

Church Loan Guidelines

A Practical Guide for Building Committees

Prepared by Hawkey Church Management Inc.
Updated 2026 Edition

This document provides rough guidelines to help shape your financial picture prior to applying for project funding. HCMI is not a financial institution — always consult with your lender for specific requirements.

"Building together under His direction to accomplish His purpose"

Table of Contents

1. Preface
2. Introduction
3. Financial Statements
4. Metrics for Church Loans
5. Loan to Value (LTV)
6. Debt to Income (DTI)
7. Debt Coverage Ratio (DCR)
8. Stress Test
9. Sample Financial Statements

Preface

The purpose of this document is to give some rough guidelines to allow the church to shape the financial picture prior to applying for project funding. We don't profess to be accountants; however, the information that a lending institution looks at may surprise many church leaders. Understanding this early in the process puts you in a stronger position.

The information given should be considered a range, as every financial institution has their own guidelines for lending. In addition, the acceptable ratios will vary depending on the economic climate and the lender's own portfolio and risk tolerance. Having said this, if you can show your lender that you are within these guidelines, you will be in a stronger position to negotiate and attract competitive offers.

Introduction

A few points to keep in mind:

- A loan officer looks carefully at your financial statements when deciding whether to approve a construction loan or refinance. Understanding what they look for gives you a significant advantage.
- A well-defined plan that falls within acceptable ratios gives the lender confidence and allows you to attract multiple offers and ensure a fair process.
- Not-for-profit lending is a niche field and is not generally handled at the local branch level. Seek out lenders who specialize in church and not-for-profit financing, such as denominational lending programs.

Financial Statements

Note: Your financial institution will provide the level of detail required in your financial statements, as this is beyond the scope of this document.

The financial statements from your accountant are where the lender gets the numbers for calculating the ratios used to determine your eligibility. They will also be looking at the last 3 years for trends — ideally showing consistent improvement and support for the building program. This is why good planning makes a difference; most stewardship programs and capital campaigns should start at least 12–18 months before you need the funding.

Depending on the size of the loan, different criteria may apply. Typically, loan balances over the \$3.5–5 million range attract additional scrutiny. Above this value, the lending institution may require audited financial statements rather than a review engagement or notice to reader.

Metrics for Church Loans

Note: The following examples use values derived from the sample financial statements shown at the end of this document.

Loan-to-Value (LTV)

Acceptable Range: Less than 70%

This is the amount of cushion the lender has if they have to take the property back. If the church were to default, the lender should be able to sell the property for more than the loan balance.

Usually expressed as the loan amount divided by the market value of the property (determining market value can be tricky for church properties). If the loan value is close to the maximum allowable ratio, additional conditions may apply.

Calculation Example:

Loan value: \$4,000,000

Appraisal value: \$6,200,000

$\$4,000,000 / \$6,200,000 = 64.5\%$ LTV ratio

This is below the 70% cutoff — acceptable.

Debt to Income (DTI)

Acceptable Range: Ratio of 3.5 to 1 or less

This compares total long-term debt to annual revenue. Lenders typically want to see debt no higher than 3–3.5 times revenue. Your lender may exclude capital campaign income for this calculation, as they want to assess the ongoing capacity of the congregation.

Calculation Example:

Total revenue: \$1,500,000

Total loan: \$4,000,000

$\$4,000,000 / \$1,500,000 = 2.67$ DTI ratio

Using the high end (3.5×): $\$1,500,000 \times 3.5 = \$5,250,000$ maximum loan

Debt Coverage Ratio (DCR)

Acceptable Range: 1.1 to 1.25 or greater

This measures the income available to make loan payments compared to the payment amount. Lenders want to ensure the church can afford the payments on top of all other expenses.

The concept: take the change in net assets, add back interest and depreciation, then divide by total annual P&I payments.

Loan Assumptions (Updated for 2026):

Interest rate: 6.0%
 Term: 20 years
 Monthly payment: \$28,657
 Annual payments: \$343,887

DCR Calculation:

Change in net assets: \$(50,000)
 Add back interest: \$200,000
 Add back depreciation: \$150,000
 Available to cover debt: \$300,000
 Divided by loan payments: \$343,887
DCR = 0.872

That means last year there was not enough income before interest and depreciation to cover 100% of the P&I. A DCR below 1.1 signals to the lender that the church may struggle to meet its debt obligations. Each lender calculates DCR slightly differently and has their own threshold.

Stress Test

Performing a stress test shows how the church would handle a rate increase. Let's recalculate at 8.5%:

Interest rate: 8.5%
 Term: 20 years
 Monthly payment: \$34,713
 Annual payments: \$416,555
 Available to cover debt: \$300,000
 Divided by payments: \$416,555
DCR = 0.720

The ratio drops significantly. Even if the church qualified under the initial calculation, a stress test showing this level of vulnerability may concern lenders.

HCMI Note for 2026: In the current interest rate environment, lenders are paying close attention to stress testing. Building in a comfortable margin above the minimum DCR threshold is more important than ever. Churches should aim for a DCR of 1.25 or higher to demonstrate financial resilience.

Sample Financial Statements

Statement of Financial Position (Balance Sheet)

	Amount
ASSETS	
Cash	\$200,000
Other assets	\$300,000
Land, building, and equipment	\$5,500,000
Total assets	\$6,000,000
LIABILITIES	
Current liabilities	\$200,000
Long-term debt	\$4,000,000
Total liabilities	\$4,200,000
Net assets	\$1,800,000
Total liabilities and net assets	\$6,000,000

Statement of Activity (Income Statement)

	Amount
INCOME	
Contributions	\$1,400,000
Other revenue	\$100,000
Total revenue	\$1,500,000
EXPENSES	
Salary	\$500,000
Interest (on existing mortgage)	\$200,000
Utilities and other occupancy costs	\$300,000
Other expenses	\$400,000
Depreciation	\$150,000
Total expenses	\$1,550,000
Change in net assets	\$(50,000)