An Executive Overview of the Church Lease/Purchase Program

Providing an alternative method of financing construction for younger and smaller churches

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Introduction

Younger churches that are vibrant and growing are often faced with a difficult catch-22 situation. Many of these churches are outgrowing their rented facilities, but cannot get the financing they need to build due to their relative small size and young age; even when they can clearly demonstrate the financial ability to service the debt. Many lenders will not even consider providing construction financing to churches with less than 3-5 years of properly documented financial history.

Many denominations and associations have funds for church development; however, these funds are becoming increasingly insufficient to meet the growing needs of all the churches they were created to support. This *apparent* insufficiency is restricting both the number of churches that can be funded, and the amount of funding that can be provided to each church. I qualify this to say "apparent" insufficiency as God has promised to meet our needs, so it is likely we really do have all that we need - we just need to figure out how to use what we have more effectively.

Jesus advised His disciples to, "*be wise as serpents and harmless as doves*." One modern day application of this instruction can be found in a new real estate development method that is common in the secular real estate world, but is new to Kingdom application. Today the church has a new tool to help implement church construction - the lease/purchase program.

The Lease/Purchase Program is specifically designed and suited for younger churches that have the demonstrated ability to make a mortgage payment, but are unable to secure financing with which to build. While lenders are coming to realize that churches make for good loan business, they are reluctant to finance younger churches due to the high failure rates of younger (less than 5 years old) ministries. Sadly, it is these churches with such a great unfulfilled need that often have great potential to break out and make a difference in their community; especially if they could get into a permanent place of ministry.

Lease/Purchase Program Model

The Lease/Purchase Program provides an exciting new way for ministries to get the facilities built that they can afford, but for which they cannot get financing. In the lease purchase model, a "benefactor", usually a Limited Liability Corporation (LLC) formed for this purpose, will build the facilities at their own cost and risk. Upon completion they would lease the facility to the ministry for a period usually not to exceed three years, providing the church an option to purchase at any time during the lease period. The constructed facility is designed to meet both the needs and financial ability of the ministry. The premise is the church will have 3 years to both grow the congregation and solidify its financial creditworthiness; allowing the church to obtain conventional financing to buy out the lease. While the church typically has as much as 3 years, most churches will be able to finance their building in 12-24 months, while some will qualify in much less time.

While somewhat outside the box (for traditional church thinking), the model is fairly straightforward and a common practice in the secular real estate world. The LLC works with the church to determine the financial ability of the church to service a lease payment in a manner not very different from how a lender would calculate the ability to service debt. From that proposed monthly lease amount, the LLC determines how large a facility they can build for that monthly payment. If the proposed building meets the needs of the church, the LLC provides a lease agreement that contains an option to purchase within a set period of time at a predetermined price. The church purchases the option with the cash or land equity that they bring to the deal, usually no less than 10% of the appraised project value. The option price is credited towards the purchase price when the church exercises its option to purchase.

The LLC secures and provides the balance of financing using the lease and its own creditworthiness. Since the lease has a guaranteed purchase price, the LLC takes full responsibility and risk of construction and project cost. Unlike a construction loan, the church makes no payments during construction (except for its initial equity investment), but must be ready to begin lease payments upon issuance of the certificate of occupancy for the new facility.

The benefit to the church is quite noteworthy. They are able to get into their own facility much sooner and with less financial risk than with conventional financing and with lower cash equity requirements than traditional financing. This is made even more significant when you factor in the annual increases in the cost of construction they would incur by waiting. The church gets to build today, and then purchase as much as 3 years later at today's value. In addition, the church also no longer has to become proficient at running a building program, hiring architects, getting financing, and managing a contractor. This provides the church the freedom to continue to reach out and minister, instead of being drawn into the black hole of church construction – an area in which they usually have neither adequate experience nor training.

Land Options

While the program is often more effective for churches that already have some equity in land, it can also work for churches that have identified property on which they would like to build, but have not yet purchased. In the case of the church already owning the land, the LLC will either buy the land from the church, or pay off the current debt and take a deed of trust on the land to secure the equity investment. A third option is possible when the church owns a larger tract of land than they foresee needing for the ministry. In this scenario, the LLC may help the church commercially develop a portion of the land and use the proceeds from this development to help fund the church construction project. Many variations of land development and project financing are available, as one of the advantages of a lease purchase program is a flexibility that is not available when using conventional church lending underwriting criteria.

Benefits to Denominational & Association Organizations

The church is not the only one that benefits from the lease purchase model. Denominations or associations that are financing construction for their churches, either in part or in whole, will also benefit. The most significant benefits are the financial risk of building is borne by the LLC, not the church, and the regional or national organizations no longer have to be concerned whether churches are adhering to a good process when they build, or worry about bailing out churches that are in trouble with their building program.

For many organizations, lease purchase programs also provide a potential financial benefit. Instead of financing 30-80% of the construction cost for a select number of churches, the organization may elect to provide 10% financing to a much larger number of churches. This financing can be used to either cover the equity investment on behalf of the church, or to help the church reduce its monthly lease payment and buyout price. As an example, if the regional or national organization is routinely providing 30% construction financing to their churches, this approach could triple the number of churches for which they could provide financing. While this is a simple example that probably does not model typical lending practices, it does clearly demonstrate that the organization should be able to build more churches with the same amount of money. If it so desired, the organization may elect not to provide any funding assistance to churches in a lease/purchase program, and instead focus their resources on churches that are able to pursue traditional financing.

There remains yet another financial benefit if the organization desires to pursue it. In the lease purchase model, the LLC earns the difference between the cost of construction and the purchase price for its efforts and risk taking. The LLC will typically use traditional funding sources to finance the church construction, however, there exists an exciting opportunity for the organization to be an active participant in the LLC by providing a portion of the funds for the lease purchase programs to their churches. In this manner, the organization not only will receive a fair rate of return in interest on the money lent, but will also earn a pro-rata share of the proceeds from the transaction. This opportunity provides a much higher ROI to the organization. Additionally, the building fund's money is only tied up in a church project for a maximum of 3 years; quickly returning the principal plus the interest *and* net proceeds from participation in the LLC back into the building fund to help fund even more church building programs.

Conclusion

There exists today a proven program that can help smaller churches get into their own facilities sooner rather than later. This program also reduces the risk and effort for the individual church as well as the denomination or association. Coupled with this is the additional benefit of enabling limited regional or national building funds to service a greater number of churches with the same amount of cash.

I look forward to discussing how this may benefit the Assemblies of God and further Kingdom work. If this continues to be a topic of interest, I welcome the opportunity of introducing you to the principles of the organizations that can make this a reality for the Assembly of God churches.

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