

THE CHABAD HOUSE

COMPASS

NAVIGATING THE WORLD OF SHLICHUS
FOR SHLUCHIM BY SHLUCHIM

תמוז תשע"ח
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WAYS

TO HELP OUR
CHILDREN
THROUGH THEIR
CHALLENGES

*A Hug, An Envelope,
& A Book* **A JOURNEY OF SHLUCHIM
CREATING SHLUCHIM**

FROM HODU TO ALEINU

Tefillah Betzibbur in the Chabad House

זמה שנוגע לנו במיוחד
הוא ההתקשרות לכ"ק
מו"ח אדמו"ר נשיא דורנו



FOREWARNED IS FOREARMED

WHAT YOU CAN (AND SHOULD) DO TODAY
TO LAY THE FINANCIAL GROUNDWORK
FOR YOUR CHABAD HOUSE PURCHASE

By Yonatan Hamburger



They don't teach real estate acquisition and mortgage financing in yeshiva, yet the Rebbe's shluchim all over the world are purchasing Chabad Houses.

A typical story sounds like this: “We received a 60-day notice to move. My wife and I felt crushed. The ink wasn't even dry from my letter to the Rebbe when the phone rang. My baal habos called to say that the perfect property for Chabad of our

town had just been put on the market—for only two million dollars.

“We didn't have a dollar in the bank, much less the required half-a-million dollars down payment. As a matter of fact, we barely squeezed by with paying our current monthly rent—half of what we'd be required to pay for the new mortgage. I made a lechaim and trusted that the Aibershter would deliver. A few minutes later, I got a call from a widow in our community who I hadn't heard from in many months. She told me that her deceased husband had appeared to her in a dream and told her to give us the down payment for our Chabad House.

“I wrote another letter to the Rebbe, this time sharing the good news. A few hours later, the bank called and told me we'd been approved for the mortgage.”

Nissim and niflaos of this nature are a regular occurrence in the universe of Chabad. But then there are the rest of us... those of us who still operate from a space called “derech hateva.” The purpose of this article is to point out things you will need to consider along the “derech hateva” process of acquiring your Chabad House. As the saying goes, “Forewarned is forearmed.” If you know about something before it happens, you can be prepared for it.

THE BASICS

Whether shlichus finds you anywhere from Alabama to Zimbabwe, your bank will evaluate your loan request using certain overarching principles. While this article uses examples and experiences based in the United States, and while lending guidelines vastly differ from country to country, understanding these key concepts will help you proactively prepare yourself for the process.

The Bank's Mindset: The bank wants to secure its investment and it wants you to pay back your loan on time. The bank does not like foreclosing, especially on religious nonprofit organizations (but it will not hesitate to do so if compelled). Banks will not deviate from their own guidelines. However, they are influenced by “compensating factors,” such as if you offer a larger down payment than required, or have a gvir provide a personal bank guarantee.

Be prepared for the fact that the banking world has never seen anything like the typical Chabad revenue model, where no membership is charged, no daily offerings are collected, and the majority of the revenue comes from a handful of donors.

Actionable Item: Analyze your annual donations by donor, and key-in on your Top 10 list. Be prepared to

“Be prepared for the fact that the banking world has never seen anything like the typical Chabad revenue model”

demonstrate their historical commitment and address each donor’s likelihood of recurrence. You will want to refer the bank to Chabad.org and Rebbe.org attesting to Chabad’s unprecedented success over the last 70 years.

The Equity Investment: For the purpose of this discussion, the term “equity” refers to your down payment. The relationship of your equity to the bank’s loan amount is the bank’s most important consideration, and is known as the loan-to-value ratio. For example, if you put down \$250,000 and the bank loans \$750,000 on a purchase price of \$1 million, the loan-to-value ratio (LTV) is 75%. The more money you put down, the happier the bank is, because they know you’re less likely to default if you’re “invested.”

Actionable Item: *Call some banks in proximity to you until you find at least two who would consider a loan to a nonprofit religious organization, also known as a “church loan.” Then ask what percentage down payment they require.*

The Collateral: The bank will scrutinize all aspects of the subject property. They favor properties that are “general” in their potential use, rather than “special use” properties. In the back of their mind is the question “If we have to foreclose on this property, how much could we rent or sell it for, and how long will it take to do so?”

