

Church Construction, Additions, & Repairs Options for Financing



ST. NORBERT'S CATHOLIC CHURCH EXTERIOR RESTORATION BY BEPG

By Tom Gernetzke



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BEPG helps church committee members navigate the maze of maintaining and repairing their buildings, constructing additions, and helping facilitate new construction. BEPG provides education and information on their exterior building systems and helps work through the necessary committee processes and governmental permitting to resolve issue(s). With new construction projects, BEPG performs quality assurance services for the building's exterior during the construction process to avoid leaks and premature failure and test that roof, exterior wall systems, and waterproofing installations work as intended. As with other clients, BEPG can develop budget figures for capital planning, create building preventative maintenance plans and find quality contractors.

We get to see what works and what doesn't work in the building envelope industry daily. This focus on existing buildings and their problems gives us a unique perspective to help owners and construction teams maintain their existing structures and build new facilities.

Our focus is on building envelopes. We do not practice structural engineering, civil engineering, or other professional disciplines commonly involved with buildings. However, we often collaborate with other design professionals to complete projects whenever necessary.

We are not contractors and do not sell materials allowing us to provide independent services that are not dependent on sales or commissions. We are also not limited by product lines or materials that we can sell.

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Financing church construction, additions, or major repair projects is, for some churches, a very easy task while for others it is a source of never-ending frustration. We could expound on some of the factors that might place your church in one group or the other, but let's instead review the three major methods of funding church construction, along with their benefits and drawbacks.

Three Options for Financing Church Capital Expenditures

The three major methods of funding (in part or in whole) church construction are:

- capital stewardship campaigns,
- conventional lending, and
- bond offerings.

While it is true that capital campaigns can be used as a funding source, they are more infrequently done as the sole funding source than loans or bonds. Capital stewardship campaigns are typically done in conjunction with a loan or line of credit if their campaign falls short. Loans and bonds, each are available in a variety of flavors. More on that later.



Capital Stewardship Campaigns



St. Norbert's Catholic Church, Roxbury, WI exterior restoration assessments, estimates, design documentation and repair oversight of stabilizing the church bell tower, Replacing the slate roof, substantial masonry repairs & window restoration.

A church capital stewardship campaign is a way to raise money and promises of money for specific purposes like the development of offices, the repair of existing structures, improve or add-on to existing structures, or the decrease of outstanding obligations. More often than not, churches will recruit advisors or use a portion of the congregation leaders to deal with their mission. BEPG routinely works with capital campaign advisers and would be happy to provide recommendations for advisers we have worked with.

Typically, campaigns will suggest individuals make three-year commitments for a monetary donation. For most churches, promises range between 1.0 to 3.0 times the congregation's yearly tithings. Using these figures, your community will

earn roughly 90% of total pledge commitments. By and large, you will gather 40% of



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your promises inside the first year and 30% during the following two years. Over the past several decades, thousands of churches have executed professionally facilitated campaigns. Most churches raise 1.5 to 3 times their current income using capital stewardship campaigns.



In an appropriately run campaign, the thoughts of the individuals will be more about the stewardship of the individual and that individual's relationship to Jesus Christ. Your congregation will start to fund-raise, yet their spirit will be of giving as opposed to obligation. Your congregation's gift is that your members will enhance the spiritual awareness that comes from the giving of themselves and their assets to the Church's Lord's work.



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Three Ways to Use a Capital Campaign

There are three ways that a capital campaign can help fund a building program. Most churches use a Capital Campaign to finance their repairs, restoration, or new construction projects. Some churches may want to avoid debt and save up for construction. Others may opt to augment their borrowing capacity with additional funds from a stewardship campaign. Lastly, many will choose the middle road of using a capital stewardship campaign to pay off their debt as quickly as possible. This third method is the most prevalent.

Take these 8 steps to a successful capital stewardship campaign.

A capital stewardship campaign should quickly pay off or more of the church's construction debt in three years. If the church can retire half of its debt in three years, it should undoubtedly retire the remaining half over the next four years. Hopefully, the church will be considering its next expansion or repair plans before the end of the seven years, which is a catalyst to becoming debt-free as quickly as possible.

Eight steps to consider when creating a successful capital stewardship campaign include:

1. Determine Why You Need to Conduct a Church Capital Campaign.
2. Understand the Common Mistakes Made with Church Capital Campaigns.
3. Build a Passionate Team for Your Church Capital Campaign.
4. Enlist the Help of a Church Capital Campaign Consultant.
5. Conduct a Feasibility Study Prior to Your Church Capital Campaign.
6. Fully Plan Out Your Capital Campaign.
7. Launch Your Church Capital Campaign.
8. Follow Up After Your Church Capital Campaign.



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There are many options for conducting a successful capital stewardship campaign. There's much information on the internet if you plan on implementing the process within your church or parish. You may research and interview a consultancy company to handle all of the heavy lifting or to guide you and your team through the process. In addition, several do-it-yourself websites exist to help you set up and track your campaign all the way through.

Conventional Lending for Churches

Construction Loan to Mortgage

A conventional loan is one where you will go to a direct lender or broker and get a construction loan based on the future value of the facilities you are going to build, using your assets as collateral. In a conventional loan, you are essentially borrowing all the money from one lender. New construction loans usually can be easily converted into mortgages at the end of the construction project. Many lenders will allow you to do this without a separate closing at the time the loan converts to a mortgage.

Some lenders specialize in loans to churches, offering loans that don't require any personal guarantee and no upfront fees.

