Is Now the Time to Refinance Your Ministry's Loan?

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Besides personnel expenses, facility costs are often a ministry's largest budget items. And for many, a mortgage payment comprises a significant portion of their facilities expenses. So in this ever-changing economy, ministry leaders frequently face the question: **"Is now a good time to refinance?"**

Here are some financial and organizational indicators that may contribute to how you respond to this challenging question:

- Massive changes in the financial marketplace
- Declining commercial real estate values
- Interest rates at historical lows
- Shifting ministry priorities
- Reduced giving
- Your next renewal date is just around the corner (This is the date when your loan will need to be refinanced whether you're ready or not.)

Refinancing a ministry loan is often misunderstood because it's different than a residential loan. It is a commercial loan, which usually has a shorter term—typically 5 to 7 years—than amortization—usually 20 or 25 years. This means a ministry loan comes due before it's paid off completely. The payment required at the end of the term is often referred to as a balloon payment. Usually, but not always, a ministry would need to "refinance" by securing a new loan. This creates a built-in opportunity for both the ministry and the lender to reevaluate the loan.

So with all these factors to consider, how do you decide whether to refinance? We think a good starting point is to examine your motivation.

What's Your Motivation?

What are your goals in refinancing? Do you want to repay your loan more quickly? Reduce interest expense? Improve cash flow? In today's economy, each of these could be a good reason to refinance. But if your primary motivation is an overriding sense that you *need* to refinance, there's a good possibility you will not be *able* to refinance. Why? Simply put, the recession forever changed the rules of commercial lending, and you may find it more challenging to secure a new loan. Here are a few examples:

- Some costs associated with refinancing that could have been financed in the past will need to be paid up front.
- Before you can qualify for a loan, you will need meet specific general reserve and liquidity thresholds.

- Before the recession, a debt coverage ratio of 100 percent was enough to qualify for a loan. Today it's typically 120 percent.
- Most ministry properties are worth less today than they were three to six years ago.

Bottom line: Desperation is not a good motivation for refinancing. A good reason, on the other hand, might be to get out of debt as soon as possible. If this is your motivation, you'll want to consider the impact that time has on your decision.

Cost is more than money.

The decision to refinance is a stewardship issue involving not only financial resources but also time resources. So you need to ask a couple of key questions:

- Does our staff have margin in their schedules to accommodate the interruption that a refinance might bring? (It can take up to four months or longer to complete the refinancing process.)
- Does our ministry have a staff member for whom the refinancing process would be a regular part of their normal job responsibilities?

If you think your staff is up for this extra effort, that ministry will not suffer, and if you believe that the benefits will be worth the investment of time, then moving forward with the refinancing process may make sense. Next step: Contact your existing lender.

Contact Your Current Lender

Start with your existing lender. If they are still interested in making church and ministry loans, ask if they have an easy, quick, and cost-effective way for you to reap the benefits of reduced rates without going through a full-blown refinance. Options might include a rate refinance, reamortization, or loan restructure. (Be sure to use these terms when talking with your lender.) If options like these are available, you could save considerable time and money.

If your current lender cannot accommodate your request, and if you still think refinancing may be a good option for your ministry, then your next step is to contact prospective lenders.

Contacting Prospective Lenders

Here are some important steps to identifying the right lender for your ministry's refinancing needs.

Identify your options.

This is a time-consuming process that can pull you away from other priorities, so consider devoting a certain amount of time each week to contacting lenders. Allow for 30 to 45 days to find and contact perspective lenders. Since not every financial institution is interested in making church and ministry loans, a great way to identify potential lenders is to check with other pastors and ministry leaders.

When you talk with a prospective lender, ask which specific documents you'll need to provide so they can evaluate your request.

Gather your documents.

Documents commonly requested by lenders, include:

- Financial statements, including profit/loss and balance sheet reports for the year-to-date period and the last two complete fiscal years
- Corporate documents (articles of incorporation and bylaws), including any changes or revisions
- A legal description of your property
- A copy of your existing note

To cut down on the time and expense of photocopying and mailing these documents—and to preserve your privacy—consider secure digital options like FTP (File Transfer Protocol) upload sites or encrypted zip drives. Since some of the documents will change monthly or quarterly, consider empowering a clerical or support staff member or layperson (e.g., elder or finance chair) to keep these documents current and ready to send to perspective lenders.

Reevaluate.

After the 30 to 45 days, take stock. Here are some questions to ask as you determine whether you're ready to choose a lender and proceed with refinancing:

- Have we identified one or more lenders that understand our ministry? (Ideally, the signing of the loan documents should mark the beginning of a ministry-enabling relationship.)
- Have we identified one or more lenders that are capable of meeting our short-term financing needs? (Look beyond the immediate refinance to your possible financing needs over the next five years and assess a lender's ability to meet those needs.)
- Have our priorities or criteria for choosing a lender changed as we've talked with them about

the refinancing process? (It is likely that you'll gain additional financial insight through this process, so you should slow down and agree as a leadership team on how you're going to make a decision.)

- Are we hearing indicators that our ministry is a good candidate for refinance, or are there areas that we need to work on to prepare for refinance? (Slowing down to address any identified weaknesses can strengthen your application and reduce the overall cost of your new loan.)

As your list of lenders gets shorter, you'll want to start asking for an application, letters of intent, or other indicators of pre-qualification (such as an appraisal).

Making Your Final Decision

Each prospective lender should be able to quote some preliminary terms and costs. Once you know the preliminary costs associated with refinancing, calculate how long it will take for your ministry to recover those costs through the expected interest rate savings. It is likely that refinancing at today's low rates would allow you to recover your costs within 18 months or less. If that's the case, and you feel comfortable with the lender and the loan conditions, you should definitely consider going forward with the refinance. It can even make sense to move forward with the refinance if the recovery time is longer than 18 months.

Ultimately, your leadership team will need to determine whether the interest savings and other possible benefits of refinancing justify the up-front costs and investment of staff and volunteer time required to complete the process.

Evangelical Christian Credit Union (ECCU) has developed a Financial Health Assessment tool to help ministries understand how the changes in commercial lending guidelines, property values, and income and attendance trends will impact their ability to qualify for a new loan or refinance. This tool has been used by hundreds of ministries to better understand their current financial situation and evaluate which areas should be addressed as they prepare to answer the question, **"Is now a good time to refinance?"**

If you'd like to connect with an ECCU ministry development officer to learn more about the Financial Health Assessment and for evaluating the question of refinancing your ministry's loan, please contact us at ***800.288.4846*** *or* ***solutions@eccu.org*** *Additional ministry banking resources are also available at* ***www.eccu.org/resources****.*