If you get a below-market deal, most banks will lend based on the *lower* of the purchase price versus the appraised value.

Actionable Item: *Make sure that the commercial use code for the subject property is compatible with your Chabad House. If not, you might need to obtain a zoning variance or a conditional use permit. If your intended Chabad House is limited in its potential commercial uses, be prepared to make a larger down payment than usually required.*

The Credit: It goes without saying that analysis of a borrower’s credit is a fundamental “decisioning tool” used by all lending institutions, except for private “hard

money” lenders.

It is best to obtain a credit report on yourself and on your mosad (if available) at the very beginning of your process and have it reviewed by a friendly mortgage professional. You may be asked to provide historical evidence of timely payments for your rent, and other such expenses.

Actionable Item: *Subscribe to FreeCreditReport.com (or a similar service) and order a “tri-merge” credit report from all three credit bureaus, Experian, TransUnion, and Equifax (or your country’s equivalent). Despite the name, the cost is approximately \$50, plus a monthly service charge should you use their services. Ask a baal habos in the legal profession to run a LexisNexis report on you personally as well as on your mosad. This is analogous to a business credit report.*

The Cash Flow: The need for accurate bookkeeping cannot be overstated. The bank will scrutinize your financial statement by looking historically at your income and expenses and your assets and liabilities. It is best to have a friendly mortgage professional review your statements before you submit them to the bank. There must be sufficient income after expenses (net income) to pay the new mortgage, plus a reserve. Typically, the bank wants to see \$1.25 to \$1.50 available for every \$1.00 of mortgage payment. For example, if the new mortgage payment is \$60,000 per year, the bank wants to see a net income of \$75,000-\$90,000 available on your financial statement.

Expenses such as your current rent or the previous use of outside venues should not be counted against you since they will not recur. That “paper savings” will give you more “paper reserves” to qualify for the new mortgage.

If your mosad’s financial attributes do not support the loan you need, check with the bank to see if they will accept a personal guarantor. If so, be sure that there is a performance clause that releases the guarantor when the mosad meets certain financial benchmarks.

Actionable Item: *Your goal should be to find out the “real numbers,” so that not only you can qualify with the bank, but so you can actually afford your monthly payments. If you’re relying on CMS and your checkbook exclusively, you will need to have all of your data entered accurately in Quickbooks for the previous three calendar years, and the current year-to-date. Once you know your “bottom line” available, you will have an excellent indication of how much you can actually borrow from the bank.*

What follows is a description of how the mortgage process works in the United States. Nonetheless the underlying principles will help you prepare for the process regardless of your geographic location.

Should I buy in the mosad's name or in my name?

In the United States, if your Chabad House is a commercial property, your mosad will be the owner and it will obtain a mortgage from a commercial bank.

If your Chabad House is a single family home (or up to a maximum of four residential units) and you live in it, you will have two financing options. Your mosad can finance the property with a commercial mortgage, or you may purchase it as an individual with a residential mortgage. The process for each is entirely different. What will work best for you depends on your unique situation.

Let us briefly examine the prerequisites and steps for each of these mortgage options.

MORTGAGES MADE TO MOSDOS

In the United States, if you purchase a property through your mosad, you will work with a commercial bank to obtain a commercial mortgage. The likely lender for your mosad's mortgage is either a small community bank located close by, or a bank specializing in church lending that might operate in your state.

You will be asked to provide a financial statement consisting of a Profit and Loss Statement and a Balance Sheet for the previous three calendar years, plus the current year-to-date financial statement. As a rule of thumb, banks will accept "in-house" statements up to a loan amount of one million dollars. The bank will want CPA compilation statements or audited statements for larger loan amounts.

These are the attributes most banks want your organization to possess:

- ✓ Five years or longer on shlichus in this location
- ✓ Twenty-five percent or more for down payment
- ✓ Adequate cash reserves after down payment and closing costs
- ✓ Steady gross income growth year-to-year

- ✓ Consistent operating expenses year-to-year
- ✓ Sufficient net profit to make the new mortgage payment, plus reserve

If your mosad does not possess all of these attributes, you will likely need a guarantor to turn your dreams into reality.

