

Boom-years borrowing hits churches

Good faith loans: Churches and their lenders suffering after boom-years borrowing

- Rachel Zoll, AP Religion Writer
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Metropolitan Baptist Church was bursting out of its home.

From a group of freed slaves in Civil War-era Washington, Metropolitan Baptist had grown into a modern-day megachurch and community service powerhouse. In 2006, construction began on the congregation's dream complex in Largo, Md. -- a \$30 million campus with a 3,000-seat church, an education center and an 1,100-car parking lot.

Last year, the congregation sold its church in Washington. Preparations began for the move to what leaders had taken to calling "God's land in Largo."

But on Oct. 20, their plans were abruptly put on hold.

The Rev. H. Beecher Hicks learned that financing for the project had dried up. Construction stopped. And the congregation found that it was homeless -- reduced to renting space and struggling to find new financing.

Add houses of worship to the list of casualties of the mortgage crisis.

Foreclosures and delinquencies for congregations are rising, according to companies that specialize in church mortgages. With credit scarce, church construction sites have gone quiet, holding shells of sanctuaries that were meant to be completed months ago.

Congregants have less money to give, and pastors who stretched to buy property in the boom are struggling to hold onto their churches.

"The economy has dramatically changed over the last year to 18 months in a way that very few, if any, had expected," said John Stoffel, administrative pastor at Seabreeze Church in Huntington, Calif.

Seabreeze spent about \$12 million on a new complex that was completed in 2007. But a drop in donations, partly due to a rift between the pastor and some church members, forced the church to renegotiate for an interest-only mortgage. Stoffel said Seabreeze hasn't missed a payment, yet the mortgage is far from the church's only debt. The church also owes \$1.2 million -- due this year -- on bonds that helped finance the project, and must repay a \$200,000 loan that a couple took out on their house to help Seabreeze cover its costs.

It's hard to quantify just how many churches are at risk. Foreclosure records are scattered throughout county offices nationwide. Completing a foreclosure takes months or longer, so it's too soon for many failures to show up on a company's books. In financially stressed churches, clergy are often reluctant to discuss their plight. They don't want to alarm their congregants, and they fear that any complaints about their dealings with banks will backfire.

"Right now, when you're at the mercy of the lenders, you don't want to look like you're coming out against them," said Bishop Eugene Reeves of New Life Anointed Ministries International in Woodbridge, Va.

The 3,500-member Pentecostal church near Washington needs a couple of million dollars to finish its new \$19 million complex. Construction stopped last spring when New Life's lender said it would make no new loans to the church, Reeves said.

"We now have children who don't have classrooms to get into, adults who have to go to an overflow room," Reeves said. "We have parking issues. We don't have enough spaces for cars."

Across the country, congregations large and small are struggling to pay off debt:

--Reliance Trust, an Atlanta company that is trustee for nearly three-quarters of the church bonds in the U.S., has seen "some increases in delinquencies," said spokesman Tony Greene, though he would not elaborate.

Among its clients is Temple Beth Haverim in Agoura Hills, Calif., which sought Chapter 11 bankruptcy protection last July and owes the company more than \$7 million, Reliance said in court documents. The property is estimated to be worth less than what the synagogue owes.

--Strongtower Financial, an arm of the California Baptist Foundation, said in a prospectus that 10 percent of its \$119 million in outstanding loans were in default as of March 31, 2008, its most recent required reporting date. Chet Reid, Strongtower's president, said the specifics were private, but the company had only one foreclosure in the last decade -- in 2006.

--The Evangelical Christian Credit Union, a major church lender with more than \$700 million in loans last year, moved to foreclose on seven of its 1,100 loans in 2008, said Mark Johnson, the company's executive vice president. The company has had "a noticeable increase" in late payments, and two more foreclosures are expected this year, he said. By contrast, the Brea, Calif., company said it had no other foreclosures until 2007, when there were two.

