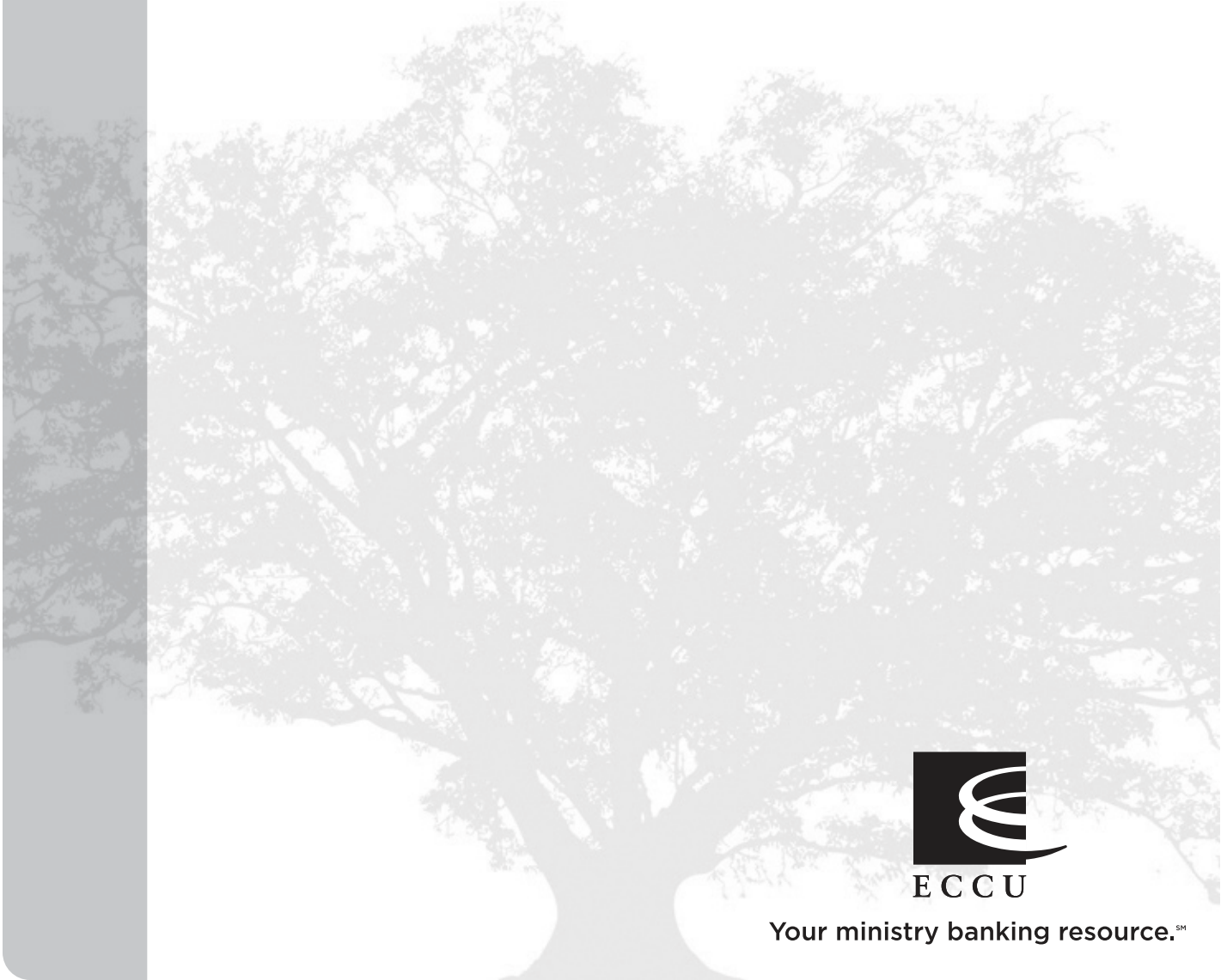
How to look like a borrower.



ECCU

Your ministry banking resource.℠

One of the most significant events in the life of your church is preparing for a building project. A new building can mean an opportunity to start new ministries and grow those that exist. It means touching more lives within and outside of your church. But it also means raising funds, finding an architect and a contractor, and often finding a financial institution to provide funding for the project.

A financial institution looks for many things when evaluating a church or ministry that seeks funding.

As a starting point, commercial underwriting philosophy is governed by the "C's" of credit:

Character: If you can afford to, will you repay the debt?
Collateral: If you are willing but unable, how will the debt be paid?
Capacity: Can you afford to repay the debt?

The loan package you present to your lender needs to address all three concerns in addition to offering a clear description of what you are requesting and why you need it. Most lenders have their own forms and checklists covering these items; however, if you are attempting to evaluate multiple lenders, you will want to create your own package in the form of a summary of your request. This package allows each lender to preview your request prior to your taking the time to complete their required forms. Completing the forms is time-consuming, and you can avoid having to do so for a lender that is either not interested in serving you or that offers terms that don't meet your needs.