Point to Ponder: *If both forms of ownership are available to you, and you prefer to own as an individual, keep in mind that baalei batim may not understand nor feel comfortable with you using community funds for yourself personally. Additionally, there may be potential tax liability if the mosad gives you a gift for the down payment.*

MORTGAGES MADE TO INDIVIDUALS

In the United States, if you purchase a property in your own name, you will work with a residential lender (any bank that offers home loans) or a residential mortgage broker. The process is similar to any other home loan, but your parsonage income (see below) must be documented adequately, which can be a daunting task for some shluchim.

The approval guidelines for residential mortgages are fairly standardized, including acceptable debt-to-income ratios, minimum credit scores, and more. Assuming that a portion of your income is derived from the mosad paying for your housing related expenses, there are specific requirements for documenting your Clergy Housing Allowance, otherwise known as parsonage.

You will need to support your income figures with evidence that you have been receiving it consistently for the last 24 months, whether paid directly to you or paid to others on your behalf. You may be required to provide an employment contract between you and the mosad, and a verification of employment provided by a member of your Board of Directors.

Please note that residential lenders sometimes interpret these guidelines differently, which is why it can be beneficial to use the services of a mortgage broker in your state, rather than going directly to the bank. A mortgage broker will be able to guide you through the process and, if you are denied by one bank, will assist you in quickly repurposing your paperwork to apply with another bank instead of starting from scratch each time.

Point to Ponder: *When obtaining a residential loan as an individual, the mosad becomes much less relevant but the amount of money you receive in both taxable and non-taxable compensation from the mosad is scrutinized. It is imperative that you are able to demonstrate how much you receive on a monthly basis.*



RESIDENTIAL FINANCING	COMMERCIAL FINANCING
As little as 3.5% down payment (standard down payment is at least 20%)	25-35% down payment
Thirty-year fully amortized term (you make the same monthly payment over thirty years)	Balloon payment at the end of five or ten years; subjects you to “interest rate risk” when the mortgage is due
Little to no closing costs	Closing costs of 1.5%-2.5% of the loan amount
Property owned by you as an individual	Property owned by the mosad
Does not depend on mosad’s books and records	Shliach’s personal credit is not a factor
Property taxes will be assessed.	Exempt from property taxes
Subject property must be residential in nature	Subject property is usually commercial but may be residential

Generally speaking, the biggest advantage to purchasing in the name of the mosad is that you can obtain a property tax exemption. On the other hand, the biggest advantage to buying in your own name is that the financial terms are generally more desirable. You would be well advised to discuss the various considerations with more experienced shluchim and their advisors.

The pillars of mortgage lending include examination of the credit, the collateral, and the income. The extent to which you have an abundance of one attribute can potentially compensate for certain weaknesses in other areas.

WHAT YOU CAN AND SHOULD DO TODAY

- Hire a bookkeeper (preferably a QuickBooks expert) to organize your income and expenses and assets and liabilities for the past three calendar years, as well as the current year-to-date.
- Obtain a business credit report on your mosad as well as a personal credit report from all main credit bureaus in your country and address significant blemishes using negotiation or credit repair (see “The Credit” above for more on this).

- If you have had any return check fees or notices of non-sufficient funds in your operating account within the current or past calendar year, open a new operating account.

- Watch a YouTube tutorial on how to read a financial statement.

Any issue that could stand in the way of obtaining a mortgage at a fair rate can be fixed or mitigated, given an appropriate strategic approach and sufficient lead time.

Keep in mind that your baalei batim, especially your “inner circle” are entrusting you with their money and their confidence. When they see that you are not only a friendly rabbi, but that you are financially responsible, they will be more apt to support you.

If this article has fulfilled its purpose, you now have an idea of your borrowing options and what basic requirements you will need to fulfill. It is important to know that no matter what type of mortgage you apply for, you will most likely encounter some challenges along the way. Approaching the subject proactively will allow you to avoid many such challenges. But challenges or not, as shluchim of the Rebbe, you will undoubtedly succeed *meichayil el choyil*. 