

How to obtain a great mortgage for your Chabad House



**SHLUCHIM
FUNDING**

Whether you are buying your first family home with your Chabad house in the living room, or you're ready to build your Chabad Jewish Community Center, here's what you need to know...

- ✦ The bank's mindset & basic terminology
- ✦ Should I buy in the Moisod's name or in my name?
- ✦ Mortgages made to Moisdos
- ✦ Mortgages made to individuals

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).
- ✦ A marginal file can oftentimes be approved with a larger down payment, a personal guarantee, and/or by bringing significant deposit accounts to the bank.

The Four C's

1 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're buying a house as an individual, a synagogue is not an accepted home based business from the banks perspective. You will want to maintain your Chabad House in its present location, especially on social media.

2 CREDIT

Analysis of a borrower's credit is a fundamental "decisioning tool" used by all lending institutions. It is best to obtain a credit report on yourself and on your Moisod at the very beginning of your process. You may be asked to provide historical evidence of timely payments for your rent, and other such expenses. If any historical 'non-sufficient funds' notices appear on your operating bank account, open a new account.

3 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. 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 help you qualify for the new mortgage.

4 CAPITAL CONTRIBUTION

The capital contribution refers to your down payment. The relationship of your capital contribution 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."

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

If your Chabad House is a commercial property, your Moisod 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) you will have two financing options. Your Moisod 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.

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 Moisod
Does not depend on Moisod'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

Mortgages made to **MOISDOS**

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The likely lender for your Moisod's mortgage is either a small community bank or credit union 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 for larger loan amounts.

→ **THESE ARE THE ATTRIBUTES MOST BANKS WANT YOUR ORGANIZATION TO POSSESS:**

- ✿ Five years or longer on Shlichus
- ✿ Twenty-five percent or more for down payment
- ✿ Since COVID, many banks want to see an average of six months operating reserves maintained
- ✿ Steady gross income growth year-to-year
- ✿ Consistent operating expenses year-to-year
- ✿ Sufficient net profit to make the new mortgage payment, plus reserve

Documentation Checklist: COMMERCIAL MORTGAGE

- ✿ Ratified purchase agreement
- ✿ Copy of your existing lease or rental agreement
- ✿ YTD and last 3 years income & expense statements and balance sheets
- ✿ Last 3 months bank statements for all bank accounts
- ✿ Bio on the leaders
- ✿ List all business debts
- ✿ Itemization and supporting assumptions for any "one time" or discretionary expenses that could be added back to the budget and allocated towards debt service.
- ✿ If there is a pledge or capital campaign, state the target amount pledged, when it is anticipated to be collected, and if possible the names of the donors.
- ✿ If there are any renovation costs that will be included, you will need the construction budget on contractor's letterhead.
- ✿ If Refinance: recent mortgage statement.
If private party, 12 months canceled checks
- ✿ Articles of incorporation
- ✿ Bylaws
- ✿ List of current members of Board of Directors and Officers of Corporation
- ✿ 501c3 status letter
- ✿ Hazard & Liability insurance policy declarations page

Mortgages made to INDIVIDUALS

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If you purchase a property in your own name, you will work with any bank that offers home loans or a residential mortgage broker. The process is similar to any other home loan, but your parsonage income must be documented adequately.

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 moisdod 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 will need an employment contract between you and the moisdod, and a verification of employment provided by a member of your Board of Directors.

For purposes of qualifying, rather than your moisdod paying your housing related costs directly, if it pays you and you in turn pay for all your housing related costs, every \$1 you receive will be treated as \$1.25 by the bank; making it easier to qualify. BEWARE: if you receive any governmental needs based benefits for your family there might be adverse consequences so please check with your trusted advisor first.

Banks 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 because if you are denied by one bank, your broker can quickly repurpose your paperwork to apply with another bank instead of starting from scratch each time.

Documentation Checklist: RESIDENTIAL MORTGAGE

- ✿ Ratified purchase agreement
- ✿ Copy of your existing lease or rental agreement
- ✿ Previous 2 years Federal Tax Returns
- ✿ Previous 2 years W-2's
- ✿ Previous 2 months personal bank statements for all bank accounts (all pages, even if blank)
- ✿ Asset trail documentation including gift letters and donor ability documentation
- ✿ Previous 12 months proof of receipt of salary and parsonage
- ✿ Previous 12 months proof that moisdod pays any personal expenses
- ✿ Previous 12 months proof of timely rent payment
- ✿ Employment contract with moisdod with a minimum 3 years remaining
- ✿ 501c3 status letter
- ✿ List of members of Board of Directors and Officers of Corporation

→ In conclusion:

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. 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. Refer to "Sample Underwriter's Cover Letter" at Shluchimfunding.com/news/sample-underwriters-cover-letter

From the Pulpit

"I can say *adus* how Yonatan uses negotiating and people skills in extremely difficult situations that require intelligence and acute diplomacy, and he aces. This guy's a mentch who has humility and derech erez that you can speak openly to and trust he will respect your confidence. He is the man!"

