

**ADDRESSING THE CAPITAL AND CREDIT**

**NEEDS OF**

**LOCAL CONGREGATIONS IN CHICAGO**

**A Report For**

**Inspired Partnerships**

**A Project of The National  
Trust For Historic Preservation**

**by**

**David Flax-Hatch**

**and**

**Jean Pogge**

**June, 1991**

**(c) June 1991. Inspired Partnerships Program of the National Trust for Historic Preservation in the United States, 53 West Jackson Blvd., Suite 852, Chicago, Illinois 60604. All rights reserved.**

**Woodstock Institute 407 S. Dearborn Chicago, IL 60605 (312) 427-8070**

## The Woodstock Institute

The Woodstock Institute is a not-for-profit organization based in Chicago. For the past eighteen years, the Institute has carried out applied research and developed and implemented programs which increase private sector investment in modest-income and minority communities for the benefit of those who live there. It designs programs which bridge the gap between the needs of communities and the resources of banks, savings and loan associations, foundations and others.

The Institute provides a variety of services to community-based organizations, financial institutions, foundations and government agencies, including applied research, policy analysis, program design and evaluation.

Jean Pogge  
President

Kathryn Tholin  
Vice President

## **EXECUTIVE SUMMARY**

## **EXECUTIVE SUMMARY**

In many urban neighborhoods, local churches represent one of the few viable and visible institutions serving the community and its residents. Religious congregations serve through ministry the most vulnerable populations in society, continuing to care for the community and its people after other institutions such as banks, businesses and health facilities have withdrawn and abandoned them. It is not uncommon for neighborhood revitalization efforts to begin with a church or a group of churches faithfully committed to turning around the spiral of disinvestment and decay.

The church buildings that house these congregations often serve as both a sign of hope for the community and a center for community activities and services. While often beautiful and architecturally significant, many urban church buildings are old, suffer from deferred maintenance, and are in need of substantial repair or rehabilitation. Urban congregations, particularly smaller and poorer ones, often find themselves burdened by their buildings and face hard choices between building upkeep and community ministry. In extreme cases, mounting building costs become a threat to a church's survival.

Inspired Partnerships, a project of the National Trust for Historic Preservation, is devoted to addressing the problems of churches in maintaining their buildings so that these buildings can continue to serve as centers for community life and congregations can focus on their much needed ministry and service. In December 1990, Inspired Partnerships contracted with Woodstock Institute to research the availability of sources of capital and credit for churches for building repairs, to identify barriers that congregations face in accessing those sources of capital and credit, and to make recommendations on programmatic actions that could eliminate some of those barriers and make resources more readily available. This publication reports the results of that research.

### **Available Resources**

Denominations represent the most widely and readily available source of capital and credit for congregations with denominational affiliation. All of the mainline denominations (American Baptists, Episcopalians, Presbyterians, United Methodists, United Church of Christ, Evangelical Lutherans) and some of the African-American denominations have some form of grant and/or loan program to assist churches with their building repair needs. The adequacy of these funds range from those able to relatively comfortably meet current demand to those in which demand far outstrips available resources.

Individual congregations constitute another additional source of capital and credit. While only one metropolitan area church operates a loan fund specifically for the building repair needs of Chicago churches, several others have endowments or grant programs used to fund urban church ministries. Some of these churches have indicated a willingness to make grants and loans available to churches for building repairs.

Banks and other private financial institutions are a potential source of credit to churches for repairs that is currently difficult for most churches to access. The nature of church income and the undesirability of church buildings as collateral are among the factors that make banks hesitant to lend to churches.

Private foundations and government entities constitute two vastly underutilized and largely inaccessible sources of capital and credit for churches. Funds from these sources are rarely available to churches except for the limited number of situations in which funding can be linked directly to a specific social service program. Even in these limited cases, funds are usually made available only to a separately established not-for-profit entity. Rarely are any of these program funds available for building related costs for the church itself.

## **Barriers to Capital and Credit**

Congregations face barriers of access to every kind of source of capital and credit. Some of these barriers are internal to the attitudes and practices of congregations themselves. Others are external barriers related to the attitudes and practices of the capital and credit resources.

Common internal congregational barriers include: a lack of knowledge of denominational resources; a general aversion to credit from any source; poor or spotty record-keeping that makes credit difficult to obtain; and an inadequate recovery of building costs from renters and users of church space. In addition, churches and denominations commonly fail to use their collective deposit and banking power strategically to leverage bank loans.

Each source of capital and credit can present additional barriers to access by local congregations. These include:

Various denominations operate differently but barriers may include: a lack of adequate funds, a strong focus on new church construction at the expense of church repair, and a lack of marketing of available resources.

Barriers to church borrowers presented by bank practices include bankers' general distrust and lack of understanding of the gift nature of church income; aversion to church property as collateral; and a general perception of church loans as inherently risky. Additionally, banks are not set up to deal with churches as a distinct set of borrowers. This means that church borrowers are treated in the same manner as businesses or other not-for-profit organizations.

Church access of private foundation grants is limited primarily due to the reluctance of private foundations to give grants to religious organizations. In addition, the fact that national giving to church and religion is great gives many donors the impression that churches can adequately provide important services and programs to their communities without outside funding assistance.

Because of a legitimate concern about the separation of church and state, government often fails or refuses to consider church sponsored activities and usage of church space as eligible for government funding. As a result, government resources are not generally available to local churches.

In the final chapter of this report, Woodstock Institute presents a discussion of numerous activities that would address the barriers to access to credit by local congregations. These activities range from serving as an information source to establishing a loan guarantee fund.

### III

## **TABLE OF CONTENTS**

|                                                                                          | <b>PAGE</b> |
|------------------------------------------------------------------------------------------|-------------|
| <b>I. INTRODUCTION</b>                                                                   | <b>1</b>    |
| <b>II. METHODOLOGY</b>                                                                   | <b>3</b>    |
| <b>III. THE NEED FOR CREDIT</b>                                                          | <b>7</b>    |
| <b>IV. AN EVALUATION OF AVAILABLE RESOURCES</b>                                          | <b>11</b>   |
| <b>V. BARRIERS TO CREDIT FOR CHURCHES</b>                                                | <b>29</b>   |
| <b>VI. MEETING CHURCH CREDIT NEEDS: POSSIBILITIES<br/>AND RECOMMENDATIONS</b>            | <b>35</b>   |
| <br><b>APPENDIX I</b>                                                                    |             |
| <b>Foundations that give to Churches in Illinois for<br/>Construction and Renovation</b> | <b>43</b>   |
| <br><b>APPENDIX II</b>                                                                   |             |
| <b>Interview List</b>                                                                    | <b>47</b>   |
| <br><b>APPENDIX III</b>                                                                  |             |
| <b>Literature Review</b>                                                                 | <b>51</b>   |

## **I. INTRODUCTION**

## I. INTRODUCTION

Churches and synagogues can and often do play a vital role in the life of neighborhoods. As a matter of faith, religious congregations frequently follow a "call" to serve in mission the most vulnerable of their communities, the aged, the young, the disabled, the shut-in, and the poorest of the poor. In urban inner city neighborhoods, churches sometimes constitute one of the few remaining committed and viable institutions in the community. They remain long after banks and other businesses have closed their doors and education and health facilities have withdrawn or deteriorated.

While often struggling to meet their own basic survival costs as an institution, this call to ministry and its demands in time and money, often conflict with the demands of running a financially self-sufficient institution. Despite the critical role that religious congregations play in neighborhoods, they are left to fend for themselves by most traditional sources of capital, credit, and technical assistance. Because of America's strong traditions of separating church and state and supporting individual religious freedom, both government and philanthropic institutions are hesitant to assist local congregations in their "mission". Because personal giving to religious institutions is nationally great, there is little recognition of the financial needs of local inner city congregations.

As a result, many urban churches face a crisis. Housed in old and often deteriorating buildings with small budgets and large commitments to community service, these churches and their congregations increasingly face a choice between building maintenance and ministry. If deferred long enough, building repairs may threaten the survival of the church itself. The following story makes this point best.

A West side pastor took time out from a very important task one day in February to respond to a telephone interview. The pastor was trying to fix the radiators so that there would be heat in the church the following Sunday. Much of this kind of work, he or his members took on because there was little money to hire plumbers or heating contractors. He was supposed to be finishing an application for a grant from a suburban church to help reopen the church's day care center but the heating crisis took precedent. The day care center and head-start program were sources of pride to the church, two of the top three priorities of the community according to a survey the pastor conducted upon arrival at the church in the mid-seventies. The church was pleased that it was able to help meet an important community need. However, recently, a building inspector from the city had found several code violations and shut down

both programs. The pastor says they have a wonderful old building that is open to the community seven days a week with a food pantry, clothing bank, and youth programs. The congregation is strong in spirit but made up of poor and working people without much means. "We've taken a lot of risks and spent a lot of sleepless nights," he says, "but we remain committed to the community because there is just so much need." The church must now look for ways to balance that commitment with the cost of maintaining the building.

The story of this church may be a bit extreme but is not atypical. It encapsulates the problem of urban churches trying to maintain old buildings that are a focal point of church life while still serving their communities. It also summarizes the problem this project was designed to research.

This report presents the findings from research undertaken by Woodstock Institute under a contract with Inspired Partnerships. This research was conducted to determine the capital and credit needs of urban churches that are at least 40 years old, and to recommend programmatic options for meeting those needs. Inspired Partnerships is a demonstration project of the National Trust for Historic Preservation devoted to assisting Chicago's churches in maintaining their buildings so that they may continue to serve as an asset to their communities. Woodstock Institute is a not-for-profit organization which works to explore and promote forms of investment in disadvantaged communities that contribute to economic opportunity, community capacity and equity formation and the creation of racially and economically diverse communities.

## **II. METHODOLOGY**

## II. METHODOLOGY

In December, 1990, Inspired Partnerships contracted with Woodstock Institute to research the capital and credit needs of congregations in Chicago that seek to repair or rehabilitate their property. The objectives of this project include: 1) identifying existing sources of capital and credit available to congregations in Chicago, 2) identifying barriers faced by congregations in Chicago in accessing existing capital and credit resources, 3) identifying resource gaps that exist and potential resources for filling those gaps, and 4) developing policy and program recommendations for Inspired Partnerships to pursue in order to better meet the building repair needs of Chicago's churches.

The focus of the research is the capital and credit needs of church buildings that are at least 40 years old and were constructed as places of worship. Other related property, such as meeting halls, schools and rectories, were also considered. However, some general information collected, such as information on the attitudes of local congregations toward borrowing and banking practices of local congregations was not limited to churches within this defined group.

Woodstock Institute pursued several strains of research including a literature search, interviews with local church officials, denominational officials and bankers, and review of research conducted by the Community Workshop on Economic Development for Inspired Partnerships. The majority of the information was gathered from interviews with individuals representing different perspectives and institutional points of view.

