

Lending a hand

Some hints and tips to help your church obtain loan finance for your capital project

Churches are not like 'standard' borrowers when it comes to mortgage applications. They do not have accounts showing regular turnover from goods and services supplied to an established market and a healthy balance sheet to present to a potential lender. Rarely do they have a commercial or residential building that can be offered as security.

Instead, they have (sometimes volatile) gift income and maybe a church building which is notoriously difficult to value because it is legally restricted for use as a place of worship or for community use.

So how can a church maximise its chances of getting a lender to say 'yes'? Kevin Russell assesses all of the applications for mortgages received by Stewardship. Here, he provides some answers:

Who should the church approach?

The straightforward answer is specialist Christian lenders that are charities themselves (for example, **Stewardship** or a denominational lender). The reasons include:

- As charities themselves, these lenders can afford to lend at lower rates as they (a) do not have a commercial return on assets / profitability target and (b) can respond on the basis of meeting their mission objectives.
- They understand churches far better than a commercial lender.
- They are likely to understand the strange world of charity law and accounting, which is now a specialist realm with restricted and general fund, a Statement of Financial Activities and the need for specific charity law requirements to be met when taking out a mortgage.

On the downside, Christian charity lenders may be limited as to amounts that they are prepared to lend, loan term etc. So it is important to be clear at the outset whether the charity in question is going to be able to meet your needs.

It is also prudent to check out their own financial stability since the last thing that you will want is for them to call in the loan as a distress measure because they themselves have financial difficulties.

In some cases, especially where the church has a longstanding, strong relationship with their bank and have demonstrated the quality of their financial management, it may be possible to obtain an offer that exactly matches needs and at a good rate. Beware here though of being locked into a mortgage term preventing early repayment without penalty, when your gift days yield healthy outcomes.

Beware also of banks adding a 'risk premium' to the interest rate and / or heavy arrangement fees to take account of the perceived risk of lending to a church or charity. It pays to shop around.

The application

A quality application is paramount if anything other than a minor sum is being sought. The key areas to address can be described under the 3 R's:

Reasonable

Your application should be reasonable in all the circumstances. There is a world of difference between stepping out in faith and groundless optimism. A lender will reject the latter without giving your application a second thought. Not all will reject a step of faith. But some, especially the Christian ones, will examine your submission to see if your 'step of faith' is justified. Here they can be expected to look, for instance, at the quality of the church itself as well as the quality of its financial management. Is there overall 'professionalism' giving them confidence that their loan advance will be well used?

Reliable accounts

Most lenders will ask for three years accounts in order to build up a picture of the financial health and trends of the church. If there are special factors such as one off income or expenditure, or activities that are beginning or ceasing, then highlight and quantify these. Other matters that a lender can be expected to consider include:

- Is the church growing, stagnant or declining?
- Do the accounts themselves make sense to a financially literate person, especially when compared to other factors that they are aware of?
- Do the accounts themselves and the trustees' report in particular portray a church that knows what it is about and where it is going or is it one that is confused and carrying on as it always has done?
- Do the accounts comply with the charity accounting regulations?
- Were they examined / audited and signed off within a reasonable period of the year end (for which read months rather than years) or have they just been hurried together because they are needed for the application?

These factors point towards responsibility and good financial management and leadership. They are the kind of things, besides the pure numbers, that are likely to influence the lender's judgement.

Risk

From the lender's perspective, this is key. They will want to lend wherever possible but without taking an unacceptable level of risk. Their aim will be to satisfy themselves that you as a church are capable of repaying the loan and interest on time with the minimum of fuss or hassle. Taking security by way of mortgage is a long stop position. Very few if any lenders will want to enforce security as this is both costly and time consuming. So what will they be looking for?

- A measure of financial stability. Do the accounts show that, after adjusting for one off etc. items, there will be sufficient net income to service the loan?
- People risks. Is a church that relies heavily on the charisma of one person, perhaps the pastor or other key leader, at risk of losing its key supporters if he or she moves on? Is the church reliant for a major part of its income on one or a small group of donors. What if they leave the church or change their priorities?
- Quality of leadership.
- Project management. With larger projects is there a risk that these have not been well enough thought out, costed or planned?
- Established needs (perhaps supported by market research) driving the project rather than assumed needs.

Specially designed for churches and Christian charities, **Stewardship's** own mortgage facility is both straightforward and flexible. Its benefits include a simple application process, an option to take the loan in more than one stage and offers remarkable flexibility such as allowing early repayment at any stage, without penalty. Our understanding of churches and church life means that we are often able to lend where traditional lenders will not. And all at a beneficial interest rate. Please call Roy Morgan in the office on 020 8502 8573 or click onto www.stewardship.org.uk/mortgages.htm if you would like further information.