- 1. A three to five-year statistical history of your church.** Included in that statistical history should be the number of resident members. Also, include the Sunday School enrollment and attendance. In a Baptist church, with some exceptions, the majority of your income comes from members who attend Sunday School. The Sunday School attendance should be broken out to show the number of adults, youth and children. If your church is primarily a worship driven church, also show worship attendance for each year.
- 2. At least three years of Income and Expense statements, now called Statements of Activity by the accounting profession.** For the most recent fiscal year you should provide detailed month-by-month income and expenses as well as a year-end summary. Both income and expenses must be broken down to separate designated funds from

undesignated funds. Designated funds are those gifts to the church for which the donor specified a particular use such as missions, bus fund, choir robes, piano fund, building fund, camp funds, etc. Undesignated funds are given without a specified use and may be used for any legitimate church purpose. This is absolutely necessary for the lender to determine how much is routinely available to use for loan payments.

3. **At least three years of Balance Sheets, now known as Statements of Financial Position.** If your church does not maintain a balance sheet, bring copies of all of your bank balances for the year. Also bring information about the cost of any buildings, furniture, equipment and vehicles you own plus information about the balances owed on anything for which you are making payments. You should also have information as to how much your payments are.
4. **A copy of your budget forecast for the current year.**
5. **A plan for how the church is going to repay the loan.** Will you make adjustments to the budget? Do you have enough excess cash flow to pay it without budget adjustments? Will you be doing a capital funds program?
6. **A detailed description of the project you are hoping to undertake and an explanation of why it is necessary for the ministry of the church.**
7. **An explanation of what you want from the lender – interim financing, permanent financing, or both.** The lender will also want to know how much you will need and when you will need it.
8. **Basic information about your community.** This is especially important if the lender is outside your community. You should also include basic information about how your community is changing and what these changes mean to your church.

WHAT DO YOU MEAN BY “INTERIM FINANCING” AND “PERMANENT FINANCING”?

When you do a construction project using a mortgage loan, there will be two loans. The first is called the interim loan or construction loan. For this loan, the bank sets up a maximum loan amount and as construction progresses they fund the expenses incurred. During construction the church pays interest only on the amount they have actually funded, not on the maximum loan amount. Upon completion of construction the interim loan is replaced with the permanent loan that usually amortizes over a fifteen-year period. In some cases the same lender does both loans. However, it is not unusual for a different lender to do the permanent loan, usually at a lower rate than the interim loan. BCLC makes permanent loans only. We do not do interim or construction financing.

AFTER WE SUBMIT OUR APPLICATION, HOW LONG WILL IT TAKE TO GET APPROVAL?

Assuming your information is complete, it should not take longer than a month to get approval for a loan up to one million dollars. Loans of over a million dollars may require convening a special meeting and will take more time. The commitment and closing process will add two to four weeks to the total loan process. If you don't hear from the lender and they require additional information every time you check with them on their decision, that is usually an indication that they don't want to make the loan but they don't want to say "no" either. If you feel that is the situation, ask them directly, "Are you going to make this loan to our church? Yes or no? If you don't want to that is OK. But we need to know so we can move on." Don't let it drag out for several months.

DOES A LENDER CHARGE FEES FOR A MORTGAGE LOAN?

Some lenders will ask for an application fee and, when the loan is approved, for a commitment fee. These fees are usually negotiable and can be reduced. Loan commitment fees of .50% to 1% of the loan amount are common. You may also be asked to pay a loan origination fee by some institutions. Origination fees are usually expressed in terms

of “points”. A point is 1% of the loan amount. BCLC does not charge application fees, commitment fees or origination fees.

ARE THERE ANY OTHER COSTS INVOLVED IN GETTING THE LOAN?

Yes! On almost all real property loans there are closing costs consisting of appraisals, title insurance, surveys and environmental assessments. These costs can be from 1% to 2% of the amount of the loan.

WHEN CAN WE START CONSTRUCTION?

Don't start construction until 100% of your financing is approved and you have the commitment in writing. If your project is going to cost \$500,000 and you have \$350,000 cash on hand, do not start until you have the other \$150,000 committed. If you begin construction and then start arranging for financing, you will probably have to stop construction. When you stop construction it is very expensive. Every contractor that has been on the site and every supplier have the potential to create title problems that can delay construction financing. You will be placed in a position of proving that you have affidavits and releases from all suppliers and contractors before you can start making draws from your interim lender.