### **Denominational Representatives**

Local and national judicatory officials and loan fund administrators were interviewed to ascertain the size of available grant and loan funds, application processes, demand and loss experience, loan size limits, loan terms, and interest rates. In addition, these officials were asked about common church practices related to budgeting and planning for building repairs, the availability of credit from private financial institutions, and any other sources of capital or credit. For African-American denominations without strong central judicatories it was difficult to obtain interviews with denominational officers. In these cases, clergy who are active in denominational affairs were identified and interviewed.

Eleven representatives of nine local judicatories were contacted in addition to one Catholic and one Jewish source.

Eight representatives of seven national judicatories were interviewed in addition to local Methodist officials who are involved in the administration of national denomination funds. Due to the nature of organizational structure and governance in Judaism and the Catholic church, research focuses primarily on Protestant Christian churches and congregations.

### **Congregational Interviews**

A total of 33 interviews were conducted with local pastors. These interviews were conducted to collect information on a number of issues: common practices and attitudes related to finance, building maintenance and the use of credit; knowledge and use of sources of capital and credit including denominational funds, other congregations, banks, government and foundations; and the problems and barriers involved in accessing those resources.

### **Church Loan and Grant Programs**

Representatives of seven churches with loan or grant programs were interviewed to determine the availability of funds for urban church repairs. Additionally, information on an eighth church program (First United Methodist of Chicago) was obtained from denominational officials who work in partnership with the congregational fund in administering loans and grants to Methodist churches.

### **Banks**

Interviews were conducted with 12 representatives of eight banks to determine their attitudes and experience with church lending and the lending requirements of commercial banks. Representatives of both large downtown banks and smaller neighborhood banks were interviewed to ensure that both of these diverse segments of the industry were covered. Additionally, information gathered from interviews with local clergy and denominational officials was used to compare perceptions and experiences from the demand side of bank lending to the lender's experience.

### **Government**

Two interviews were conducted with potential government sources for church building repairs. In addition, several pastors whose congregations administer government-sponsored programs that qualify for government assistance were

interviewed, these focused on the availability of resources for repairs specifically to benefit government programs housed in the church.

### **Foundations**

A search of the Donors Forum data base was completed to identify potential sources of grants for church building repairs. Foundations identified were contacted by mail to obtain grant guidelines. Many of these foundations are small family foundations and some did not have formal guidelines or application procedures. Information was reviewed to identify any potential foundation sources for church building repair projects. Supplementary interviews were conducted with foundations.

### **Other Sources**

Several interviews with other types of resource people were conducted to gather information on special programs or technical issues.

### **III. THE NEED FOR CREDIT**

### III. THE NEED FOR CREDIT

#### Why Churches Need Access to Credit

Many urban churches do not or are unable to set aside funds within their budgets to meet all building repair costs that arise. In some cases, a financial crisis brought on by the need to make repairs might have been avoided by improved budgeting, planning, and fundraising. In other cases, the specific crisis might be an indication of the overall financial inability of a congregation to maintain its building. But in many cases, older churches find they need large or unanticipated repairs and the congregation cannot meet these needs immediately with available funds or cannot do so without severely straining their resources. Many of these congregations could afford the repairs if provided credit and the opportunity to spread the cost of repair over a longer period of time. Credit is often required even when a congregation finds itself facing repairs that have been anticipated and planned except the budget for repairs. When a church faces such a situation, the availability of credit may mean the difference between deferred maintenance (and the accompanying creation of additional building problems and repair costs) and meeting the need in a timely and cost effective manner.

Church credit needs generally fit into one of two categories: 1) loans needed for distinct and often times emergency repairs such as a new boiler or furnace, or repairs to a roof, 2) loans needed for non-emergency but larger or more extensive projects such as energy conservation measures or handicap access, or the rehabilitation of major building components or systems. All 29 of the local congregations interviewed by Woodstock Institute had either completed a repair project in the past five years or were currently facing a needed repair. Twenty of the congregations both faced a current repair need and had recently completed a repair project. The most common repairs cited were roof repairs or replacement, heating systems overhaul or replacement, tuckpointing, window replacement, and repairs or building projects related to code requirements for day care or government sponsored meals programs.

According to the Community Workshop on Economic Development's (CWED) survey of building utilization and management, 33percent of churches reported their building's condition was fair or worse, requiring major repairs. CWED reported that, "on average, sample churches were faced with four major repairs over the past five years."

## **Common Church Practices for Meeting Repair Costs**

Churches with adequate income streams and the expertise to budget for building contingency funds or ongoing capital improvement funds are most able to meet whatever repair or rehabilitation needs arise. However, clergy and denominational officials indicated that for urban churches such planning and preparedness is more the exception than the rule. Among the church respondents to the Woodstock Institute's survey that face current repair needs, only two indicated that they expected to fully cover costs from budgeted repair funds. Of the 17 church respondents that have completed repairs in the past five years, only one indicated that repairs were fully covered by budgeted repair funds.

Most commonly, congregations wait until they have an impending repair need or project and conduct a capital fundraising drive to raise the money to pay for the repair. When unexpected repairs occur or the capital fund drive is not conducted soon enough, churches usually take one of four possible courses of action: 1) pay for repairs out of funds designated for other ministry purposes, 2) defer maintenance, 3) withdraw principal from income-generating endowments, or 4) in severe cases, sell property such as parsonages or adjoining lots that the church had intended to use in the future.

There are at least two factors that mitigate against churches accumulating funds to adequately meet future building repairs. First, building costs often compete with a church's commitment to ministry. This is especially the case for churches with limited funds and tight budgets, but also sometimes true for more financially stable churches. To some extent, this is a theological issue. While long term planning is consistent with the theological issue of stewardship, the idea of saving for the building is sometimes perceived to be at odds with a commitment to maximizing ministry and service.

Another impediment to long term planning is tactical rather than theological. There is a commonly held belief that church members respond better to special capital fundraising campaigns for distinct building needs than to appeals for greater giving in order to accumulate surpluses for building contingency funds. It is, therefore, common for churches to wait until there is a distinct and imminent building repair need to launch a fundraising campaign for the particular need. Of the 17 church respondents facing building repairs, ten indicated that they would use a capital funds drive as a method for paying for the repairs.

## **The Inadequacy of Common Church Methods for Meeting Building Repairs**

Denominational loan fund administrators, Winnetka Centennial Loan Fund administrators, bankers and clergy corroborated that lack of planning and budgeting adequately for future repairs is a common problem among churches. If undertaken in time, a capital fund drive might adequately meet the costs for a distinct repair project. But if the drive falls short or an unexpected expense arises or the repair costs more than originally anticipated, a congregation can be caught short and find itself in a crisis situation. Additionally, the idea of waiting until a serious repair need arises to raise funds can lead to a pattern of deferred maintenance. This is especially true if capital drives result in the collection of less than the full amount needed to adequately deal with a problem and repairs are partially done or cheaper stop gap measures are used.

Such an approach can also be a strain on a church's finances and health. Two churches surveyed indicated that they had sold property to pay for repair projects, two took money from their endowment and three churches indicated that they had to reprioritize their budget and cancel ministry programs to pay for repairs.

Better planning and saving for future building needs is obviously one solution to the problem of deferred maintenance and crisis management. In many cases, the use of credit can be another effective solution. Credit can allow a church to fully and adequately pay for a building repair project while allowing the congregation to spread the costs over a longer period of time. A capital fund drive to pay off a loan early could also become an option that avoids a crisis response to the building problem but fits within the usual church fundraising pattern. However, relatively few churches use credit. According to CWED survey results, only 2 percent of churches completing repairs in the past five years paid for those repairs with bank loans, and only 17 percent used denominational loans. Clearly, education is needed to better inform local congregations about the value of borrowing to finance building repairs and rehabilitation.

#### **IV. AN EVALUATION OF AVAILABLE RESOURCES**

#### **IV. AN EVALUATION OF AVAILABLE RESOURCES**

The fact that churches are both nonprofit and religious organizations limits the range of resources available to them from outside sources. However, there are some resources available. The primary and most empathetic resource for local congregations is other churches. This includes the various national denominations and local judicatories as well as individual churches that see assistance to other churches as part of their mission. Other resources include foundations, government, and traditional capital and credit sources.

The American traditions of separation of church and state and support for individual freedom of religion, have resulted in major limitations on the extent to which either the public sector or private foundations will provide grant or loan support to churches. However, there are some exceptions to this custom. These include a limited number of private foundations that do give grants to churches and government programs that will provide support to social service programs that are housed in churches. Traditional capital and credit sources have not pursued churches as borrowers but have the potential to meet some credit needs.

##### **Denominational Resources**

All of the major mainline Protestant denominations (American Baptists, Disciples of Christ, ELCA Lutherans, Episcopalians, Presbyterians, United Church of Christ, and United Methodists) and some of the African-American denominations have loan funds available for building repairs and rehabilitation projects. Grant and loan funds are usually available at both the national level and the local judicatory. These funds commonly have both grant and loan components with only the neediest of churches qualifying for grants. Loans are generally available at below-market rates and sometimes the rates are highly favorable. Various levels of advice and assistance are available to congregations as part of each denomination's support for its member congregations as well as to ensure the wisest and soundest use of available loan funds.

Jewish congregations are independent entities which may relate to various associations according to religious tradition, or to the Chicago Board of Rabbis, but have no established judicatories similar to the mainline Christian denominations. Resources for Jewish congregations, therefore, are limited to those within each congregation.

The Catholic Archdiocese has its own bank in which all Diocesan churches and agencies must place any savings and

investment dollars. Diocesan churches may use private banks only for checking accounts. The Diocese owns all Catholic church property and no credit can be used and no liens or mortgages can be assumed by Diocesan parishes. The Diocesan bank makes loans to churches, currently at a rate of 5.5 percent with flexible terms. Generally, a Diocesan bank loan will cover only 20 percent of building projects, parishes are expected to have 60 percent of the costs in hand and 20 percent pledged. In emergencies, the Bank will loan beyond 20 percent of a project. Grants and subsidies are available to parishes with schools or key ministries, although these have been cut back dramatically in the past two years due to fiscal restructuring at the Diocese.

As part of each mainline Protestant denomination's interest in maintaining viable congregations and lending funds wisely, almost all national denominational funds require a process in which applicant congregations apply through or are approved by local judicatory structures (see Table 1 on page 13). This system eases the work of the national denomination in qualifying applicants and collecting documentation and ensures that national assistance goes to viable congregations. National funds rely upon the local judicatory's knowledge of the applicant congregation to help assess long term needs and develop congregational plans and strategies to meet those needs.

Local judicatories are involved in the process to ensure that: congregations do not use debt unwisely to the detriment of both the loan fund and the congregation; financially troubled congregations develop plans and strategies to overcome current difficulties and become viable and self-sufficient over the long term; and unviable and dying congregations targeted for closure or merger by local judicatories do not receive support for loan applications.

There are various ways that viability and local judicatory support are structured into national denomination loan programs. The United Methodists require the congregation's local conference to guarantee a portion of the loan. The Disciples of Christ also insist on this type of guarantee on some occasions. The Presbyterian Loan Fund will only fund a portion of project costs, requiring congregations to obtain the rest of their costs from local judicatories, private financial institutions, and/or internal fund raising.