Rabbi Moshe Levin

*Chabad of Pico Robertson
(Bais Bezael) Los Angeles*

"Yonatan's guidance was invaluable in helping us obtain a refinance for our Chabad Center. He truly appreciates the Shliach's challenges, seamlessly guiding us through the intricacies of dealing with banks, and even the Balebatim."

Rabbi Levi Fogelman

Chabad Center of Natick, MA

"Yonatan got me a great mortgage after everyone else told me it wasn't possible. More important, he is here to be of service to Shluchim and he knows the way it really is for us."

Rabbi Itchel Krasnjansky

Chabad of Hawaii

"It became clear early on that I could let my guard down with Yonatan because his only consideration was protecting me and helping me with my Shlichus. If you're planning to purchase or refinance, you are well advised to consult with Yonatan early on."

Rabbi Chaim Zaklos

Chabad of Solano County

"Yonatan helped us secure a mortgage at an amazing rate, saving us a significant amount of money. We are grateful and blessed to have met Yonatan. I would highly recommend using him for your future mortgage needs."

Rabbi Avremi Mintz

Chabad of South Metro Denver

"Yonatan helped me with incredible patience, insuring we were easily approved. He is an expert in the field of nonprofit financing and he knows the inner workings of Chabad Houses."

Rabbi Nechemia Schusterman

Chabad of Peabody, MA

"Yonatan helped steer me thru a complicated construction loan and made it easy. I heartily recommend him; it's clear that his purpose is to help Shluchim."

Rabbi Berel Levertov

Chabad of Santa Fe, N.M.

"Yonatan successfully helped two of our Shluchim get mortgages for their Chabad Houses. He is an expert in the field, especially getting that difficult mortgage for a Chabad House. A pleasure to work with and a real mentch."

Rabbi Yosef Levin

Chabad of Greater South Bay

"Yonatan closed two complicated loans for us at great rates and impressive speed. His knowledge, expertise and positive attitude translated into an extremely pleasing experience."

Rabbi Dov Wagner

Chabad @ USC

"Yonatan has been a genuine life saver for us. He has patiently guided us through the acquisition of our Chabad House. His unique ability to effectively communicate our mosad's structure to banks has enabled us to secure financing we were thrilled with."

Rabbi Raleigh Resnick

Chabad of the Tri-Valley, CA

"Yonatan is extremely knowledgeable in the loan process and will present your organization for success. He knows how to extract the best terms from the bank. And he's a mentch"

Rabbi Eliyahu Schusterman

Chabad InTown, Atlanta, GA

"Yonatan provided critical services and amazing guidance thus ensuring that we got the loan we needed for our new facility. He also ensured the best rate and terms available anywhere. I highly recommend that my fellow Shluchim use Yonatan's services"

Rabbi Simcha Backman

Chabad of Glendale, CA

"Yonatan is amazing. He is professional, resourceful, and very easy to work with. He got us a very competitive rate in a short amount of time. I highly recommend him"

Rabbi M.D. Winner

Chabad of Brighton Beach, Brooklyn

"Yonatan is a pleasure to work with. He truly cares about your mosad and success. He guided us in every step of the process and beyond"

Rabbi Shlomy Levertov

Chabad of Paradise Valley, Arizona

"I can say with certainty that without Yonatan's guidance and his going above and beyond, our project would never have happened."

Rabbi Yisroel Hecht

Chabad of Sunnyvale

"Yonatan is amazing. He pulled off miracles that no one else was able to."

Rabbi Ezzy Schusterman

The Friendship Circle, Palo Alto

"Yonatan assisted us immensely and saved us many tens of thousands of dollars. He's a mentch and a pleasure to work with."

Rabbi Shmuly Novack

Chabad of Southside, Jacksonville, FL

"Yonatan was able to take our "unique" situation and package it in a way that fit the bank's framework. Yonatan is sincere, dedicated, and knowledgeable. We would use him again in a heartbeat"

Rabbi Yonah Grossman

Chabad of Fargo, North Dakota

"Yonatan is a pleasure to work with, he understands Shluchim and makes it part of his Shlichus to help us. Through his relationships, experience, and expertise, he negotiated a rate and deal that was beyond our expectations and saved us a lot of money in the process"

Rabbi Shlomo Rothstein

Chabad of Vanderbilt University, Tennessee

"Yonatan is a pleasure to work with. He is meticulous about every detail of the process. He is experienced, knowledgeable, and professional and he will help you get the best possible mortgage"

Rabbi Yossi Winner

University of Arizona

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