Church Debt and Borrowing Policy

Position

Scripture does not specifically prohibit borrowing money for ministry. However, it does warn us about debt and for good reason. It can lead to financial slavery, servitude to the lender, and leave one a prisoner of the past (Prov. 22:7).

Debt makes assumptions about the future. Not one of us knows what will happen tomorrow, economically or otherwise (James 4:13-15). East Cooper Baptist (ECBC or the Church) should always move toward debt cautiously with a well thought out plan to retire the obligation sooner rather than later.

Purpose

ECBC may consider borrowing for construction used directly for ministry on a case-by-case basis. The Church should not borrow for fixed assets with a useful life of 10 years or less (personal property) and should not borrow for operating shortfalls or renovations to existing buildings.

Mortgage Debt

Any mortgage debt considered should be governed by the following guidelines:

- 60% debt/40% equity relationship to project cost
- 15 year loan amortization maximum
- Obligation should have a fixed, not a variable, interest rate
- If reasonably possible, there will be no prepayment penalty. If one is required, it should be for three years or less
- No loan guarantee by any individual or Church body (Elders, Deacons, etc)

Total Debt

The overall limit on mortgage debt should be governed by *<u>lesser</u>* of the following guidelines:

1. Amount of total debt (the lesser of)
   a. 1.25 times annual budgeted revenue or,
   b. $7,500 multiplied by the number of giving units or,
2. Annual debt service (the lesser of)
   a. Not to exceed 15% of annual budgeted revenue or,
   b. $600 multiplied by the number of giving units

For purposes of this section, the term giving units is defined as the number of members and regular attendees, who for the most recent prior fiscal year (Aug. 1-July 31), made contributions to the general fund or designated offerings for debt reduction.

The example shown below sets forth the application of the guidelines:

ECBC Debt Policy Example

EXAMPLE 1

Assumptions

Budgeted revenue		$ 4,850,000
Number of giving units		1,000
Loan amortization in years		15
Interest rate on loan		5%
Total Debt	**Limit**	
Annual revenue	1.25	$ 6,062,500
Giving per unit	$7,500	$ 7,500,000
Ltd to lesser of above		$ 6,062,500
Annual debt service		$ 575,302
Debt service per giving unit	$ 600	$ 600,000
Ltd to lesser of above		$ 575,302
% of budgeted revenue		11.86%

In this example the debt and terms meet the criteria Established in the debt policy and would be an acceptable result.

EXAMPLE 2

Same as EXAMPLE 1, except the interest rate offered is 6%. The total debt limit would remain as calculated above.		$ 6,062,500
Annual debt service		$ 613,906
Debt service per giving unit	$ 600	$ 600,000
Ltd to lesser of above		$ 600,000
% of budgeted revenue		12.37%

In this example the amount of debt would have to be reduced to meet the annual debt service limitation provided in the debt policy.

Calculated acceptable debt level	$ 5,925,000
Annual debt service	$ 599,982