CHURCH BOND PROGRAMS

What is a Church Bond Program?

In a bond program, the church members make an investment in the church by giving a check to the church for a certain number of dollars. In return the member receives a certificate of indebtedness called a bond which promises to pay a stated amount of interest at stated times until maturity. At the bond maturity date the church will pay the member the original amount invested. The bond investment can be for amounts starting at \$250. The maturity dates on the individual bonds will vary with some bonds maturing each six months through the life of the bond issue, usually fifteen years. Generally speaking, the longer the investment, the higher the interest rate. The church will make monthly payments into a sinking fund in an amount sufficient to pay the principal and interest on the bonds as they become due. When the entire project has been completed and the 15 years have passed everyone will have received his or her money back.

The members go together to make a pool of money available for the church to use to finance its building project. Sometimes it may be that the church members cannot invest enough to make available the full amount of the bond offering. So the church may have to go outside to the community, to friends and relatives, to sell the bonds and give them an opportunity to participate in the ministry of the church.

What type of security do I have as an investor in bonds?

Your bond will be secured by a mortgage on the church property. An independent party is designated as a trustee to act on behalf of the bondholders. The trustee's responsibility is to protect your interest in the church property and to protect your interest in your investment. If for some reason the church fails to make payment or if the church goes into bankruptcy, whatever happens that

might cause a concern on the part of the trustee for the bondholders, the trustee steps in and represents you. If the trustee has to foreclose on the church property, it does so. The church property will be sold and the funds distributed, hopefully in an amount sufficient to pay everyone back.

Can we do our own bond issue without using a bond company?

Churches frequently ask, “Why do we need to involve an outsider to come in and help us do a bond program when we can do the program ourselves? We have an attorney in our church. We have a CPA in our church. We have an insurance person in our church. We have a printer. Why can’t we do all of it ourselves?” You can. There are three reasons, however, your church should not do a “do it yourself bond issue”: 1. The Federal Securities Act of 1933; 2. The Securities Act of the State of Texas; and 3. The Internal Revenue Code. Failure to comply with any of these can result in severe criminal penalties or civil liabilities. Remember, you can pull your own teeth or perform your own appendectomy, but some things are best left to professionals.

What will a bond company do?

They will qualify your church for the number of dollars you can afford. They will work with you in preparing your prospectus, in selecting your bond trustee and all the other things you need. This will help remove your church from any potential liability. They will be there to help you through the actual sale of the bonds. The bond company fees will depend on the size and type of issue.

How do we know which bond company to use?

You need to be sure to use a qualified bond company. There are several companies in Texas that do good work. How do you go about selecting these professional people to help you? The National Association of Church and Institutional Financing Organizations, better known as NACIFO, is a voluntary organization of institutions that

assist non-profit organizations [churches, hospitals, etc.] in the issuance of bonds. Just because an organization is a member or not a member of NACIFO does not necessarily qualify or disqualify them. However, it is a starting point. Check with the Texas State Securities Department to make sure the company is registered in Texas. Check references. Don't get references and stick them in a file. Check with them to see what their experience has been.

Is there more than one kind of bond program?

There are three basic types of bond programs. 1. The Self Directed Program - in this program the bonds are sold in and through the congregation of the church. 2. The Best Efforts Underwritten Program - in this program the church sells all the bonds it can within the congregation and the bond company gives its best effort to sell the remaining bonds to its own customers. The church usually pays a commission of up to 5% for the bonds they sell. There is no guarantee that all of the bonds will be sold. 3. The Firm Underwritten Program - in this program the bond company gives the church a check for the full amount on the issue date and then they take the risk of selling the bonds to their own customers. The church will pay a brokerage fee of 5% or more for this type of program.

What are the advantages and disadvantages of a bond program?

The first advantage of a bond program is that the interest is fixed for the full term of the bond issue. Bond issues are generally for a maximum of 15 years.

Another advantage is that no interim financing is necessary if you do a bond program. Interim financing is the dollars that you actually use to build your building. If you do a bond program you already have the money available. You go to the trustee or paying agent and get those dollars as you need them to build the building. You eliminate one step of financing with the bond program.