According to denominational loan fund administrators, loan losses are negligible. The director of the Episcopal fund said that the denominational fund hadn't had a bad loan in its history and doubted if an Episcopal Church has ever experienced a foreclosure. The director of the Presbyterian fund said losses were negligible. Other denominational loan fund administrators could name only one or two bad loans within the last decade or

TABLE 1

## NATIONAL DENOMINATION LOAN FUNDS

| DENOMINATION         | EPISCOPAL                                                 | LUTHERAN                                                                                                                         | PRESBYTERIAN                                                                                 | UCC                                                                                                                              | METHODISTS                                                  | AMERICAN BAPTISTS                                   | DISCIPLES OF CHRIST                                            |
|----------------------|-----------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------------------|
| TOTAL FUNDS          | \$14 million revolving                                    | \$175 million in mortgage bank; \$100 million ELCA \$75 million deposits                                                         | \$90 million                                                                                 | \$48 million total; \$33 million outstanding loans, \$6 million outstanding grants, \$4 million committed, \$5 million available | Part of global missions "millions"                          | \$53 million                                        | \$80 million; \$15 million denomination; \$64 million deposits |
| ANNUAL LOAN VOLUME   | \$2.5-\$3.0 million                                       | \$25 million                                                                                                                     | \$6-\$10 million                                                                             | Varies                                                                                                                           | Don't know                                                  | \$125 million                                       | \$12 million                                                   |
| PERCENT REPAIR       | About 50%-varies year-to-year                             | About 25%                                                                                                                        | 63% new construction; 37% repair, (energy conservation, handicap access, asbestos, priority) | Don't know, many energy loans in 80s                                                                                             | Don't know                                                  | 20-30% of dollars / 60-70% of loans                 | 100 loans; Don't know                                          |
| PERCENT URBAN        | Don't know                                                | Don't know                                                                                                                       | Don't know                                                                                   | About 25% mostly Hispanic congregations                                                                                          | Don't know                                                  | 20-25%                                              | Don't know                                                     |
| INTEREST RATES       | 5-year T Bill plus 200 basis points                       | 7% up to 7-years market for longer loans                                                                                         | 7.5%                                                                                         | 7%, grants are .0% for 15- of 20-years                                                                                           | 5-9% loans; 0% grants                                       | 10.75%; 7% for special                              | 9.75%                                                          |
| LOAN TERMS           | 10-year maximum                                           | 20-years; 7-year balloon                                                                                                         | 20-years; 5-year balloon                                                                     | 10-year loans; 20-year grants                                                                                                    | 20-years                                                    | 10-year                                             | 15-years for repairs & improvements                            |
| MAXIMUM LOAN AMOUNT  | \$100,000                                                 | \$1 million land & building                                                                                                      | \$150,000                                                                                    |                                                                                                                                  | \$400,000 loans; \$100,000 grants                           | \$1 million                                         | \$100,000 or \$750,000 if secured by deposits                  |
| TECHNICAL ASSISTANCE | As needed; budgeting, capital planning, etc.              | Yes—architect, building consultant; charge 1 pt. on loan                                                                         | Through Presbytery local structure                                                           | Counseling provided                                                                                                              |                                                             | Advice planning                                     | Staff of 8 travels & consults                                  |
| PROCESS              | Direct/Consult with Diocese                               | Apply through Synod                                                                                                              | Application and oversight through Session—Presbytery Synod                                   | Through local judicatory approval                                                                                                | Local division & conference approve; guarantees 10% of loan |                                                     | Local judicatory approval                                      |
| MISCELLANEOUS        | No loss in 110-years; 50% of all loans are maximum amount | Denominational Insurance Co. takes mortgage after 7-years, 10% of 3,000 "mission" churches get subsidies for support with "plan" | Try to mix with private money whenever possible                                              | 70% churches built before 1920, priority—church w/o private financing, options, repayments slow                                  | Sometimes mix grants and loans                              | No loss in 30 years, unsecured loans up to \$35,000 | Unsecured to \$25,000, \$50,000 for emergency loans            |

more of lending. However, none of the officials were able to produce hard data on losses.

Anecdotal evidence of few loan losses suggests that church lending can be safe and profitable if done well. All of the administrators admitted to being flexible with borrowers and to restructuring some loans more than once to give the local congregation more time and/or lower payments. The administrator of the United Church of Christ (U.C.C.) grant mortgage program said that lending was somewhat curtailed at the present time due to slow payments on outstanding loans. In the few cases where administrators reported that a loan was in default or a church closed, the denomination held the title to the church building and was eventually able to recoup its loan losses through resale of the property.

National funds range in size. The Evangelical Lutheran Church in America (ELCA) has a large mortgage bank of \$175 million, \$100 million of which is ELCA assets while \$75 million is aggregate deposits of congregations and agencies. About \$25 million is lent annually to local congregations by ELCA across the country, about one-fourth of that (\$6 to \$7 million) goes for church buildings repairs and rehabilitation. The Episcopal Church reported the smallest total loan fund for building related projects at \$14 million. Among other mainline denominations, the U.C.C. reported total funds of \$48 million, the Disciples of Christ reported \$80 million, and the Presbyterians reported a total of \$90 million.

The amount of funds that are lent for repair also varied between denominations. Generally, the denominational funds do not track loans to determine the distribution of lending between construction and repair, but provided estimates based on their experience (see Table 1). Several denominational officials suggested that repairs related to handicap access and energy conservation were high priorities due to national denominational policies and represented a disproportionate amount of their lending for repairs.

Local judicatory funds for repair tend to be fairly small and more appropriate for emergency repair needs (see Table 2 on page 15). On the small side, the Presbyterians and the U.C.C. currently have Chicago area funds totaling \$38,000 and \$50,000 respectively. On the large side, the Episcopalians have a \$1.1 million fund available for Chicago area churches.

The adequacy of both local and national denominational funds detailed in Tables 1 and 2 is somewhat difficult to gauge because of insufficient data on demand. Estimates of demand and the adequacy of available funds varies between different denominations and within the same denomination. Woodstock Institute found that, in general, national fund administrators

TABLE II

## LOCAL DENOMINATIONAL LOAN FUNDS

|                       | EPISCOPAL                                       | PRESBYTERIAN                                                 | AMERICAN<br>BAPTIST                                                         |                                         | U.C.C.                                            |                       | METHODIST             |                                                                                         |
|-----------------------|-------------------------------------------------|--------------------------------------------------------------|-----------------------------------------------------------------------------|-----------------------------------------|---------------------------------------------------|-----------------------|-----------------------|-----------------------------------------------------------------------------------------|
|                       |                                                 |                                                              |                                                                             | Conference<br>Extension<br>Fund         | Metro<br>Revolving<br>Fund                        | Missionary<br>Society | Foundation            | Board of<br>Global<br>Ministries                                                        |
| TOTAL FUND            | \$1 million +                                   | \$50,000                                                     | Credit union<br>with \$500,000<br>deposits, very<br>little loan<br>capacity | \$271,000 with<br>\$58,000<br>available | Don't know,<br>\$38,000<br>currently<br>available | Don't know            | \$100,000             | \$3 million                                                                             |
| ANNUAL LOAN<br>VOLUME | Varies                                          | Varies, none<br>in last year                                 | Haven't done<br>church repair<br>loan in recent<br>memory                   | Don't know                              | 1-2 loans<br>per year                             | \$100,000             | Don't know            | Don't know                                                                              |
| PERCENT<br>REPAIR     | Don't know                                      | 100%                                                         | NA                                                                          | Most                                    | Most                                              | 100%                  | 100%                  | 25%                                                                                     |
| PERCENT<br>URBAN      | Don't know                                      | Most                                                         | NA                                                                          | Don't know                              | Most                                              | Most                  | Most                  | Nearly all of<br>repair funds                                                           |
| INTEREST<br>RATES     | Flexible/<br>below market                       | 5% to 8% by<br>need                                          | NA                                                                          | 7%                                      | 7%                                                | 0% to 5%              | 6% to 9%              | 6%                                                                                      |
| TERMS                 | Flexible                                        | 20-years, usually<br>10-years or less                        | NA                                                                          | 5-years                                 | 5-years                                           | Don't know            | 3-years               | 20-years                                                                                |
| MAXIMUM<br>AMOUNT     | \$100,000 to<br>\$200,000                       | Generally \$5,000,<br>might go to<br>\$10,000                | Amount relates<br>to funds on<br>deposit                                    | \$10,000                                | \$10,000                                          | Don't know            | Don't know            | \$150,000                                                                               |
| PROCESS               | Apply to<br>diocese,<br>no formal<br>guidelines | Business Affairs<br>Committee/<br>formal                     | NA                                                                          | Through<br>conference                   | Through<br>metro<br>conference                    | Through<br>conference | Through<br>conference | Through<br>conference                                                                   |
| MISCELLANEOUS         |                                                 | 9 loans over<br>last 2-years,<br>no new requests<br>recently | Theoretically<br>credit union<br>could do<br>limited<br>lending             |                                         |                                                   |                       |                       | Global<br>ministries<br>funds have<br>nationally<br>and locally<br>administered<br>pots |

believe that demand rarely outstrips available resources and that a shortage of available funds rarely forces hard choices.

Of the officials interviewed, only the U.C.C.'s administrator stated that difficult decisions were often necessitated by demand that was greater than available funds and that real need and the existence of other financing options were common considerations in loan decisions.

The assessment that national loan funds are adequately funded is not shared by local judicatory officials and clergy. U.C.C. and United Methodist contacts believe that demand outstrips supply. Episcopal and Presbyterian sources believe that national funds focus primarily on new buildings and development projects and not on the repair and rehab of older buildings.

Local judicatory fund administrators had mixed opinions of the adequacy of available local judicatory funds. United Church of Christ and United Methodist contacts indicated that there were limited resources for relatively great demand. Presbyterian Church contacts felt that the limited funds available locally seemed sufficient because several churches had received loans to take care of pressing needs in the last two-to-three-years and no new applications had been received. African-American denominational contacts, however, were consistent in their assessment that denominational resources were inadequate. They felt national and local funds were either nonexistent or very small and not able to meet the need of African-American local congregations.

Interviews with clergy from local congregations and congregational survey data suggest that there is much greater demand for these funds than is expressed by actual applications. Interviews with several clergy of mainline denominations found that these pastors were either unaware or only vaguely aware of existing denominational resources. This was true of financially sound as well as struggling congregations, both of which had needs that could be served by the use of credit.

While to some extent this lack of knowledge could be due to a general aversion to credit, poor marketing of these funds is also at play. Interviews with fund administrators indicated that there is an assumption that because local congregations are in touch with local judicatories and local judicatories know of these programs, the funds need little marketing. One local judicatory suggested that it is the "entrepreneurial" urban ministers that are most familiar with denominational funding sources while many other clergy are unaware or only vaguely aware of existing resources. These funds are viewed primarily as emergency funds by local congregations, a possible factor for the limited demand.

