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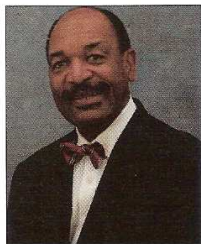


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SKY'S THE LIMIT



Putting Your Faith In A Heavenly Growth Opportunity

by Edward Willis, Sr.,
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If recent financial reports are any indication, the hope of any recovery still seems like a distant promise. The Korpacz survey noted that rental rates will continue to decline until strong, consistent growth resumes. With \$1.4 trillion of commercial real estate debt maturing by the end of 2012, some property owners may not be able to survive the downturn. Problems related to refinancing that debt could further delay a recovery in the sector.

However, it does not have to be all doom and gloom. Given the need to increase revenue and profits in order to mitigate further mortgage staff reductions, mortgage lenders may see the light of opportunity if they consider taking a closer look at a segment of mortgage lending that, in the past, they have been reluctant to approach. That key growth opportunity is lending to churches and related affiliates. By doing so, they may create more opportunities to lend, expand their market penetration, and increase revenue and profits.

Thee of Little Faith

Mortgage lenders have been historically reluctant to lend to churches. First, they did not, for the most part, understand the dynamics of church economics and operating systems. Second, there has — and still is — a reluctance to ever have to foreclose on a church. Third, other than large, organized denominations like the Catholic, Presbyterian, and Episcopalian churches — where most balance sheets and operating performances are codified and centralized at the top and in the aggregate — the majority of church growth is focused on independent churches that do not have the same financial structure. As such, lenders struggle with the overall church operating model, especially in terms of how to evaluate its economics. The conclusion results in an unfounded perception that churches are not good business people. They perceive that churches have no appreciation for how lenders operate.

A Promised Land of Lending Opportunities

From a lending perspective, there are hundreds — if not, thousands — of churches that can be served. Using an average annual donation per member of about \$1,000 (taken from previous church consulting experiences), gross revenue per institution would be approximately \$2 million per year. The market revenue (annual donation) size of these churches could be as high as \$135 billion annually. In using mortgage lending determinations for assessing the “capacity” of a borrower, which is typically based on annual earnings available for debt service, or the equivalent

of earnings before interest, taxes, depreciation and amortization (EBITDA), this would be \$34 billion for the mega church niche.

Now, assuming a debt cover ratio of 1.25, interest rate of 7% (mortgage constant of 8.5%), and a 25-year amortization, that level of EBITDA could support a lending opportunity or potential of over \$320 billion. Consequently, it could be concluded that the non-denominational, independent church market represents a tremendous promised land of lending opportunity.

The Opportunity Success Formula:

Economic Considerations + Operational Expertise

Beyond the capacity of churches as solid borrowers, there are a number of other formulas that can be used to illustrate the opportunity available for mortgage brokers when so many other tried and true revenue channels have dried up during this economic downturn.

Churches tend to be highly liquid, predictable cash cows. Revenues, for the most part, reflect ongoing donations from members. More importantly, they tend to be recession proof. In other words, during difficult times, members tend to continue to give and, in many cases, actually give more, operating from the Biblical principle that giving leads to receiving.

Currently, there seems to be two prevailing — and contrasting — positions. Churches are wary of lenders and credit, deeming the “world” system to be somewhat suspect in its intentions. On the other side, lenders tend to view churches as wanting heaven on earth in terms of financial terms and conditions. Consequently, just as the church builds bridges in the community, someone or some institutions is needed to bridge the divide between churches and mortgage brokers. There are professional organizations that can help determine whether the church is “finance ready” or if more must be done to develop the necessary operational expertise to satisfy the guidelines for lending. If either of these conditions is met, then the mortgage lender can be positioned to expand its lending opportunities successfully.

A Trusted Growth Channel

Although mortgage brokers are facing an uncertain market and economy, a careful look at church lending, where the church is finance ready or where at least a “process” is in place to get the organization finance ready, could create significant opportunities. These growth partnerships are more than a leap of faith. They are proven to be a reliable, somewhat recession proof, revenue stream for mortgage brokers constructed on quantifiable track records of sustained profitability.

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