A bond program also gives your church membership an opportunity to become personally involved in what you

are doing. They invest in a bond and they are concerned about the church because they want to be sure to get their money back. They are involved and it gives them a feeling of being a part of what you are doing. It also gives your members an opportunity to invest and receive a little higher return than they would normally receive for their investments. Most of the investment funds people have will be in a money market account or savings account that does not pay very high interest. This gives them an opportunity to invest in the church and also earn a better return.

There are also some disadvantages. The first disadvantage is that the interest begins immediately on the full bond issue. You have to pay interest on the full amount from day one forward. You can offset that some by placing your bond sales proceeds in an interest bearing account but you will still have a net cost to the church.

Another disadvantage is that in all bond offerings, except the firm underwritten program, there is a possibility that not all of the bonds will be sold, leaving the church in a position where it must terminate the offering, pay the costs and then search for a mortgage loan.

Another disadvantage is that sometimes you have investors who have an emergency need for their invested funds and you are not able to give it to them. That church member is going to be upset with you.

For additional information about church bonds, see the web site of Texas Baptist Financial Services at www.bgct.org/tbfs.

What else do we need to know before “signing on the dotted line”?

After meeting with mortgage lenders and bond companies you will have several options to choose from. No one option is the best for every situation and church. The key to making your financing decision is stewardship. Evaluate and compare your options and make your decision on what the membership determines will provide the best overall stewardship of the funds entrusted to your church.

LOAN PROCESSING *and Closing Procedures*

Each lending institution or bond company will have their own schedule of steps necessary to complete the loan process. The following information relates to the step-by-step process followed at Baptist Church Loan Corporation in the review and approval of loans.



WHEN DOES THE LOAN PROCESS BEGIN?

The loan process begins with completion of the loan application by the church. It is essential the application be filled in accurately and completely since loan evaluation and approval depends on the information provided. Allow at least six weeks from the time the application is submitted for loan approval until the loan is committed and closed. A typical loan request procedure would progress as follows:

Step 1

The application is completed and approved by the church in conference. A portion of the application consists of a Church Resolution authorizing the loan and naming the trustees who may negotiate the loan on behalf of the church. The application should be accompanied by the most recent audited financial report of the church, if available.

Step 2

The application is forwarded to the local association office for certification. Certification by the association relates to the cooperative membership of the church in the association. The application is then sent to BCLC.

Step 3

A representative of BCLC will meet with the pastor and representatives of the church to talk about the financial needs, review financing options and discuss terms of the loan.

Step 4

The BCLC Board of Directors evaluates the application and related information. The loan approval is their decision. Information on smaller loans can be mailed to the Directors for their review and reply. However, the Board can only consider any request of \$1,000,000 or more in session at either the quarterly board meeting or in some cases at a special called meeting. The church is notified of board decision by letter.

Step 5

The church, upon notification of approval, provides BCLC with a commitment for title insurance. This is a written statement from a title company indicating willingness to insure a first lien on the property. Upon receipt of the commitment from the title company, BCLC will supply the church with a commitment letter. The commitment letter will indicate approval of the loan and set forth detailed information regarding requirements that must be met related to the permanent loan closing.

Step 6

The church can use the commitment letter to help secure interim financing for the project from a bank. Interim financing is the money used during the construction process. The interim lender will request some of the same financial information provided BCLC plus a working set of construction plans, construction bid, information about the contractor, builders risk insurance and a title commitment. It is important that interim financing be secured before any work begins on the project.

Step 7

When the project has been completed and the church notifies BCLC they are ready for permanent financing, a final inspection of the project is made by a BCLC representative and a letter of closing instructions is sent

to the title company. The church should be prepared to pay loan closing fees including title insurance, attorney fees, title company closing costs, interim interest, an “as built” survey of the church property, a certified appraisal, and a year’s premium on hazard insurance.

Step 8

When church trustees have signed all loan documents, the title company sends them to BCLC. BCLC will send the loan proceeds to the title company by wire for their distribution.

If the loan requested is to purchase land or an existing building, the same procedures as in Steps 1 through 5 above would be followed, step 6 would be omitted and BCLC would issue closing instructions to the title company.