Some lenders specialize in loans to churches, offering loans that don't require any personal guarantee and no upfront fees. Other lenders provide SBA loans that are government-backed. At the same time, another loan that may fit your needs could be a private money lender. Loans from a private money lender come from a fund specifically designed to solve the problem of an institution not qualifying for a traditional loan. They raise money through private investors looking to earn above-market returns on well collateralized real estate loans.



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Cash-Out Refinance

If it is a major repair or a historic preservation project you have on the horizon, a cash-out refinance loan may be your best option. At Building Envelope Professionals Group, we take pride in breaking projects down into phases, if necessary, and providing clear budget amounts for each phase.

A cash-out refinance loan is similar to refinancing the interest and terms of a mortgage. You replace your existing loan with a new one for the same amount of money, but at a lower interest rate or for a shorter loan term, or both. In a cash-out refinance, you also try to lower the interest rate and get a shorter loan term and withdraw a portion of the equity in a lump sum. You can then use this lump sum for improvements to the property.

Bonds: Many People Loan you Money

A bond is a (generally) public offering for many people to loan you money by purchasing bonds. Your church would deal with a bond company that specializes in putting together and promoting the offering and as they sell the bonds, the money becomes available to your church.

Church bonds can help with the building, repairs, or renovation of their facilities. Bonds can offer an attractive rate of return for the investor or parishioner while supporting churches to further their ministries.

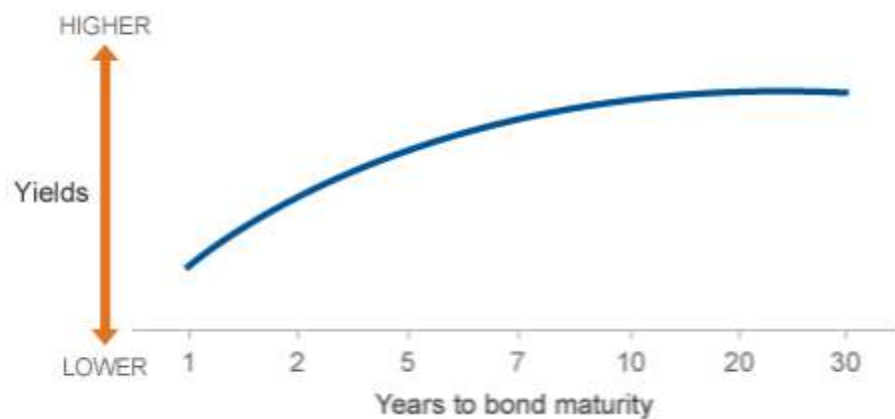


Image Source: investor.vanguard.com



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By offering a bond, the church is borrowing money (the face value) from the purchaser. The church agrees to pay back the face value of the loan on a specific date. In exchange, the church would make periodic interest payments along the way, usually twice a year.

Thousands of churches, including many of the largest ministries in the country, have been constructed through church bond financing, and millions of investors have enjoyed excellent returns. While not without risk, church bonds are a viable and attractive alternative investment for some.

Don't confuse bonds with stocks, as bonds won't give your investors ownership rights. A bond is a loan from the buyer (parishioner or investor) to the bond's issuer (you, the church).

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Borrowing Limits

For both conventional loans and bond offerings, the amount of money that you can borrow is going to be limited by your current income and cash flow. One of the common financial rules of thumb is that the church can only afford to borrow (read will only be able to borrow) between 3 and 4 times their current earnings. If the total church income for the year is \$150,000, your borrowing capacity is probably only \$450,000 to a maximum of \$600,000. Other factors that can affect your borrowing capacity are cash flow and equity. Regardless of bond or loan, the lenders are going to need to be able to see how you will make the payment from your current cash flow.



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Plan to Pay It Off

It is one thing to get a loan, it is quite another to pay it off. With very rare exceptions, shame on the church that takes 20 years to pay off a loan! Most churches should have a workable plan to retire their debt in 7 years. Interest is money that the church gives to the world to foster the world's economy. That money should stay in the Kingdom to finance Kingdom work. This brings us to our third form of financing, Capital Stewardship.

BEPG Will Help You Budget

Building Envelope Professionals Group, LLC is a consulting firm that helps our clients with building envelope problems. Our company helps clients “keep the weather out and energy in” their buildings. We solve problems others can’t figure out! Our services range from providing a limited consultation to full-service assessment, design, and construction phase support for complex rehabilitation and replacement projects. We also work hand-in-hand with contractors, architects, and designers to ensure that building plans and systems will work efficiently when implemented in the field. We are very skilled at providing budgets for what problem-resolution projects should cost and can help you find the right contractor for your project while ensuring the work is done correctly.



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Meet Thomas (Tom) Gernetzke, Owner BEPG



Thomas M. Gernetzke, RBEC, F-IIBEC is Principal Consultant for Building Envelope Professionals Group, LLC, located in Oregon, Wisconsin. BEPG provides professional building envelope services including the analysis and design of roofing, waterproofing, fenestration, and masonry/cladding systems. Tom specializes in roofing and waterproofing systems and has successfully performed roofing and waterproofing assessment, analysis, design, and construction administration for rehabilitation of roofing systems, split-slab and plaza deck assemblies, green roofing systems, below-grade structures, cladding and wall systems, and parking structures. He frequently leads and participates in multi-disciplinary design and construction teams in the completion of large and complex building-envelope-related rehabilitation projects. Tom also performs hygrothermal analysis, peer review, quality assurance, and related services for new construction projects.

We know that finding funding, budgeting for and planning construction or repair projects can be very stressful for committee members.

Call BEPG to reduce your stress today! 608-480-5365



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