Securing funds in any economy part two

Strategies to keep funding flowing, keep track of what you've got, and insure against loss

By Martin Sinderman

It's easy for church leaders (and everyone else) to get glum about prospects for the future in the face of rising unemployment, banks sitting on the sidelines as opposed to lending on projects, and other manifestations of the recession the world is suffering through.

But, according to the experts we're talking to, there are steps churches can take to help themselves make it through today's economy and come out healthy when it ends. Sure, it's going to be tough to swim upstream against the currents of recession; but successfully swimming uphill has always been a big part of faith-based organizations like yours anyway, right?

Keeping the Giving Going

Indicators are mixed as to whether the recession is putting a lid on giving to churches, according to Allen Walworth, Ph.D, president and principal of Generis Partners LLC, an Atlanta-based church fundraising/capital campaign consultant.

Citing research done by Champaign, Ill.-based empty tomb inc., a Christian service and research organization, Walworth notes that there is no consistent correlation between recessions and church giving during the previous six recessions—giving remained constant in two, went up (but not a lot) in three, and went down in one.

Given the global nature and severity of the current economic woes, "This could be the recession where giving goes down," says Walworth, although (as of press time) the situation hasn't affected regular giving as much as philanthropic efforts.

One key to keeping giving on track is to communicate a clear message about what the mission of your church really is, he says. In every economic downturn, "The churches that prevail, grow and see giving increase, are those that make it very clear what they are doing, and for what purpose they are doing it," Walworth says.

"This means you don't ask your congregation to fund a new children's building because the church up the road just completed one," continues Walworth. "You instead make it abundantly clear that there are more young families with children coming to your church than you have room for—and that there is no way you are going to put up a 'no-vacancy' sign."

In this (and any other) economy, a church considering a capital campaign has to answer the question "why does this project matter?" Walworth adds.

"Is this a project God wants you to do? Does it tie into the core values of the congregation? If the answers are 'yes,'" he says, "Then don't let the economy be the reason you don't do it."

The Lending Environment

As a whole, though, the economy is causing many churches to get more cautious according to Dan Mikes, executive vice president in charge of the Church Banking Division of Bank of the West in Walnut Creek, Calif.

"We're hearing concerns from churches about the performance of recently implemented capital campaigns," he reports, "as well as a growing sense of caution about breaking ground on new projects." And those that want to go ahead with projects have to work harder to find lenders.

"Although our appetite for new business volume is unchanged, there are clearly challenges in the availability of financing in the general marketplace," says Mikes. "While our policies haven't changed, there are some usually very visible names that are saying they haven't been making loans for months—and won't be until second quarter 2009 or later."

Churches can still get capital projects funded, but they need to keep in mind that underwriting standards for many lenders have become stricter—more like they were 10 years ago, according to Scott Rolfs, managing director of the Church and School Financing Division of Ziegler, a Chicago-based financial services firm that specializes in church lending.

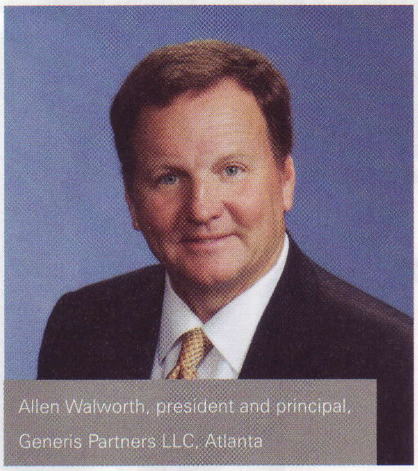
"As opposed to some lenders doing 80% loan-to-value (LTV) deals with 10%-20% second mortgages, they are now looking for 70%-80% LTVs with no second mortgages," says Rolfs.

Appraisals, meanwhile, will be viewed with more scrutiny, as will the value of any collateral, Rolfs says. "And while, in recent times, lenders have been capping

...continued on page 44...>>

Indicators are mixed as to whether the recession is putting a lid on giving to churches…. In every economic downturn, "The churches that prevail, grow and see giving increase are those that make it very clear what they are doing, and for what purpose they are doing it."

—Allen Walworth, president and principal, Generis Partners LLC, Atlanta



Allen Walworth, president and principal, Generis Partners LLC, Atlanta

<<…continued from page 33

total loan amounts to anywhere from four to eight times a church's giving base (i.e., annual revenue from tithes, missions, building funds, etc.), that multiplier is now weighing in closer to three."

Also, Rolfs advises, be prepared to provide a lender with detailed information on the level and timing of general fund giving for the previous two years, so that they can quantify if your church had a downturn in giving the past six months. Current data on any capital campaign in progress, including a detailed schedule of all pledges and the collection status and timing of receipts is also very important.

