



Needing More Than a Prayer

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By [Ben Jackson](#)

Mortgages on houses of worship once seemed like safe bets for lenders, but with parishioners tithing less and less in these tough times, many churches are now struggling to stay current on loan payments.

Though aggregate data is hard to come by (the [Federal Deposit Insurance Corp.](#) doesn't break church loans out from other commercial real estate), firms that lend to churches are reporting a surge in delinquencies and foreclosures of late.

At the \$520 million-asset [Broadway Financial Corp.](#) in Los Angeles, for example, 17 percent of its \$94 million of loans to churches were past due as of Sept. 30, up from 7.5 percent at the end of 2008. The [Evangelical Christian Credit Union](#) in Brea, Calif., has foreclosed on 12 churches since the beginning of 2008, compared to just two in 2007.

"A lot of the problem that churches are having is due to the economy," says [Paul C. Hudson](#), Broadway's chairman and chief executive officer. "Income could be down 20-to-40 percent because their membership is making less money."

Still, despite the rise in problem loans, lenders say they are going to great lengths to keep congregations in their homes. Broadway, for example, has kept defaults at minimum by working closely with pastors of at-risk churches and advising them on ways to boost income or trim overhead so that congregations can keep their homes.

Hudson even advises lenders to keep close tabs on churches that, so far, are meeting their loan obligations. Since banks often won't know a church is in financial trouble until it misses a loan payment, Hudson recommends that lenders pay attention to a church's income stream. If more pews than usual are empty on Sundays, that's a sure sign that donations are down.

"Early detection and early communication work best," Hudson says.

Jac La Tour, the communications manager for the \$1.3 billion-asset Evangelical Christian Credit Union, which focuses on providing financial services to churches, says one reason churches fall behind on payments is that pastors are busy running congregations and don't pay as much attention to finances as they should.

Another roadblock, La Tour says, is that many pastors have the belief that "God is going to pull us out of this."

This is why many churches need banks to act almost as "outside consultants," Hudson says.

Broadway, for example, has recommended that church clients raise funds by selling assets and leasing space to other groups, and trim expenses by replacing paid staff with volunteers, Hudson says.

In Chicago, the \$2.8 billion-asset [ShoreBank Corp.](#) has kept church delinquencies low by creating a program specifically for church borrowers.

[ShoreBank's](#) faith-based banking department helps churches with everything from financial statement preparation to 501(c)3 compliance to individual tax preparation for pastors. ShoreBank requires that its church borrowers open accounts with the bank, and it does annual reviews on all of its borrowers.

ShoreBank's borrowers have seen declines in tithing, but so far delinquencies have only risen about 1 percent since the end of 2008 because the bank has been quick to help borrowers find alternative sources of income and ways to cut expenses, says [Victoria Lakes-Battle](#), senior vice president and director of commercial and institutional lending.

For example, ShoreBank lenders have advised churches to prepay utility bills or set aside funds for heating bills in the summer to spread out the cost of warming the huge buildings that many churches own. [Lakes-Battle](#) says ShoreBank also recommends that churches tap their congregations for expertise and volunteer labor for repairs, rather than borrowing money.

And the bank has introduced church borrowers to one another so they can pool efforts in running food banks and other community services to cut costs.

Despite the uptick in problem loans, Hudson says lenders should not be afraid of lending to churches - or foreclosing on them. While he acknowledges the public relations risks of evicting a congregation, Hudson says that, from what he's seen, the public generally understands if it knows the lender made a good-faith effort to prevent foreclosure.

And disposing of church is not as difficult as one might think. One church in Broadway's market was sold to a nonprofit that uses it for social programs.

Also, congregations looking for new homes would generally prefer to move into existing space than deal with the cost and zoning requirements of new construction.

"There aren't a lot of churches being built," Hudson says.