These problems may seem minor compared to the epidemic of foreclosures on private homes. But church mortgages have always been considered one of the more solid investments, with lenders often boasting of only one or two foreclosures over a billion dollars in loans.

Even in bad economic times, people still go to church, which helps shield congregations from downturns, lenders say. Churches also have more flexibility than some other borrowers in cutting expenses. They can end charitable programs or trim staff and still stay open for business.

"You can certainly make a bad church loan if you try hard enough," said Dan Mikes, who leads the church banking group of Bank of the West, a major lender. "But if you're careful and you don't overlend, and you're cautious in the way you underwrite, you're fine."

However, the recent boom years brought changes that made the industry more vulnerable.

Firms looking for new lending opportunities in a time of easy credit entered the industry, and competition escalated. The size and number of church loans skyrocketed, with several companies reporting double-digit annual growth rates before the bust.

Some lenders even got into the business of securitizing church loans, combining them as an investment in the way banks did with home mortgages. In 2006, Strongtower Financial, based in Fresno, securitized church bonds for the first time, with a \$56.3 million offering.

Roland Leavell, president of Rives, Leavell & Co., a church bond broker in Jackson, Miss., said that firms specializing in church financing often aped their commercial loan counterparts, lending too much money without a thorough check of what their clients could afford.

"The starting point was the commercial banks," Leavell said. "When somebody on one side of the business gets moving fast and loose, it makes every body else move fast and loose."

Johnson, of the Evangelical Christian Credit Union, insists that his company upheld its strict underwriting standards throughout the flush years when the firm was growing at an average rate of more than 20 percent annually. He said the economy alone is behind the recent troubles.

"Our history would say that we had done a really good job," evaluating clients, he said. "It has become very visible to everybody today that the recession hit 18 months ago. The foreclosures we've seen have coincided with that."

But foreclosure and bankruptcy records paint a more complex picture of some of the company's failed clients -- and raise questions about whether the pressure for profit altered the industry's normally ultra-cautious approach.

Among the company's foreclosed-upon clients is Juanita Bynum, a former hairdresser and popular Pentecostal preacher. In 2006, she got a loan from the evangelical lender to buy a \$4.5 million lakeview property in Waycross, Ga. She planned to use it for her ministry headquarters and to open a spa for beauty treatments and spiritual guidance.

But she never paid her property taxes on time and ended up owing tens of thousands of dollars, said Steve Barnard, the Ware County tax assessor, who threatened to auction off the land over the debt. The credit union paid Bynum's outstanding tax bill before foreclosing on her land last December, when Ware said the property value had dropped to only about \$2.5 million.

Another church with shaky finances and a big debt: the Shiloh Institutional Church of God in Christ in Fort Worth, Texas.

The congregation began floundering soon after Shiloh's prominent pastor, Sherman Allen, was publicly accused of molesting women and beating them with a paddle. The accusers said that Allen's superiors in his Pentecostal denomination -- the Church of God in Christ -- had evidence of the allegations for years and did nothing to stop him. Allen has denied any wrongdoing.

Meanwhile, lawyers for the credit union that holds the church's mortgage found another scandal -- this one involving money. In court documents, the attorneys said the church could not explain how it spent \$100,000 in income in 2006, that a \$30,000 anniversary bonus paid to Allen in 2007 "is potentially a fraudulent transfer," and that the church couldn't provide financial statements from a certified public accountant for 2005 and 2006.

The church filed for bankruptcy in February 2007; the Evangelical Christian Credit Union says Shiloh owes it nearly \$3.8 million on a 2005 loan, and sought to foreclose.

As in the residential mortgage industry, tight credit has had a chilling effect on loans to houses of worship. Reid, the head of Strongtower, said his company is doing less lending, but he would not discuss specifics. Johnson, of the Evangelical Christian Credit Union, said the company isn't making loans to new clients.

"We're struggling to do a good thing for our community," Hicks said. "Hopefully, we'll get past this impasse and move forward."