While the number of denominational loan funds that will consider requests for repair as opposed to new construction is relatively limited, given the scale of church building

repair needs, many national loan fund administrators insist demand does not usually outstrip available funds. This may be the result of a lack of aggressive marketing rather than a reflection of the need for those funds. But it does offer the possibility that Chicago congregations may be able to increase their use of denomination funds. Of course, a sudden large increase in demand from Chicago might create future problems of availability in these denominations.

### **Accessing Denominational Funds**

When a congregation seeks to access credit from its denomination, it faces many of the same issues it would face when applying for a bank loan. Denominational loan funds want to see documentation of income both in terms of past pledging patterns and future pledges and projections. Budgeting and accounting procedures are no less important for denominational lenders than for commercial banks. In fact, in some ways, denominations have more stringent requirements than commercial banks or savings and loan associations. Unlike private financial institutions, denominational lenders look at a church's ministry and presence in its community, its plans for future ministry and church growth, its standing within its local judicatory, and perceptions about the effectiveness of its clergy and lay leadership. In some respects, therefore, churches face closer scrutiny from their own denomination.

On the other hand, the needs of churches are much better understood by denominational lenders. Denominations understand the nature and legitimacy of pledge income and therefore accept this as a reliable source of income. Once assured that a congregation is viable and basically creditworthy, a denomination will usually provide assistance in helping a church develop financial and building plans and will be flexible in assigning loan terms and rates. Rates are usually negotiable and, in some cases, are applied on an "ability-to-pay" scale. In cases where congregations face difficulties in servicing their debt, denominational lenders are much more patient and flexible in working with a congregation and will frequently restructure the loan, in addition to advising the church on how to return to financial soundness. And, of course, since local congregations are the foundation of the church, denominations have a clear and strong incentive to help make loans perform and churches survive.

A limitation to the use of some denominational loan funds is the maximum loan amounts dictated by program guidelines. At

least two funds have limits of \$100,000 per loan. While this limit is adequate for most repair projects it is not adequate for large rehabilitation projects. To finance these projects, local congregations must blend denomination loans with other sources of financing. A second limitation is the small size of some loan funds. Funds with annual loan volumes of only a few million dollars find it difficult to accommodate a specific request for several hundred thousand or a million dollars, even if minimum loan limits do not disqualify the loan by definition.

Another problem with denominational loan funds is that as revolving funds, they can devote only a limited portion of the fund to subsidies and grants which is what is most needed by inner city churches. Nearly all denominations have a set of designated "mission" churches which are significantly subsidized by the denomination. Because these congregations are usually minority and lower income, the denomination is willing to support them for some time until they can become self-sufficient. But such subsidies do not usually include major repair or rehabilitation allowances. In addition, it is very common for denominations to prefer that a congregation find a smaller and newer dwelling that it can afford rather than rehabilitate an older and larger edifice.

Several clergy and loan administrators suggested that there is a class of churches that are marginal but just above the "mission" status that are least served by denominational sources. These churches are unable to secure any significant subsidies but are also not creditworthy because church income is inadequate. Often, churches in this category voluntarily forego mission designation to be independent and self-sufficient but simply are not prepared to meet repair costs of any significance when they occur.

### Inter-Congregational Resources

One fairly common practice, especially among mainline denominations, is the idea of more affluent and usually suburban congregations, serving as a partner or benefactor of an urban congregation as a means of extending the suburban church's mission and social outreach. This commonly takes one of two forms: 1) that of a sister church acting as a support or benefactor for a period of time, essentially underwriting some share of the costs of one urban church, or 2) that of a funding agent using an endowment or mission budget to respond to proposals from urban churches (and sometimes community groups or social service agencies) to support particular ministries.

These partnership arrangements will sometimes be facilitated by the local judicatory, but the arrangements tend to be

relatively informal. Urban congregations are more likely to receive funds for building repairs from suburban benefactors in partnership relationships than from private grantmakers because it is a relationship of support for the church as a mission in general.

One problem that can arise with individual church lending programs is the need to maintain communication with the denominational structures. One local judicatory official indicated that a congregation which had borrowed from the denomination got additional financing from an individual church lender without the denomination's knowledge and the borrower became overextended. This lack of communication can hurt the local congregation, the church lender, and the denominational lender.

Based upon interviews with selected grantmaking churches as well as judicatory officials, it is clear that grantmaking churches prefer to fund ministry initiatives rather than building repairs. Three grantmaking church representatives, Glenview Community Church, First Congregational Church of Naperville, and First United of Oak Park, suggested an openness to considering repair projects if the church had important, active ministries that would suffer without the repairs. One official suggested that such requests might need to be worded as ministry grants to be successful, but a grant for ministry would enable churches to use church-generated income to pay for building repairs.

Very limited and sketchy evidence of lending networks or arrangements within the African-American churches surfaced from interviewing. Several interviewees suggested that churches have been known to finance other churches, sometimes as a means to expand a pastor's political base. Our research was unable to confirm such networks or relationships or uncover any details. However, one pastor who was interviewed stated that although his church does not make loans, it will provide small grants to needy African-American churches.

Two congregations were identified as having established loan funds for the distinct purpose of helping congregations meet their building repair needs. They are the First Methodist Aid Society of the First United Methodist Church of Chicago and the Winnetka Congregational Centennial Loan Fund (WCCLF) of Winnetka Congregational Church.

First United Methodist of Chicago provides building loans for Methodist churches administered in conjunction with the local conference. As such, it is best categorized as a component of Methodist denominational resources. The grants and loans made by First United Methodist are customarily blended with conference and Board of Global Ministry program funds and administered within a single application process.

The only example of an individual congregation-sponsored ecumenical building loan fund in the Chicago area is Winnetka Congregational Centennial Loan Fund which was established 14 years ago to help churches in the City of Chicago with their building repair needs.

Winnetka Congregational Centennial Loan Fund is a revolving fund that serves Protestant churches and is targeted to emergency repairs for churches with limited means and without other financing options. The fund totals \$150,000. The maximum loan amount is \$20,000 although most loans are in the \$4,000 to \$10,000 range. The maximum loan term is five years but most loans are even shorter.

Due to the short terms of the outstanding loans, the amount of available funds fluctuates significantly. Currently, the fund has most of its money out in loans with enough available funds left to handle only one or two more loans but that will change as loans continue to be repaid.

Most loans made by WCCLF are for heating systems and roof repairs, but the church has also made loans for projects related to fire code requirements for churches with day care or seniors meals programs.

The Loan Fund representative interviewed estimated that the distribution of loans was split roughly 50/50 among mainline churches and African-American denominational churches. The majority of mainline church borrowers are African-American or Hispanic congregations as well. Loans made by the WCCLF often finance only a piece of the total project costs. Denominational funds are usually the only other source of financing. The Fund takes a mortgage, usually a second mortgage, as security. The Fund usually consults with denominational officials to ascertain the stability and viability of a congregation. Sometimes denominational approval is necessary if the denomination holds title to the church building. The Fund also makes site visits to the church to get a sense of the church and its ministry.

The Fund constantly deals with poor bookkeeping and inadequate financial statements. WCCLF will work with a congregation to get the documentation it needs to evaluate the loan request, but cannot offer substantial technical assistance. If a church cannot provide the necessary information, it is denied a loan. The Fund looks at a church's ministry, viability, demographics such as overall membership trends, the number of children in church school by age group, and income and pledging patterns. They turn down many churches because they feel the congregations are not viable or because there is no apparent financial accountability for the pastors. About half of the applicants are denied for some reason, most often congregation viability or limited ministry.

The Fund has had only one default in 14 years and that was eventually paid by the Chicago Presbytery because the church was closed. About 60 percent to 75 percent of churches pay back loans on time. The rest have problems making all their payments on time. The interviewee said that, overall, churches are very conscientious and WCCLF has had churches send payments from the city by messenger rather than be a day late.

### **Public Sector**

Churches as religious organizations are generally considered ineligible for government funding. The resources that do seem to be available are extremely limited and restricted to building projects that are directly related to a social service program administered by the church, such as day care.

When churches are able to access grants for program related building needs, it is possible for those repairs or renovations to have some benefit beyond the program itself. For example, upgrading bathrooms to comply with health or safety standards benefits the church and may allow the church to make plumbing repairs that would have had to be made anyway. Another example is renovation that increases handicap accessibility and benefits the church as well.

Woodstock Institute's research did not find any public sector emergency repair funds for churches. In addition, no government funds were found that recognize churches as a potential grant recipient on the basis of general public use or accessibility.

The one area in which churches commonly do qualify for public sector funds is as administrators of care centers. Churches that are funded to administer Title XX child care, Head Start, or seniors' lunch programs, can use certain building related funds to make the building more accessible or safe. Possible purposes include handicap accessibility, fire doors, or fire alarms. The fact that this assistance may be available to churches is not widely known by churches. Therefore, it was not possible to gauge the level of demand or the adequacy of the resources.

### **Private Foundations**

A review of information on foundation giving shows that relatively few foundations consider churches eligible grantees under their giving guidelines. However, there are three foundations of significant size that do support projects of or relating to religious institutions. These are the Pew Charitable Trust in Philadelphia, the William Penn Foundation in

Philadelphia, and the Lilly Endowment in Indianapolis. The giving guidelines for each foundation are different and none of these foundations usually support individual local congregations.

In Illinois, the 1991 edition of the **Fundraiser's Guide to Religious Philanthropy** lists 33 foundations that make grants to religious organizations for construction or renovation. An additional 17 foundations fund religious organizations located only in Illinois. Attempts to contact these funders demonstrated that these foundations are small and often are family foundations with very focused priorities set by the donors. Many do not have any literature about the foundation or its activities including annual reports. Of those that were willing and able to describe their grantmaking activity, most make very modest grants to a small number of organizations for specific projects. Many do not make grants to individual parishes or congregations or to endowment funds. Those that do fund church building projects prefer to make grants in the completion stage of a project rather than challenge grants or capital fund grants.

Four foundations were identified that make grants to churches in Illinois for building projects. These foundations are listed and their giving guidelines described in Appendix I.

Interviews with selected Chicago foundation staff indicated that churches are not a priority for private foundations and in many cases are not eligible under the foundation guidelines. The concept of giving to churches for rehab or repair was not considered one that would appeal to the foundation board of directors. However, those interviewed thought that their foundation would have no difficulty making a grant to a nonprofit organization that rented space from a church if the nonprofit fit the foundation guidelines. Those interviewed emphasized the volume of requests they currently receive from organizations that are eligible under the giving guidelines. This volume makes it difficult for program staff to foresee the foundation considering opening a new area of giving.

### **The Illinois Facilities Fund**

The Illinois Facilities Fund is a new foundation set up specifically to make loans for building needs to nonprofit organizations that receive the majority of their revenues from government funds. Churches are not considered ineligible by definition for loans from the Fund but would generally not be eligible because they do not receive the majority of their revenues from government sources. However, the Fund would consider a church program, such as a Title XX day care agency, an

eligible borrower, and would welcome applications for building repair or rehab from this type of program or from any nonprofit that rented space within a church building.

The Illinois Facilities Fund currently manages \$6 million in loan fund capital. It is very interested in expanding its capital base to better meet the need of nonprofits for loans to buy and rehab facilities. The Fund would consider managing a segregated loan fund that was designed to lend to churches for building repair and rehab.

