Church Financing Options

Financing church construction is, for some churches, a very easy task while for others it is a source of never-ending frustration. We could expound on some of the factors that might place your church in one group or the other later, but let's instead review the three major methods of funding church construction, along with their benefits and drawbacks.

The three major methods of funding (in part or in whole) church construction are conventional lending, bond offerings and capital stewardship campaigns. Of the first two, loans and bonds, each is available in a variety of "flavors". While it is true that capital campaigns can be used as a funding source, they are more infrequently done as the sole funding source than loans or bonds. Capital stewardship campaigns are typically done in conjunction with a loan or bond. More on that later…

A conventional loan is one where you will go to a direct lender or broker and get a construction loan based on the future value of the facilities you are going to build, using your assets as collateral. In a conventional loan, you are essentially borrowing all the money from one lender. Construction loans usually can be easily converted into mortgages at the end of construction. Many lenders will allow you to do this without a separate closing at the time the loan converts.

A bond is a (generally) public offering for many people to "loan" you money by purchasing bonds. Your church would deal with a bond company who specializes in putting together and promoting the offering and as they sell the bonds, the money becomes available to your church.

For both conventional loans and bond offerings, the amount of money that you can borrow is going to be limited by your current income and cash flow. One of the common financial rules of thumbs is that the church can only afford to borrow (read "will only be able to borrow") between 3 and 4 times their current earnings. If the total church income for the year is $150,000, your borrowing capacity is probably only $450,000 to a maximum $600,000. Other factors that can affect your borrowing capacity are cash flow and equity. Regardless of bond or loan, the lenders are going to need to be able to see how you will make the payment from your current cash flow.

It is one thing to get a loan, it is quite another to retire it. With very rare exceptions, shame on the church that takes 20 years to retire a loan! Most churches should have a workable plan to retire their debt in 7 years. Interest is money that the church gives to the world to foster the world's economy. That money should stay in the Kingdom to finance Kingdom work. This brings us to our third form of financing, Capital Stewardship.

A capital stewardship campaign will typically raise between 1.5x and 3x your church's current total income, over a 3-year campaign period. Over the past several decades, thousands of churches have executed professionally facilitated campaigns. The result is a large statistical universe from which we learn that the majority of these churches raise the 1.5 to 3 times their current income: an analysis that mirrors my own experience in working with churches. There are 3 ways that a capital campaign can help fund a building program. Some churches may desire to avoid debt and to save up for construction. Others may opt to augment their borrowing capacity with additional funds from a stewardship campaign. Lastly, many will choose the middle road of using a capital stewardship campaign to pay off their debt as quickly as possible. This third method is the most prevalent.

A capital stewardship campaign should easily pay off ½ or more of the churches construction debt in three years. My position is that if the church can retire half of their debt in three years, they should certainly be able to retire the remaining half over the next 4 years. I say this, as I believe that the church will grow numerically and financially over the period of paying off the debt, and it would certainly have the option of executing a 2nd capital campaign at the conclusion of the first. Hopefully the church will be considering its next expansion plans before the end of the 7 years, which is a very good reason for becoming debt free as quickly as possible.

(Excerpted from the eBook "Before You Build", by Stephen Anderson)