A summary of your loan request will help the lender understand what you want, including the requested loan amount, the purpose of the loan, collateral offered, and how the funds will be used. The following elements could be included in your request:

Terms Preferred

This is optional, but be sure to include any particular area that is important to your ministry. These might include:

- Interest rate range
- Fixed or adjustable
- Term (length) of loan
- Maximum payment amount
- Maximum fees out of pocket
- Specific requirements of any line of credit

Identifying the Three C's

Character is the part of your loan request that helps the lender understand who you are and what you do. It includes:

- Brief history of your organization: year founded, by whom and under what circumstances; description of scope of ministry, services or products; information regarding the ministry's future plans; form of government (board, congregational, etc.)
- Statistical information: last three to five years attendance or enrollment; numbers of full/part-time staff; attendance; enrollment; number of campuses
- Biographical sketch of key leadership
- List of board members: term of service on the board; professions and occupations
- Credit ratings and/or letters of reference, if applicable (comment on issues that may show up in a D & B report)
- Copies of articles of incorporation, including amendments, fictitious name filings, DBAs if any
- Copy of by-laws
- Brochures, newsletters, annual reports
- CPA and legal counsel name and address

Collateral helps the lender understand what you have to secure the loan. If the loan is intended to fund the purchase of an existing property, you'll need to provide the physical address, complete legal description and copy of a tax bill, previous appraisal, property tax statement, exterior and interior pictures, any previous environmental assessment reports, evidence of hazard insurance, and Asbestos Hazard Emergency Response Act (AHERA) report, if available. If a previous appraisal isn't available, include the size of the lot, total square footage of buildings, and number of seats in sanctuary (if applicable), classrooms (if applicable), and parking spaces.

If the loan is for new construction, you'll need all of the information listed above, plus the following: copy of contract with contractor if one exists or proposed contract form; cost estimates to complete construction; cost estimate of furnishings, fixtures necessary for occupancy outside of the bid; plans/drawings, if available; resume, financial information and references from contractor; and name and information of architect.

Capacity helps the lender understand how you will be able to repay the loan and includes such information as:

- Financial statements, which include balance sheets, income statements, and cash flow for the existing year plus the past two to three years (see section below for more information regarding financial statements)
- Recap of dollars invested in the project to date
- Budgets (actual for two years prior and new budget including loan for future years)
- Payment schedule (NOTE: If financial statements are internally prepared, then include a schedule itemizing each loan listed on the balance sheet and a short statement as to the current interest rate, the required payment amount, and the maturity date.)
- A schedule of how the loan funds and cash will be allocated to the project

Financial Statements

The Financial Accounting Standards Board (FASB) has established guidelines for what constitutes generally accepted accounting principles (GAAP) for Christian ministries. (*) As you're preparing your financial statements, keep in mind that GAAP requires accrual basis accounting.

There are four types of financial statements: internally prepared, CPA compiled, CPA reviewed, or CPA audited. Most lenders will require either a certified public accountant (CPA) review for loan of $750,000 or larger and an audit for multi-million dollar requests. The acceptability of other types of statements for smaller loans depends on the loan amount and the perceived accuracy/reliability of the numbers presented.

No matter which financial statement you create, it must include the following:

Income statement/statement of activities/statement of revenues and expenses: This is a recap of what you earned and how you spent it during a particular time period.

- **Income**. Is it likely to continue? Was it borrowed? Is it part of a capital campaign? Where does it come from? Is there a broad base of few key donors or clients? Is it more or less than last year? Is there enough? Is income from contributors or earned revenue?

- **Expenses**. Are they contractual or discretionary? Is any area receiving a disproportionate percentage of income and diverting dollars from ministry? Is there room to make the payments on the new loan requested? A new budget may be required to support the new debt.

Balance sheet/statement of financial position: This is a snapshot taken at a point in time. Each income statement provided should have its own balance sheet, which shows the lender what you own and what you owe.

- **Cash reserves**. Are they sufficient to cover a temporary lapse or decline in income?
- **Current assets**. Are the current assets sufficient to cover the current liabilities?
- **Assets**. Can other assets that be used as collateral or liquidated to avoid default on the loan in a worst case scenario?
- **Current liabilities**. This is the current portion of the long-term debt plus anything else that is due in one year or less.
- **Long term liabilities**. Is there other debt that might encumber the property offered as collateral or might compete for cash flow?
- **Net assets/net worth**. Measure of financial strength. Quantifies resources available to carry out ministry objectives in future periods. These are classified as permanently restricted, temporarily restricted, or unrestricted.

Statement of cash flows: This is how your income and expenses affected your cash position.

Review and Analysis

After you submit the summary of your loan request and the information on your ministry, the lender will compute ratios based on the figures provided to determine capacity for repayment, liquidity and general financial health of the organization, and will also look at trends. They should also consider and advise you regarding the potential impact the loan and the associated payments could have on your ministry. It's possible, even likely, that you will need to shift dollars away from ministry expenses to create room in your budget for loan payments. Those decisions should be made intentionally by the ministry, recognizing what they may need to give up in order to get a new facility. A "rule of thumb" is that most borrowers can afford a loan

that is about three and half times their annual unrestricted income, which most lenders view as income that has already been established during the most recent year. There are always exceptions. For example, a ministry with declining income from year to year probably will qualify for less, while a ministry that qualifies for lower rates or a longer term might qualify for more. There are as many variables as there are lenders and borrowers, and underwriting will vary. Therefore, the more information you're able to provide to the lender, the better.

As important as it is to plan and prepare for building a new or purchasing an existing facility, it's equally important to prepare fully to talk to a lender. Do your homework and compile the proper paperwork. The presentation of a complete package to your lender will go a long way toward your receiving the funding you need to complete your project and increase the impact of your ministry

** The FASB guidelines are discussed at length in the "Accounting and Financial Reporting Guide for Christian Ministries" which is published by the Evangelical Joint Accounting Committee (EJAC). Copies of the FASB Statement Numbers 116 and 117 can be ordered from the: Order Department, Financial Accounting Standards Board, 401 Merritt 7, P.O. Box 5116, Norwalk, Connecticut 06867-5116*

For additional information or resources, please contact ECCU at 800.634.3228 or visit www.eccu.org.