### Commercial Banks

The way that most businesses and individuals meet the need for credit is through loans of various kinds from banks and other types of financial intermediaries. Due to the variety and frequency of the need for credit to finance property acquisition, repair and rehab, this country has developed a sophisticated, multilayered credit system that is an efficient source of long term property loans and short term construction loans. The basis of this system is the general acceptance of standard underwriting criteria and techniques and the development of standardized loan products that generate a volume of similar loans that can be aggregated and sold to investors. Very few lenders will customize a property loan for an individual borrower and those that do will do so only when there is significant profit for the lender.

Churches have many unique characteristics as organizations that effectively place them outside the normal standards applied to borrowers. These differences, combined with church attitudes and a reluctance to borrow, have resulted not only in very few bank loans to churches but also in an unwillingness on the part of many churches to consider a bank loan for property repair or rehab.

Despite the problems that bankers find in lending to churches, there are successful examples of bank loans to churches and often those loans are as important to the loan officer that made the loan as to the church that borrowed the money. One banker fondly recalled assisting a congregation through the loan process because he liked the church's program and wanted to help them. He was very proud of the fact that he was able to reduce the interest rate by one-half percent.

In another instance, a Chicago church that had exhausted Chicago banks for favorable terms and acceptable underwriting criteria, happened to find a suburban bank that had just received an infusion of capital and needed to make loans. The church loan helped the bank realize a profit on the new money faster than it would have through its normal loan processes.

## **Downtown Banks**

Because of their low volume of loans to churches in Chicago, downtown banks do not track loans to religious organizations. There are no designated departments or loan officers charged with marketing or originating loans to churches. One downtown loan officer stated that "there are over 100 departments in the bank and there is no way of knowing how many of them have handled church loans without talking to each department." Even so, interviews with loan officers revealed that downtown banks do not perceive loans to churches as a market where they can see enough profit to expend energy on marketing. Although none of the banks interviewed have a policy against lending to religious institutions, the downtown bankers interviewed do not normally lend to individual congregations but are more likely to do business with the denominations. Because the denominations are larger organizations and have paid staff, they usually have businesslike administrative procedures and practices and approach banks differently than local congregations.

Of the four downtown banks interviewed, in the last 12 months, one bank has made three loans to religious organizations, two banks have made one loan each, and the fourth bank had not made any loans to churches. The bankers indicated that they get very few applications for loans from local congregations and this may be a function of their downtown location. It was generally believed by those interviewed that most local congregations seek credit from community banks and the few loan applications that downtown banks receive are internal referrals from other bankers, who belong to or have a connection to the borrowing church.

All of the downtown bankers interviewed cited lack of financial knowledge, inadequate bookkeeping, and lack of business skills as reasons why they find processing church loans taxing. Bankers reported that loans to churches required leading church representatives through the process including helping them gather the appropriate documentation. The bankers do not see giving this kind of assistance as their function and some churches do not complete the application process because they do not get the kind of assistance they need.

Interestingly, downtown bankers expressed the opinion that local congregations want to deposit with downtown banks because they place more confidence in large, well-established banks located in the central business area of the city. The bankers feel that most people equate longevity, size and prominence with safety and soundness.

## **Community Banks**

The community banks that were interviewed make substantially more church loans than the downtown banks. However, community

bankers also do not seek out church loan business and do not designate individual loan officers as the lender for church loans. Instead, church loans are handled on a case-by-case basis. Sometimes church borrowers approach community banks as a last resort after failing to meet downtown bank underwriting or documentation standards. But many churches know that community banks are more likely to make church loans and approach those banks first. Many local congregations are consistent customers of local community banks. Bankers felt that the reputation from this repeat business and the word-of-mouth advertising done by churches that benefited from the personal attention and tailored services at community banks were the primary marketing tools for their bank's church business.

Even though lending to churches may be a larger percentage of a community bank portfolio, these bankers share the same concerns, frustrations, and problems as downtown banks in making loans to churches. Where they differ from their downtown colleagues is in the amount of time and energy they are willing to put into the transaction.

The lending criteria at community banks is similar to that of downtown banks. However, the community bankers indicated a greater willingness to provide assistance to the church borrower to help get the documentation necessary to make the loan. The community bankers concurred with their downtown counterparts that church loans require inordinate amounts of time and energy. However, these bankers appeared to have more of a commitment to the neighborhood and a greater desire for the business.

Although the task is very time consuming, community bankers will help churches gather needed information and put their records in order. One community bank loan officer actually went into a church to extract needed information from church files when it became apparent the church representative did not have a clear idea of what was needed.

One community bank hosts a meeting once a year with church leaders to hear about their needs and to provide information and education on financial services. This bank is committed to serving the community and wants all the business that meets its standards. This bank considers its church lending a part of its community reinvestment efforts.

Unlike the downtown bankers interviewed, the community bankers admitted having foreclosed on church loans. The bankers said they often carried churches that were delinquent on their loans for a long time before foreclosing. However, regulatory pressure and good business practices forced the bank to foreclose. One banker indicated that one church was allowed to continue to use the building after the foreclosure while the bank tried to sell the building.

The community bankers complained that while they did get a fair share of church loan applications, they did not get a fair share of the church deposit business. In fact, many of them cited borrowers that had to be asked to move their deposit business from a downtown bank to the community bank.

### **What Banks Expect From Church Borrowers**

Loans to churches are handled as business loans and categorized with other nonprofit organization loans. The underwriting criteria for local congregations are the same as for any other small business. Banks are primarily interested in evidence that the institution can repay the loan.

Banks find it easier to make loans to wealthy congregations than to low-income congregations. One reason for this is the more professional presentation and higher level of sophistication at more affluent congregations. Another reason is that members and officers of wealthier congregations are more willing and able to guarantee loans with their personal assets because they have more assets.

There are several things that a bank looks for in evaluating a church for a loan. These are:

1. Income History. Banks want to know the past income of the church and how that has increased or decreased over time and why. Churches able to document this information will be treated more favorably.
2. Saving and Spending Habits. Bankers look for indications of wise spending habits and a regular savings pattern. Some banks look closely at expenditures to rule out borrowers they consider frivolous spenders. Some banks expect every borrower to have a regular savings plan, preferably one that allows for regular deposits. Churches often do not meet these criteria.
3. Realistic Future Income Projections. Income projections help a bank determine if the church can repay the debt. Projections are expected to be in line with membership figures, the history of giving at the church, and the overall economy.
4. Demonstrated Ability to Repay the Loan. Bankers look at the consistency of past income and the projection of future income to determine if future revenues are sufficient to cover operating expenses and loan payments. They look for a pattern that assures them there is sufficient income to pay the monthly debt.

5. Sufficient Collateral. When the bank fails to collect the loan from the borrower, it wants to have property or other tangible assets to sell to recover the loan. Unfortunately, the most valuable (and sometimes only) asset local congregations have is their church building and banks are uncomfortable at the thought of foreclosing on a church. Banks prefer other types of collateral such as savings, rectories, personal assets of board members (like a house) or other assets that can be easily sold.
6. Banking History. Banks expect a borrower to have a depository history with the bank before applying for a loan. Most banks do not refuse to make a loan to non-depositors but they often require the establishment of a deposit account as a condition of the loan. Many churches fail to meet this requirement.

## **V. BARRIERS TO CREDIT FOR CHURCHES**

## **V. BARRIERS TO CREDIT FOR CHURCHES**

As the bankers interviewed pointed out, churches are not like small businesses in the way they are structured, administered, or raise income. This uniqueness is one of the results of the special role religion plays in the lives of its followers. The ethics taught through religion are often intended to have an influence on behavior in the workplace, but the practices and methods used in the business world are often not applied to the administration of local congregations.

Sources of income to churches usually include pledges, fundraisers, some interest income, and gifts of property and cash from members and their estates. It is rare for a local congregation to plan and market to establish tenants who can provide rental income to the church. Foundations rarely give grants to local churches and the public sector never develops subsidy programs targeted to churches as a constituency.

Therefore, the primary obstacle to expanding access to credit for churches is the nature of the church organization and its historic methods of administration. There are two types of barriers: 1) barriers related to church attitudes and practices, and 2) barriers related to the attitudes and practices of credit providers.

### **Barriers Related to Church Attitudes and Practices**

Many local congregations have never borrowed and find the concept of debt so unappealing that credit is not an option. One of the most common attitudinal barriers is this general aversion to credit and debt shared by many congregations. This aversion to credit rather than a view of debt as sinful may derive from a general insecurity about the future of the congregation and its commitment or ability to give. This is especially true in congregations in which one or a select few wealthier individuals account for an inordinate amount of the annual budget. The loss of one or two such benefactors could have a significant impact on the church's ability to repay a loan.

In some cases, African-American congregations may have an additional aversion to debt based upon the experience of individual church members with banks and the general distrust for banks felt by many African-Americans.

Sometimes an unsuccessful application may remain in the institutional memory of the congregation for many years, creating a lasting general assumption that credit is not available to churches.

Another barrier related to attitude as well as church practice has to do with the fact that churches are generally poor savers. Many congregations are hesitant to build savings nest eggs because they believe it inconsistent with the church's charge to do ministry and service. Poor savings patterns can be a barrier to credit, however, because savings is a consideration in bank credit decisions and because savings are needed to pay for the portion of repairs not covered by a loan.

Church practices that serve as internal barriers to credit include inadequate budgeting to identify and project future income and expenses and inadequate bookkeeping and other forms of record keeping. A failure to document income trends and patterns in the ratio of pledges collected over time makes it nearly impossible for a banker to evaluate a loan application. Poor record keeping in other key areas such as the documentation of past repairs and maintenance are also common and can create difficulties in obtaining credit.

While there are vast differences between congregations in the availability of clergy and laity with expertise to provide budgeting, record keeping, and financial planning, many local congregations are not skilled in these areas. Even congregations with available expertise in these areas sometimes undergo periods in which record keeping lags. It is the nature of churches to have relatively frequent changes in key leadership such as clergy, church administrators, treasurers, and church councils. Sometimes, the loss of one or two key leaders may lead to a period of drift in some key areas of administration and planning.

A lack of skill makes it difficult for churches to project their future income and expenses, raise the money needed to repair or rehab their buildings, present their credit needs to lenders, and convince lenders of their future revenue. Without good information on the past history of income and expenses and reliable estimates of future income, traditional lenders cannot assess the ability of a local congregation to repay a loan.

Many local congregations have never borrowed money and are not familiar with the process or the opportunities to borrow for repair or rehab of the church building. This lack of sophistication creates a barrier to timely repair. Local congregations will often wait until they have raised the money necessary to pay for the repair or rehab. Meanwhile, the building problem continues to get worse and more expensive during the fund-raising period. In addition, when local congregations do attempt to borrow from traditional lenders, a lack of understanding of the credit process makes it difficult for the lender to properly evaluate the loan, which can result in a denial.

Another barrier to credit is the practice among most local congregations of depending solely on contributions from church

members to support the cost of the church operations. Very few churches seek outside sources of income. Lenders look for documented sources of future income to demonstrate the ability of the borrower to repay. The more diverse the sources of income, the more favorably the lender will view future ability to pay.

