HEALTHY GUIDELINES FOR BORROWERS

When borrowing becomes necessary, the Free Methodist Investment and Loan Fund (FMLF) at FM Financial is here to support your ministry with wise and responsible financial stewardship. As you discern whether a loan is appropriate, we offer the following guidelines. These principles not only inform our loan evaluations and interest rates, but also promote long-term ministry health, sustainability, and the freedom to pursue your mission of bringing wholeness in Jesus' name to your community.

1. **Focus on the Long-Term:** Borrowing is never just about the present; it is a long-term commitment to a place, a people, and a mission. For this reason, decisions about taking on debt should extend beyond your current pastoral and executive team. It is essential to involve your broader community, including church membership, board members, conference leadership, and others who will carry the responsibility for your ministry for generations to come.

2. **Debt-to-Income Ratio (DTI):** This number serves as a helpful guideline for what your ministry can afford while still maintaining the financial flexibility needed to support ongoing ministry operations. A DTI ratio under 30% is generally considered a healthy benchmark for ministry borrowing. This means that no more than 30% of your ministry's annual revenue, excluding capital campaign funds, should be used to service debt.

   ***Example**: For a church that receives $100,000 in annual revenue, a 30% DTI ratio indicates the maximum loan payment should be $30,000 annually or $2,500 monthly.*

   When determining annual revenue for DTI calculations, it is essential to base your figures on **recurring** and **reliable** income. Avoid including large one-time donations or sporadic gifts. If you receive rental income, factor in lease expiration; if you have income from preschool, adjust for enrollment fluctuations. This helps prevent overextension and ensures your ministry maintains financial health and flexibility well into the future.

   Aiming lower than a 30% DTI ratio is often healthier for long-term sustainability. Many ministries begin to feel financial strain even at 20%. While faith is a vital part of ministry, loan decisions must be grounded in realistic and sustainable income projections.

3. **Loan-to-Value Ratio (LTV):** A healthy loan-to-value (LTV) ratio means your property is worth significantly more than the loan amount. It is calculated by dividing the anticipated loan amount by the appraised property value. At FM Financial, we only consider loans with an LTV ratio below 75%, with lower ratios preferred. A healthy LTV ratio, combined with well-maintained property, reflects responsible stewardship and a commitment to preserving the church's physical assets.

   It is important not to let the maximum LTV ratio drive your borrowing decisions; it is a protection ceiling, not a target. The maximum LTV ratio may not be the healthiest level for the long-term ministry sustainability of your church. Keeping your LTV ratio well below that threshold reduces risk for the church, conference, and denomination over the long-term.

4. **Reserves:** Ministries should consistently maintain between 3–6 months of operating expenses in a reserve account. Depending on the size, stability, and nature of the ministry, some churches may find 3 months sufficient, while others will benefit from maintaining closer to 6 months for added security and flexibility. FMLF requires 4 months of loan payments to be set aside in an account as part of this reserve.

5. **Capital Campaign:** Ministries are encouraged to conduct a capital campaign alongside any borrowing effort. This has a two-fold effect of helping to build equity faster and engaging the congregation in shared ownership of the vision. A capital campaign offers a great opportunity to educate your donors on creative and tax-wise methods of giving beyond pledges and cash. FM Financial can provide educational resources upon request.

6. **Extra Payments:** Making plans to pay more than the required monthly minimum loan payment shows strong financial stewardship, accelerates debt reduction, builds equity faster, and reduces total interest costs. FMLF can provide projections to share with your board and congregation on how much interest you can save by making consistent extra payments.

7. **Strong Conference Relationship:** Active participation in the conference plays an important role in supporting long-term financial health and stability. Local churches that maintain a strong conference relationship add to their resourcing and problem-solving capacity, which are important factors when entering into a loan relationship.