

How banks measure financial health of a church requesting a loan

1. Take average cash flow after expenses divided by projected debt service. This is the net sum or another way to say it is annual budget surplus. Ex. \$100K divided by \$75K (future annual payments). This is 1.25 which is the minimum magic number for approval.
2. Projected debt service to giving units (families - single or full household). The smaller required giving from each household to service the debt, the better. \$1,500 or less is best.
3. Number of giving units. Having more households spreads out the financial risk which is a good thing.
4. Revenue to giving units. The best score is having an average household (giving unit) giving of at least \$2,000 per year.
5. Average years senior pastor has served at the church? Greater than 15 years, greater than 10, greater than 5 or less than 3 years. The longer the better.
6. Loan to value. The loan amount divided by the overall value of all property. Example: If property is worth \$1 million and the loan can be up to \$750,000 or 75% would be the highest score.
7. Fund raising collections history: Percentage of pledges that are fulfilled as a dollar amount, not a number of people amount. Example, if \$100K was pledged and \$90K came in, that would be 90% fulfillment rate.
8. Term debt repayment capability. This looks at how long it will take to repay the debt. Most churches have a 15 to 20-year repayment schedule as the norm. If you can repay the loan in full in 7 years or less, that would give the maximum score for the determination matrix.
9. Historical cash flow coverage. This means, "What was your cash flow coverage over the past 3 years?" "Coverage" means how much of the time over the past 3 years of income would the entire building payment been fully paid out of regular cash flow. The ideal is to show 25% more cash flow each year than what would have been required to make for the building payment.
10. Projected cash flow and projected debt service. (Future increased church income vs. the budget). This is often difficult to know. This would apply if certain line items will no longer be in the future budget (such as paying off a previous note) to allocate to the future payment. Just like #9, banks prefer to see 25% more cash available each year than what is required for the mortgage.
11. Debt service as a percentage of revenue. Less than 10% of total revenue going to the building payment is outstanding.

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12. Operating budget times 2.5 divided by total debt. Example: 1,000,000 operating budget (without the new building payment) times 2.5 = \$2.5 million. IF the loan is \$1.5 million, this equates to a ratio of 1.67, which is greater than 1.5 evaluation matrix for the best score.

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Page 2 (Lines on worksheet do not correspond to previous explanations)

The bottom line is: if you think you will need to borrow in the next three years, don't spend the income you plan to allocate to your new building payment. Allow it to build up (save it).

CHURCH RISK MATRIX

	Outstanding (1 Point)	Above Average (2 Points)	Average (3 Points)	Below Average (4 Points)	Church's Score
1 Debt Service as a percentage of Revenue	<10%	<20%	<30%	>30	
2 Loan-to-Value (projected)	<50%	<65%	<75%	>75%	
3 3-Year average cash flow / projected debt service	Over 1.25x	Over 1.10x	Over 1.0x	Under 1.0x	
4 Projected Cash Flow / Projected Debt Service	Over 1.25x	Over 1.10x	Over 1.0x	Under 1.0x	
5 Term debt service capability (# yrs to retire building debt)	Under 7 yrs	Under 10 yrs	Under 15 yrs	Over 15 yrs	
6 Total Debt / Total Revenue	Under 2.0x	Under 2.5x	Under 3.0x	Over 3.0x	
7 Non-discretionary expenses as a % of total revenue (less debt)	Under 50%	Under 60%	Under 70%	Over 70%	
8 Attendance trend over the last 3 years (% of growth)	Over 10%	Over 5%	Over 0%	Under 0%	
9 Fund raising connections history (collection as a % of pledges)	Over 95%	Over 85%	Over 75%	Under 75%	
10 Fund balance times 3	150% of debt	124% of debt	100% of debt	<100% of debt	
11 Giving units	Over 1,000	Over 500	Over 250	Under 100	
12 Revenue / Giving Units	Over \$2,000	Over \$1,500	Over \$500	Under \$500	
13 Projected debt service / Giving Units	Under \$1,500	Under \$5,000	Under \$7,500	Over \$7,500	
14 Major staff changes (Senior Pastor Tenure)	Over 5 years	5 years	3 years	Less than 3 years	
				Total Score	
				Number of Categories Used	14
	Divide Total Score by Categories	AVERAGE SCORE			
	<i>The Target Average Score is 2.5x or Lower</i>				

Maximizing Stewardship's opinion:

Biblical references to being in debt are often shown in a negative light, therefore, we are not big fans of borrowing. Plan to borrow as little as possible and repay it as soon as possible. Don't put God to the test to bail you out with a negative net-worth property loan to asset ratio.

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