Local congregations do not always have sufficient information about the loan and grant resources that are available from the denominations. The national denominations do offer financial assistance, loans and/or grants, for repair and rehab of church buildings as well as construction of new churches. This financial assistance is administered by individuals familiar with and sympathetic to the financial circumstances and expertise of local congregations. However, not all local congregations are aware of these sources of assistance. In addition, because the national denominations view their resources as limited, they do not aggressively market their programs.

Another barrier to credit is the failure of most churches and denominations to use their banking relationships in a way that works for them when they need credit. Individual congregations and certainly denominational structures often have desirable deposit accounts with banks that could provide the kind of leverage that would help a bank look favorably on lending to a church.

Often, even smaller churches have endowment or other restricted funds on deposit at a bank. Larger congregations have a significant cash flow. Denominations control even larger pools of cash that are deposited on a weekly basis. In some cases, there are church investment policies in place that work to maximize return. However, church deposits can be used to establish a full service relationship with a bank, much like businesses do, without sacrificing return. The larger the deposit account, the easier it will be to negotiate services and credit products.

For example, the administrator of a denominational loan fund spoke of a conversation with a diocesan official who was perplexed because diocesan congregations were having difficulty obtaining loans from a particular bank. When the denominational administrator learned that the diocese had several million dollars on deposit in the same bank, he was astounded that the diocese never considered using that depository relationship, and power, to leverage better consideration for its member congregations.

The Presbyterian Synod of Southern California provides an example of how depository relationships might work to the advantage of churches seeking credit. The Synod used its depository relationship with a major commercial bank to set up a

line of credit for its member congregations to draw upon when they need a loan for building construction or repairs. In such a model, favorable loan interest rates might be negotiated to further benefit the member churches.

### **Barriers Related to Bank Attitudes and Practices**

Interviews with bankers identified several key problems that would prevent churches from qualifying for a loan. Most of these problems can be addressed by individual churches through efforts to improve the administrative practices of the church.

The bankers interviewed were in agreement that the primary reason they do not like to lend to churches is their hesitancy to become involved in foreclosing on a church building. They are very concerned about the negative publicity such an act would generate. In addition to the public relations ramifications, the bankers did not think that it would be easy or maybe even possible to sell a repossessed church building. Because churches are clearly designed for one use, the pool of potential buyers is very limited and those churches looking for a new facility often prefer to build their own building.

Also, if a buyer is found, it is virtually impossible to find another lender to finance the acquisition and the bank could be forced by circumstances into making another loan to a church using the same building as collateral.

Among the mainline denominations, bank loans sometimes enjoy the security of tacit judicatory backing. In both the Presbyterian and Episcopal churches, the denomination technically owns all church property. Judicatories will often step in to save a foreclosure or in the case of a church closing or pending foreclosure, pay off the loan and dispense of the property themselves. But unless a denomination is directly involved in the process, denominational guarantees are not assured, and bankers are seldom aware of any potential denominational backing.

Another major barrier to lending to churches is bankers' perception and experience of churches as poorly run organizations. Bankers repeatedly emphasized that churches are not run as businesses and they lack financial and business experience in the pastor and in the church leadership. The bankers reported little evidence of financial planning and no documentation of the kind of information needed by a bank to make a credit decision. Churches' lack of good bookkeeping, business skills and documentation makes it difficult for them to communicate with bankers even when they have the financial ability to qualify for a loan.

Bankers expressed uncertainty about the future income of local congregations. In the experience of those interviewed, many churches base budgets and financial projections on pledge income and the bankers were not convinced that pledges produce actual future income. A complicating factor in determining future income for a local church is the nature of the relationship between the pastor and the size and generosity of the congregation. Local congregations often depend on the charisma of the minister to sustain membership and income. Bankers question the future of income that is dependent on one individual's ability to draw in people, surmising that if that pastor leaves, the members and the income might leave as well.

Bankers feel that church giving is one of the first things to decrease during economic downturns. Even the most devout are unable to support their church when faced with unemployment and other personal economic crises. Therefore, it is their opinion that church giving is undependable as a predictable source of future income.

One general barrier to church credit is that banks do not understand how to underwrite loans to local congregations. Banks are not set up to deal with churches as a specific type of borrower, though church lending is clearly different than business or personal lending, and, in many cases, from other types of not-for-profit organizations. Therefore, it is difficult to build a body of expertise in dealing with the unique features of churches as borrowers. Yet church income, savings, and credit patterns are all very different from other types of borrowers, including other types of nonprofit organizations.

Banks see churches as labor intensive, high risk, and low balance customers. They do not see churches as an attractive market and therefore, do not design loan or deposit products that would appeal to churches and they do not seek church customers.

Finally, a major barrier to credit for some local congregations is that they simply do not have sufficient income to repay a loan. Many inner city congregations serve low-income people and the amount of income that church members can share with the church is limited. Often church revenues barely cover ordinary expenses. Securing funds for major repairs or rehab from church members is impossible. This barrier must be addressed through grant and subsidy programs. To encourage a church to borrow beyond its ability to repay would place the future of the church in jeopardy.

Possibilities exist for the remedy of these barriers to capital and credit. With the appropriate intervention, congregations can learn to better utilize banking relationships and credit and document demographic information, and historic

patterns of income and ratios of pledges collected. Some congregations already do so effectively. Banks, too, can learn how to deal with the church as a very different but potentially credit-worthy and desirable customer. The following section offers programmatic options for addressing these barriers to capital and credit.

**VI. MEETING CHURCH CREDIT NEEDS:  
POSSIBILITIES AND RECOMMENDATIONS**

## **VI. MEETING CHURCH CREDIT NEEDS: POSSIBILITIES AND RECOMMENDATIONS**

The research conducted for this study has identified a number of barriers to churches' access to capital and credit for rehabilitation or repair of their buildings. There are two types of such barriers: those that result from policy or practice among churches, and those that result from the policies and practices of the existing credit system. Overcoming these barriers requires intervention either to assist churches in their approach to capital needs, to create new options for credit, or both.

Possible interventions to assist churches are identified below, organized by the specific barrier they address. In addition, advantages and disadvantages of each type of action are addressed.

The development of a program by Inspired Partnerships to address these credit and capital needs will require a strategic analysis of the most critical needs of congregations combined with a clear vision of the most appropriate and effective assistance role for the organization.

### **Barriers Presented by Policy or Practice Among Churches**

**Barrier 1:** Many local congregations are not skilled in financial planning, budgeting, or presentation of financial statements.

**Solution:** Provide training to local congregations on budgeting, financial planning, and the preparation and presentation of financial statements.

### **Possible Activities**

1. The current Stewardship Program provides exactly the kind of training local congregations need. This program should be continued and, when feasible, offered to more local congregations.
2. It is likely some of the issues being addressed in the curriculum for the Stewardship Program could be packaged as a stand alone workshop for a broader audience. If Inspired Partnerships determines that there are training modules on key issues like financial planning that could be offered on a regular basis to local congregations not enrolled in the Stewardship Program, workshops on these issues could be developed.

3. The training materials that have been developed for the Stewardship Program may also lend themselves to further development as self-help materials or guides. For example, it would be helpful to many local congregations to have a simple budget format with easy-to-understand directions for use. If Inspired Partnerships determines that the training materials do lend themselves to further development as self-help materials, a small group of selected bankers and other potential sources of loans could be convened to develop the materials in a way that will help local congregations approach lenders.

**Barrier 2:** Many local congregations have never borrowed money and are not familiar with the process or the opportunities to borrow for repair or rehab of the church building.

**Solution:** Inform local congregations of the availability and proper use of credit and assist them in preparing the financial documents needed to apply for a loan.

#### **Possible Activities**

1. Develop a short, easy-to-understand guide to the use of credit for church repair and rehab. Include in the guide information on how to contact a lender, how to use alternative sources of credit or grants, the kind of information needed by lenders, and what to do if there is a problem with payback.
2. Arrange to become a loan packager for local congregation loans for local banks and, if necessary, for other sources of loans and/or grants. Loan packaging would involve working with the local congregation to collect and prepare all the needed documentation to apply for a loan and accompanying the local congregation to the lender to help clarify information and help answer questions.
3. Arrange for loan packaging services to be available from other nonprofit organizations on a fee-for-service basis.

**Barrier 3:** Currently, most local congregations depend solely on contributions from church members to support the cost of the church operations. Very few of those churches seek outside sources of income.

Banks look for documented sources of future income to demonstrate the ability of the borrower to repay. It is difficult for a banker to assume contributions are a consistent and dependable future source of income.

**Solution:** Identify ways local congregations can earn income and provide information on those possibilities to local congregations.

**Possible Activities**

1. Survey local congregations to determine any ways they can and do earn income.
2. Develop a guide to earned income with advice on how to decide on when and if to pursue earned income.

**Barrier 4:** Many local congregations which rent space to tenants do not handle the landlord/tenant relationship in a businesslike manner.

**Solution:** Assist local congregations in understanding how to utilize their space to increase the income of the church and how to structure the tenant relationship in a businesslike manner.

**Possible Activities**

1. Develop and offer a workshop which includes information on computing the costs of tenant usage, the types of tenants most suited to using church buildings, special laws and regulations that apply to special classes of tenants (e.g., day care), key elements of a good lease, collection of rent, accounting for rental income in the church budget, and responsibilities of landlords.
2. Identify or create a model lease that fits the needs of local congregations and recommend it to local congregations.
3. Define the kind of tenants that may be appropriate for churches and encourage local congregations to look for these types of tenants.

**Barrier 5:** Local congregations do not have much information about loan and grant resources available from the denominations. The denominations with loan or grant resources do not market their programs.

**Solution:** Provide local congregations with current information on resources available for repair and rehab of their buildings. Work to secure additional resources from the national denominations for rehab and repair of church buildings in Chicago.

### **Possible Activity**

Gather information about denominational resources and prepare a briefing bulletin for local congregations which includes program descriptions, application procedures, and the names and addresses of contact people. Disseminate the bulletin widely in Chicago.

**Barrier 6:** Denominations and local congregations do not use their deposit relationships to create full customer relationships with banks.

**Solution:** Work with denominational representatives and local congregations to develop ways the resources and customer privileges of the denomination can be shared with local congregations. This could include using denomination deposits to collateralize loans to local congregations, sharing the reduced fee privileges of the denomination with local congregations, and requiring marketing and service to local congregations as a service to the denominational account.

### **Possible Activity**

Inspired Partnerships could develop a working group of key denominational representatives and work with them to design a methodology to use their customer relationships to benefit local congregations.

### **Barriers Inherent in the Current Credit System**

**Barrier 1:** Church buildings, particularly sanctuaries, are not acceptable collateral to a bank.

**Solution:** Find a way to enhance or replace church buildings and property as collateral.

### **Possible Activity**

The most common way of replacing collateral is to develop a loan guarantee or insurance program that would provide a source of cash for the lender should the borrower not repay the loan. This would mean instead of, or in addition to, placing a lien on the church property and possibly having to foreclose and take the church as repayment for the loan, the bank would have cash resources to use as repayment in the event the congregation defaulted on the loan.

