



# Market Research

April 1, 2006

Industry: Specialty Finance

## The U.S. Church Finance Market: 2005-2010

*Financing Church Construction in the Domestic Market*

### EXECUTIVE SUMMARY

- **We believe the annual financing opportunity for the church construction market currently stands at \$28 billion annually.** We anticipate this market will grow at a rate in excess of 40% over the next five years to **\$40 billion by 2010**, according to our proprietary church finance market (CFM)<sup>TM</sup> model.
- **Our forecast is driven by three primary factors:** Exponential growth in church attendance within specific segments of the non-denominational and evangelical church population; the trend toward non-traditionalist, unconventional forums of worship, highlighted by the rise of the modern “mega-church” and; the marked growth in financial contributions to churches, specifically within certain non-denominational sects characterized by a younger, upwardly-mobile demographic commonly found in suburban or newly developed localities.
- **Financing alternatives for the nation’s churches remain highly fragmented, despite a large and growing need for access to fresh capital.** With the exception of a handful of commercial banks, denominationally-affiliated loan funds and other niche lenders throughout the investment community, the church finance market remains a significant “greenfield” opportunity in the specialty finance segment, highlighted by a unique combination of low risk and above average returns.
- **Non-denominational membership doubled between 1990 and 2001, according to our analysis.** We believe the growth in attendance at non-denominational churches marks the emergence of a broader trend in which denominational affiliation is perceived as an unnecessary limiting factor in attracting new members. We believe the notable success of non-denominational mega-churches throughout the country is supporting evidence of this trend. While church attendance at the average American church increased by ~12% between 2000 and 2005, average church attendance at mega-churches across the country increased by an astounding 57.3%<sup>1</sup>.
- **Growth in mega-churches closely tied to “non-denominational reformation”.** In recent years, the notion that church could serve as both a house of worship as well as a social destination throughout the week has experienced a revival within the non-denominational community. Importantly, we believe this revival has been manifest in recent church construction projects, where the church is designed to serve as a multi-use facility. This trend is evidenced by the rapid growth of mega-churches. According to a study conducted in 2005, there were approximately 1,210 mega-churches in the United States, nearly twice the number that existed just five years ago<sup>1</sup>. By definition, mega-churches have attendance of greater than 2,000 people on a weekly basis, greater than four times the average Christian church in the United States<sup>1</sup>. We believe this segment of the church finance market will continue to provide additional opportunities for lenders into the foreseeable future, primarily given the strong attendance rates and robust financial contributions from membership.
- **Financial contributions to churches continue to rise, particularly within specific pockets of the Christian community.** Church attendance is not only a key barometer to the spiritual health of a church body, it can also be a good indication of a church’s financial health. In 2005, church attendance hit a 7-year high at 45% of the domestic adult population, a net-positive for church giving trends. According to our estimates, annual giving to U.S. protestant churches is \$93 billion.
- **Commercial banks are considered the most common financier in the church lending marketplace, followed by denominational loan funds and other lending institutions.** According to *Church Business Magazine*, 60% of the church financing marketplace is provided by commercial banks. A study conducted by *Your Church* magazine stated denominational loan funds comprise 25% of the church financing marketplace.
- **Financing vehicles utilized by churches present a low-risk/high rewards scenario for investors when compared to similar commercial instruments.** Case in point: The yield on church bonds are generally 100 to 150 basis points<sup>2</sup> higher than commercial fixed income bonds with a similar risk profile, highlighted by an average default rate of less than 3%.<sup>3</sup>

### INDUSTRY FORECAST

2010 Church Finance Market Forecast			
	Conservative	Moderate	Aggressive
Number of Adult Christian In The United States (18+)	107,399,130	107,399,130	107,399,130
Annual Cash Contributions to Churches and Religious Organizations	\$1,232.4	\$1,232.4	\$1,232.4
Average Debt Service Requirement	20%	25%	30%
<b>Total Annual Opportunity: Church Finance Market</b>	<b>\$26,472,059,760</b>	<b>\$33,090,074,700</b>	<b>\$39,708,089,640</b>

Source: Lambert-Edwards Analytics

<sup>1</sup> Thumma, Travis, Bird: MegaChurches 2005

<sup>2</sup> Dow Jones Newservice, Church Plan of Church Finance and other sources

<sup>3</sup> Reliance Trust Co., *Church Business*, December 2005 Construction Financing, California Plan of Church Finance

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