Getting loan dollars for construction is a lot tougher than it used to be. But at the same time, Rolfs notes, "It may not make sense to sit on a project that is well thought-out and [that] has the congregation behind it."

Keeping Track

Like any other type of enterprise, transparency and accountability are always necessary elements of managing church finances. And this is especially the case when money is tight, according to Floyd Langley, CPA, of Tulsa, Okla.-based Stanfield & O'Dell P.C.

"Donors always want to know where their money is going, but that is especially true in economic down times such as these," says Langley. "And if you don't have the controls in place to make sure the money you take in goes to where you say it's going, the value you add to your church and the faith you earn from your parishioners is diminished."

Fast-growing churches often don't have the time, expertise or resources necessary to effectively keep track of and report their finances, notes Langley. "And that's when consultation with a specialist—ideally, a Certified Public Accountant (CPA) that specializes in working with churches—is a productive first step for ministries to take along the path toward transparency and accountability."

A specialization in churches is important, adds Langley, "because churches are very unique in their accounting structures, with much of the terminology and the way financial statements are presented varying greatly from other types of organizations."

Safeguarding What You Have

The services of a specialist are also important for churches seeking to insure themselves against losses, according to Eric Spacek, senior church risk manager for West Des Moines, Iowa-based GuideOne Insurance.

The insurance needs of churches are unique due to the properties they occupy, the activities they conduct, and the people that are involved, explains Spacek. The properties are often comprised of a number of different-aged buildings on the same premises, many of them with unique ornamentation, such as stained glass windows; on the inside you often have specialized furnishings, organs and a lot of audio-visual equipment, "all of which makes church property challenging to value."

Churches also conduct unique activities that present out-of-the-ordinary liability exposures, such as children's activities,

QUICK-LINKS

Bank of the West – Church and Educational Institution Banking Division
National religious lender
(925) 942-8300 or (800) 488-2265
www.bankofthewest.com/churchlending

Brotherhood Mutual Insurance Co.
Insurer of churches and ministries
(800) 333-3735
www.brotherhoodmutual.com

Generis Partners LLC
Church fundraising/capital campaign consultant
(800) 233-0561
www.generis.com

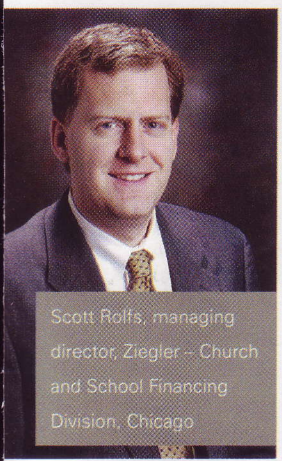
GuideOne Insurance
Insurance company specializing in churches
(877) 448-4331
www.guideone.com

Stanfield & O'Dell P.C.
Certified public accountants
(918) 628-0500
www.stanfieldodell.com

Ziegler – Church & School
Financing Division
Financial services firm specializing in church lending
(414) 978-6400
www.ziegler.com/investment_banking/church_and_schools

"As opposed to some lenders doing 80% loan-to-value (LTV) deals with 10%-20% second mortgages, they are now looking for 70%-80% LTVs with no second mortgages."

—Scott Rolfs, managing director, Ziegler – Church and School Financing Division, Chicago



Scott Rolfs, managing director, Ziegler – Church and School Financing Division, Chicago

spiritual counseling and missions. And because they make extensive use of volunteers as opposed to employees, their policies need to have appropriate volunteer coverages.

"The biggest mistake churches make is to just go for the cheapest price and not look closely at coverages," Spacek says. Protection against losses incurred for events such as sexual misconduct and employment practices, he notes, are not typically found in most general liability insurance policies; instead, churches typically need to add these coverages on separately.

There are smart ways for churches to try to cut their insurance costs, according to Matthew Greene, national sales manager of Ft. Wayne, Ind.-based Brotherhood Mutual Insurance Co.

As opposed to simply dropping coverages when funds get tight, churches can lower their insurance costs by bumping up their deductibles.

Historically, most churches carry low, $500 to $1,000 deductibles, Greene explains. But because, for the most part, congregations typically rally to the church following a major loss, he advises carrying a $2,500 or even $5,000 deductible, and using the premium savings to buy coverage to cover catastrophic risks.

"Churches should insure for severity, not frequency, by handling smaller events themselves," says Greene. "When buying a policy, consider what kind of losses you can take care of yourself vs. what could shut down your church. You can likely handle the costs of a broken window—but not the costs coming from something like [a building] burning down."

Martin Sinderman is an Atlanta-based freelance writer.