**Barrier 2:** Lenders do not understand how to underwrite loans to local congregations.

**Solution:** Teach lenders how to underwrite loans for churches to repair and rehab their buildings.

### **Possible Activity**

Develop a workshop for lenders on how to underwrite loans to local churches. The following should be included in the training materials: information on church financial statements and how they differ from other institutions, the financial accountability mechanisms at local congregations, ways to evaluate church buildings as collateral, information on how to measure the accuracy of projections of future income, and the importance of churches in low-income communities and the relationship of that importance to banks' responsibilities under the Community Reinvestment Act. Include concrete information on the history of low default rates for loans to churches.

**Barrier 3:** Many local congregations deposit with larger downtown banks and most church loans are made by smaller neighborhood banks.

**Solution:** Inform local congregations about how to develop a banking relationship and how to choose a bank.

### **Possible Activities**

Inspired Partnerships could compile information about the types of deposit and credit services offered to local congregations by downtown and neighborhood banks. Prepare an information briefing paper on the types of banking services available to various sized customers and how to choose a bank and negotiate the services you need. Distribute it to local congregations.

**Barrier 4:** Banks see churches as labor intensive, high risk, and low-balance customers. They do not see churches as an attractive market and therefore, do not design loan or deposit products that would appeal to churches and they do not seek church customers.

**Solution:** Inform bankers of the potential of churches as a market and secure an agreement with one or two banks to work with

Inspired Partnerships to design a special outreach program to local congregations.

### **Possible Activity**

Tally local congregations' deposits and publish a publication of the collective dollars the local congregations represent. Use this publication to develop a working arrangement with one or two lenders.

**Barrier 5:** Some local congregations do not have sufficient income to repay a loan. Many inner city congregations serve low-income people and the amount of income that church members can share with the church is limited. Often, church revenues barely cover ordinary expenses. Securing funds for major repairs or rehab from church members becomes impossible.

**Solution:** Find grants or donated resources to help reduce the cost of repair or rehab for churches that serve very low-income people and have historical or architectural significance. In addition, find methods, such as renting space, to supplement income for those churches that serve very low-income people, particularly those that do not have historically significant buildings.

### **Possible Activity**

Create new resources through technical assistance programs such as energy audits and weatherization assistance, a grant/loan program run by Inspired Partnerships, or adopt-a-church programs with suburban churches.

**Barrier 6:** Local congregations vary in the structure of the congregation and the future viability of the church. Limited resources must be allocated in the most viable manner.

Some inner city churches have many members that have moved out of the immediate neighborhood and only return for church events. Other congregations are composed mostly of older people and the long-term future of the church is very uncertain. Finally, there are congregations that are growing and have members of every age group but those members have limited incomes. The future viability of the church is strong but the financial resources that can be gathered for repair and rehab are limited.

**Solution:** Develop ways for deciding how limited resources can be allocated among different local congregations.

**Possible Activities**

1. Develop criteria for measuring the future use of church buildings and the long-term viability of local congregations.
2. Develop and maintain relationships with numerous local congregations and denominational structures so that Inspired Partnerships has firsthand information about the future of the local congregations and has a current understanding of the validity of the criteria.
3. Distribute or recommend the distribution of resources based on the criteria.

**Barrier 7:** Church repairs and rehab are costly and require technical expertise to oversee, and churches have both limited resources and limited technical expertise.

**Solution:** Find ways to reduce the cost of repairs and rehab and provide technical assistance to local congregations.

**Possible Activities**

1. Work with the Working Church to help expand the church repair component of their program and market it to local congregations.
2. Develop cooperative buying partnerships among congregations to reduce the cost of building materials.
3. Organize joint bid processes for groups of churches that need similar types of repairs (e.g., building upgrades to meet new day care regulations).

**Barrier 8:** Changes in city and state regulation regarding building and safety requirements for institutions can be expensive to implement.

**Solution:** Provide technical assistance to churches that need assistance in complying with changes in regulation regarding building and safety requirements. Find ways to reduce the cost and increase the quality of workmanship by locating workmen who will bid on pooled requests.

**Barrier 9:** Church programs may not be taking advantage of government resources for rehab and repair of facilities used for government-supported programs. For example, a church-housed day care program which participates in Title XX day care programs can be eligible for funds for necessary facility repairs.

**Solution:** Encourage churches and church-housed programs to determine eligibility for participation in government program and/or subsidies.

#### **Possible Activities**

1. Identify types of programs which may be eligible for federal, state, or local government support (e.g., day care, meals-on-wheels).
2. Educate churches on relevant programs.
3. Encourage church-sponsored or church-housed programs to participate in existing networks of similar service providers to ensure their awareness of relevant resources.

**Barrier 10:** While many foundations provide grants and/or loans to organizations for repair or rehabilitation of facilities, such funds are generally not available to churches. Even when church buildings support community-based activities, foundation guidelines generally prohibit direct funding to individual churches.

**Solution:** Inspired Partnerships could create an intermediary which can pool foundation funds for use by local churches whose building support community activities. Such a fund could be structured to provide grants, loans, or loan guarantees for rehabilitation and repair.

#### **Possible Activities**

1. Determine the type of support (grants, loans, loan guarantees, or other) which is most needed by churches and most feasible for the fund to provide.
2. Develop a program design and structure that meets existing foundation guidelines.
3. Market the program to foundations.

## **APPENDIX I**

**APPENDIX I****FOUNDATIONS THAT GIVE TO CHURCHES IN ILLINOIS  
FOR CONSTRUCTION AND RENOVATION**

Through a search of the Donors Forum data base, a number of potential funders of church building repair were identified. Among those which made information available, four were identified as actual resources for Chicago congregations:

**Brencanda Foundation, 358 Fifth Avenue, New York, NY 10001**

The Brencanda Foundation is a small, private foundation interested in funding projects that are sponsored by organizations of the Roman Catholic Church. Many of the grants are proactive, but the Foundation welcomes unsolicited proposals that focus on pastoral renewal of the church and proposals that provide a direct service to low-income people. The Brencanda Foundation would like to help grantees undertake new initiatives, and continue ones that have been effective or get through times that are particularly difficult financially, ie., building repairs and renovations.

**Koch Foundation, Inc., 2830 N.W. 41st Street, Suite H,  
Gainesville, FL 32606**

The Koch Foundation grants are limited to Roman Catholic activities that propagate the faith. The Foundation's primary interest is in providing grant support for a wide variety of Roman Catholic evangelization efforts. The Koch Foundation occasionally helps fund the building and renovation of Catholic churches, but support has been limited by the Board to poor areas where the need for outside funds is evident.

**Oldham Little Church Foundation, 5177 Richmond Ave., Suite 1068,  
Houston, TX 77056**

The basic purpose of the Oldham Little Church Foundation is to help churches meet a pressing need of a temporary nature (such as construction, remodeling, furnishings, etc.) which would enable the church to minister from a stronger position. The grant request must be for a specific item or items. No grants are given for an unidentified portion of an overall building or remodeling project. The Foundation prefers to make a grant in the completion phase of a project so it can be used immediately by the congregation.

**Woodstock Institute, 407 S. Dearborn Chicago, IL 60605 (312) 427-8070**

**The Jessie Ball DuPont Fund, Florida National Bank Tower, 225  
Water Street, Suite 1200, Jacksonville, FL 32202-4424**

The Fund's program-related investments enable churches both to meet their own priority of maintaining their church building, and also provide services and respond to needs in their communities. Under the repair and restoration guidelines, grants up to \$10,000 are matched one-to-one by the eligible church, and no-interest loans are available in addition to the grant funds. The loans for the repair and restoration of the church's physical structure may be forgiven dollar-for-dollar by increases in the church's social ministry expenditures.

The following foundations were also listed by the Donors Forum as possible funders of construction and renovations for churches:

**Ambrose & Gladys Bowyer Foundation**, 175 W. Jackson Blvd,  
Suite 909, Chicago, IL 60604

**Andreas Foundation**, c/o Doris Carlson Administration  
Company, P.O. Box 11470, Decatur, IL 62525

**Beatrice P. Delany Charitable Trust**, c/o Chase Manhattan  
Bank NA, 1211 Avenue of the Americans, New York, NY 10036

**Booth Ferris Foundation**, 30 Broad Street, New York, NY 10004

**Borwell Charitable Foundation**, 1040 North Lake Shore Drive,  
Chicago, IL 60611

**Charles & M.R. Shapiro Foundation**, 330 West Diversey  
Parkway, Suite 1801, Chicago, IL 60657

**Chatlos Foundation**, 122 E. 42nd St., Rm. 1415, New York, NY  
10168

**Clara & Spencer Werner Foundation**, 616 Jefferson Street,  
Paris, IL 61944

**Elsie O. & Phillip D. Sang Foundation**, 180 East Pearson  
Street, Apt. 5805, Chicago, IL 60611

**Epaphroditus Foundation**, 650 Devon Ave, Suite 160, Itasca,  
IL 60143

**Everett & Joyce Van Der Molen Foundation**, IN 335 Indian  
Knoll Road, West Chicago, IL 60185

**Gary K. & Carlotta J. Bielfeldt Foundation**, 4700 North  
Prospect Road, Peoria Heights, IL 61614

**Woodstock Institute**, 407 S. Dearborn Chicago, IL 60605 (312) 427-8070

**Henry P. & Susan C. Crowell Trust**, Lock Box 442, Chicago, IL 60690

**I.A. O'Shaughnessy Foundation**, c/o First Trust N.E., P.O. Box 64704, St. Paul, MN 55164

**Jubilee Foundation**, 440 S. LaSalle Street, Suite 3300, Chicago, IL 60605

**Patrick & Anna M. Cudahy Foundation**, P.O. Box 11978, Milwaukee, WI 53211

**W.P. & H.B. White Foundation**, 540 Frontage Road, Suite 332, Northfield, IL 60093

## **APPENDIX II**

## **APPENDIX II**

### **INTERVIEW LIST**

#### **Denominations**

##### **Local**

American Baptists (Chicago Assn.) - Millie Myron  
Chicago Board of Rabbis - Mordecai Simon  
Episcopal (Chicago Diocese) - Marina Carrott, Karl Gerdau  
Presbyterian (Chicago Presbytery) - Judy Jensen  
UCC (Chicago Metro Assn.) - Bill Voelkel  
UCC Conference - Bob Sandman  
United Methodist (Northern Ill. Conf.) - Charles Chakour,  
Carol Davenport

##### **National**

American Baptists - David Follett, Mark Tracy  
Disciples of Christ - Vernon Blankenship  
Episcopal - Charles Fulton  
Evangelical Lutheran - Bob Hoyt  
Presbyterian - Diana Stephen  
UCC - John Potts  
United Methodist (Board of Global Ministries Programs) -  
Charles Chakour

The following six interviews were with pastors familiar with their own denominational structure and programs:

