CHRISTIAN MANAGEMENT ASSOCIATION

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Interest Rate Shock

by David S. Lee

"*Life is like a box of chocolates, you never know what you'll get*" – the infamous quote from the movie Forrest Gump where Tom Hanks alluded to the uncertainty of what life is going to hand you has great merit, especially in the times that we're living in today. In our family, if you happened to open a box of chocolates, you would find scattered pieces of half bitten cream-filled chocolates quietly placed back in their places – a disturbing thought but it was reality. But in ministry, we can't just take a bite of the uncertainties of life and return them back to their places in hopes that the situation or difficulty will pass – we must endure it through preparation.

Granted, no one foresaw the historic recession in 2008 because had we known, I'm sure we would all have made decisions earlier to prepare for the impact it would have on our families, retirement plan, personal finances, businesses and yes, our ministries. Knowing what you know today about the recession, what would you have done differently in your ministry? Cut expenses sooner? Cut deeper? Save more and build up cash reserves? Postpone ministry expansion plans? Whatever the decision, I think we can all agree that we would have made plans to better prepare. Although I'm not an economist and even the experts disagree to some extent; I believe **that *one of the most critical events coming in the very near future that ministries MUST be prepared for is the eventual rise in interest rates.*** For those who have no debt, you can breathe a sigh of relief, but for those ministries who have and feel the burden of debt; I implore you to read on.

As you may be aware, the majority of church loans have the unique distinction of "maturing" on average every 5 years where the church must "re-qualify" for refinancing the remaining balance upon maturity based on a shortened amortization schedule. For those churches that were able to obtain financing at all-time historically low rates, the likelihood of your rates being higher once your loan matures will be more likely than not, which I believe could have a significant adverse impact to our ministries.

Allow me to explain using this example, which assumes this church's budget and growth remains flat. A church that obtained a $1M loan at 5.00% amortized over 25 years would have a monthly payment of approximately $6,346 or annually of $76,152. Fast forward five years when the loan matures and the remaining balance is now $885,801. The remaining amortization schedule would be 20 years and with just a 1% increase in the rate to 6%, the monthly payment would increase by approximately $500 per month, or $6,000 per year. A 2% increase would impact their monthly payments by about $1,022 or $12,264 annually. What's the big deal? In this case for the church that hasn't shown any increase in their income or attendance, a 2% increase in the rate may require the church to find ways to increase their giving. We have found the average giving per attendee per year in churches across the country is about $1,000; a sad testimony and a subject worthy of discussion in another forum. Using this assumption, this church would need to increase their ***giving*** attendees by 12 to account for the $12,264 increase in annual mortgage payments and I stress ***giving***. If the church hasn't shown historical growth in attendance, what confidence can you give to the lender that growth trends will turn around? How many newcomers will need to step through the doors of the church where 12 attendees will eventually commit and give to the church? How much time will this take? If this isn't depressing enough, try this. Even if the 12 new members gave to account for the increase in debt payment, the church's budget will not allow for 100% of their giving to go only towards debt payment; in fact, if the debt payments account for 25% of the

budgeted expenses, the true number of giving members is four times or 48 attendees.
You may be saying to yourself, "Well, my church is growing" – praise God! But what about for the churches where their budget and attendance is either flat or shrinking and in a downward spiral. There are solutions and measures your church can take to be better prepared for what's to come.

We at Evangelical Christian Credit Union have developed tools like the Financial Health Assessment© to help your ministry's leadership better understand your unique situation and how the interest rate shock could impact your ministry's budget. In the assessment we also can help identify practical steps to help mitigate the risk. If you're interested in have a free assessment done for your ministry/church, you can reach me at david.lee@eccu.org.

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David S. Lee, CTP ● Sr. Relationship Manager
Evangelical Christian Credit Union
Colorado Regional Office ● 9240 Explorer Dr Suite 101 ● Colorado Springs ● CO
800.634.3228 Ext 1810 (O)
303.981.9595 (C) ● 719.592.1515 (F)
david.lee@eccu.org

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