African Methodist Episcopal - Basil Foley  
African Methodist Episcopal Zion - Nathaniel Jarrett  
Christian Methodist Episcopal - Roland Brown  
Church of God in Christ - Arthur Lockhart  
Roman Catholic Church - Fr. Farry and Fr. Parker

#### **Congregations**

Austin Baptist UCC (Austin) - Tom Henry  
Avalon Park Community Church - Donald Fairley  
Berry Memorial United Methodist Church - Carol Ann Brown  
Broadway United Methodist Church - Louise Mahan  
Carey Tercentenary AME - Basil Foley  
Chatham Bethlehem Presbyterian (Chatham) - Marty Gool  
Christian Temple Baptist (Woodlawn) - Joe Evans  
Congregational Church of Park Manor - Reuben Shears  
Edison Park United Methodist Church - Lowell Dean Allen  
First Korean United Methodist Church - Joshua Pau  
First Presbyterian (Woodlawn) - Jerry Wise

Granville United Methodist Church - John Hudson  
Holy Trinity Lutheran (Lakeview) - Dan Schwich  
Hyde Park Union (Hyde Park) - Susan Johnson  
Irving Park United Methodist - Phil Sheets  
Israel Methcomm - Hiram Crawford  
Kenwood UCC (Kenwood) - Leroy Sanders  
Lakeview Presbyterian Church - John Scott  
Maple Park United Methodist - Albert Shears  
Mediator Episcopal Church - Fr. Carl Brenner  
Millard Congregational Church - Jose Jerez  
Morgan Park Presbyterian Church - Mr. Barr  
Progressive Community Center & Peoples Church (Grand Blvd.)  
- Annette Collins  
Pullman United Methodist Church - Marjorie Ryan  
Resurrection Lutheran (Lakeview) - Steve Swanson  
St. Albon Episcopal - Mr. DeLyon  
St. Andrews Catholic - Fr. Parker  
St. James Presbyterian - John Wilkinson  
St. Mark AME Zion - Reginald Broadnax  
St. Stevens Lutheran (85th & Maryland) - Booker Vance  
St. Thomas Lutheran Church - David Lowry  
St. Thomas The Apostle Catholic (Hyde Park) - Jack Farry  
Trinity UCC - Jeremiah Wright  
Wellington Avenue UCC - David Chevier

### **Banks**

Aidan Financial Group - Dennis Manning  
Central Bank (California) - Michael Anderson  
Community Bank of Lawndale - Diane Glenn  
Continental Bank - Nancy Wilkins, Neal Loughery  
Harris Bank - Jasmine Bates  
Independence Bank - James Shirley  
LaSalle Bank - Ron Stammer, Rick Benoit, Kristin Faust  
The Northern Trust Bank - Carol Hall

### **Government**

Family Resources Coalition - Lina Cramer  
Department of Human Resources - Marie Whelan

### **Foundations**

Illinois Facilities Fund - Trinita Logue  
Lilly Endowment (Indianapolis) - Material submitted  
Pew Charitable Trust (Philadelphia) - Danny Cortes  
Wieboldt Foundation - Anne Hallett  
William Penn Foundation (Philadelphia) - Material submitted

### **Other Resources**

First Congregational, Naperville - Bob Baggott  
First United of Oak Park - Bobbi Hargleroad  
First United Methodist of Chicago - Carol Davenport  
Glenview Community Church - Doug Ruddles  
Pilgrim Faith UCC, Oak Park - Ed Goeltz  
Union Church, Hinsdale - Richard Nye  
Winnetka Congregational - Charles Hinman, Frank Whippel  
Working Church - Ralph Shaw

### **Other**

Boston College - Frank Parker  
Community Renewal Society - Benny Whiten  
CWED - Lynn Von Dreel  
Greater Grand Crossing Community Organization - Doris Jones  
Holy Family Preservation Society - Constance Mortel  
Lancaster Theological Seminary - Loyde Hartley  
NHS - Debbie Dixon  
Presbyterian staff, California - Tim Hart-Anderson

### **APPENDIX III**

## APPENDIX III

### LITERATURE REVIEW

Our literature review consisted primarily of a search and review of books, periodicals and other publications at the Jesuit/Krauss/McCormick Library (one of the world's largest theological libraries), and the Northwestern University Library. Catalogue entries related to church finance, budgeting, fundraising and use of credit were the focus of this search.

This literature search and review identified very few published sources on church use of credit, or on accessing other sources of capital such as foundation or government funds. The vast majority of published information related to church finance had to do with various forms and methods for raising pledge and gift income from parishioners themselves. The few references to credit that we found were brief and generally warned the reader against its use, except perhaps as a last resort. In some cases, discussions of the use of credit were related exclusively to new church construction.

The more relevant entries found through our literature search are summarized below:

#### BOOKS

**The Church Finance Idea Book**, by Wayne C. Barrett.  
Discipleship Resources, Nashville, TN, 1989.

"Today, the mortgage is still an option but no longer necessary. Many congregations are discovering that substantial resources are available within the congregation at any given time and that much more cash can be raised in a much shorter period of time than was ever thought possible. My current assumption is that 20 percent or more of the total cost of the project can be raised in any one day (in cash, not pledges) if a congregation really supports the building project." It seems more efficient to ask for the money now rather than borrow and ask for people to give money to pay back the mortgage. In fact, church leaders could ask members of the congregation themselves to borrow and give the money to the church. (As an incentive, interest costs and the gift should be deductible.) Notes ought to be issued to the congregation only to achieve less-than-market rates of interest, and also only with the understanding that some of the notes will not be redeemed.

**Church Finance in a Complex Economy**, by Manfred Holck, Jr. Abingdon Press, Nashville, TN, 1983.

At least 75 percent of all church mortgages are unnecessary because fund-raising techniques have improved so much. Most mortgages are incurred by churches that could have raised the money instead of borrowing it. "The church saddled with a mortgage that tries to make significant, vigorous forward movement is likely to experience the ultimate in congregational frustration." Gifts from the capital of individual members should be secured more aggressively than is now done. Then invest the money carefully for the highest return.

**Handbook of Church Finance**, by David R. Holt II. The Macmillan Company, New York, 1960.

Few churches can survive without resorting at some time to borrowing money. Many churches tend to need short-term loans because of the seasonal nature of church income.

"Churches as a class of borrowers have a very poor credit history and a very poor borrowing prospect. Many lending institutions have a general policy of refusing loans to churches." The church leaders must be able to demonstrate its ability to repay, its plan to repay, and its financial planning and policy. "No church is wise to use debt financing unless there is a positive, feasible plan of repayment."

**How to Finance Your Church Building Program**, by C. Harry Atkinson. Fleming H. Revell Company, 1963.

Even after a successful fund-raising campaign, most churches must borrow additional funds for construction. Above and beyond grants and loans from denominations, a church may obtain loans from banks, loan brokers, insurance companies, and occasionally private sources. The church must not expect financial institutions to grant special favors--a bad loan is harmful to the bank as well as to the morale and reputation of the church. When applying for a loan, church leaders should not be apologetic or presume that religion will exempt them from proving the church's capacity to repay. "Churches that approach [financial] institutions with clear-cut, well-substantiated financial statements are in a much better position to obtain favorable consideration."

**Understanding Church Finance**, Lloyd Hartley. Pilgrims Press, New York: 1984.

This book deals with a wide range of church finance issues. It is particularly helpful because it uses survey data on church income sources, financial practices and giving patterns. It also focuses on differences between churches with growing and declining memberships. Hartley finds that greater giving by members usually occurs when membership is declining and rarely makes up for the income from lost members. When churches are financially strapped or declining they spend proportionately less on building maintenance. Also, sampled churches overall spent less in maintenance, educational programs and benevolence in 1979 than in 1965, and more on utilities, insurance and secretarial services indicating a change in the level of resources available to churches in general.

#### **ARTICLES**

"Church Financing: Is it Good Business?", by Al Griffin. **Burroughs Clearing House**. January, 1966, pp. 34-35.

"The risks are considered minimal by those specializing in such credits." "A good church loan can be one of the safest assets a bank can have. Good churchgoers consider a financing program a moral obligation... and they just don't renege." One bank president says: "Religious groups... are exceptionally sincere in meeting financial obligations. We consider church financing a civic responsibility as well as a banking responsibility." Another lender says: "Usually, the more hierarchical the control within a faith, the higher the credit rating.... The bonds are essentially moral obligations. Church groups like the Seventh Day Adventists, who take their religion seriously, can virtually write their own tickets."

"Lending to Churches", by Kevin Mark Means. **The Journal of Commercial Bank Lending**. December, 1984, pp. 9-27.

"This article provides guidelines on lending to churches, with particular emphasis on mortgage lending.... Most bankers regard lending to churches as an enigma. Church pledges cannot be enforced and are subject to such unpredictable factors as internal dissension, economic recession, or resignation of the senior pastor. Church financial statements, which are unfamiliar, unstandardized, and often poorly prepared, can be a puzzling frustration. Most loans are made to churches more on the basis of public

relations than on creditworthiness. However, most bankers confess that church loans are generally much safer than other commercial loans in their portfolio."

Sections include "Financial Statements" (how those of a church differ from business financial statements), "Collateral and Endorsements" (endorsements from church members), "Legal Considerations and Documentation," "Credit Analysis for Church Mortgage Loans," "Church Loan Worksheet" (plus a sample for illustration), "The Congregation," "The Clergy," "The Site, Building, and Neighborhood," and "The Denomination."

The article's conclusion states that its purpose is "to add some objective, quantitative considerations to the intuitiveness of the lending situation." The author believes "churches as a lending market should not be ignored by the banking industry because of a lack of credit information."

"On the Stewardship of Property", by Sam Portaro. **The Christian CENTURY.** October 7, 1987, pp. 846-847.

"The church's evangelism and mission too seldom includes the fabric of our facilities.... The death of faith in any community is frequently reflected in the shabbiness of its buildings. It is wise to preserve, even at great expense, the many houses of God and God's people in our land. Investing in the quality of our centers of worship and service is an investment in mission."

"Raising the Money Yourself", by Marvin G. Rickard. **Leadership.** Winter Quarter, 1987, p. 97.

"Never depend on expected numerical and financial growth to make loan payments. No debt should be incurred that the present congregation can't handle." Some banks need to see the church's average weekly attendance over the previous five years, as well as the latest budget and balance sheet, demographic and geographic data on the present congregation, and projected membership increases and giving. Invite bankers to tour the property and introduce them to the staff. Instead of borrowing from banks, the church could borrow the money from members and friends of the church and pay them a reasonable return. "With an investment in the church, members tend to be more loyal and concerned about the entire ministry."

"Watch Those Church Loans!", by C. Edward Johnson.  
**Burroughs Clearing House.** July, 1968, pp. 22-23.

Church leaders must anticipate financial difficulty due to declining church attendance, reduced giving, lowering Sunday school enrollment, and less students entering seminaries.

The young adult population in particular appears to be the most disenchanted with the church today, and those are the people who need to help take on the church's future financial obligations. "The lender must be more alert than ever to what is happening in the individual congregations that he deals with." The lender might conduct institutes on giving, and include advice on enlisting and training volunteers.