The Credit Enhancement Program

An Initiative of Boston Community Loan Fund and Nonprofit Finance Fund

QUALITY OF DESIGN AND PROJECT SIGNIFICANCE

Overview

Boston Community Loan Fund, Inc. (BCLF) and Nonprofit Finance Fund (NFF) are private, nonprofit, mission-driven Community Development Financial Institutions (CDFIs). Each has three decades of experience making loans that conventional lenders have been unwilling or unable to provide. Since 1984, BCLF and its affiliates have provided over $975 million in financing to support community facilities and affordable housing serving low-income people and communities. Since 1980, NFF has provided over $312 million in financing and technical assistance for nonprofits, improving their capacity to serve their communities.

BCLF and NFF believe that **charter schools play a key role in providing low-income families and communities with meaningful school choice and access to high quality public education.** As Members of the Consortium, BCLF and NFF respectfully request consideration of an $8 million credit enhancement grant (the Grant) to assist charter schools in meeting their facility financing needs. Through our proposed Credit Enhancement Program (the Program), we will provide a comprehensive set of products, services and expertise to **connect high-quality charter schools in high-need communities with critical flexible capital** that provides the resources needed to bring facility projects to completion. Our combined geographic footprint will allow us to finance charter school facilities across the Northeast and Mid-Atlantic regions, Michigan, and California, a geography that comprises 38% of the nation's charter schools and 46% of charter school enrollment nationwide. We estimate that an $8 million Grant will allow us to leverage over $102 million in lending to 8 early-stage and 17 mature charter schools over the next five years.

Demonstrated Expertise in Charter School Lending

Consortium Members have a track record of providing debt and New Markets Tax Credits to charter schools, with a combined total of $152 million deployed to 145 charter schools since 2002. Our expertise in meeting financing needs that are unmet by conventional sources is demonstrated by our growing pipeline of 23 charter schools currently in need of facility financing (see *Appendix A*) and 19 letters of support from existing and prospective charter school borrowers (see *Appendix D*). Finally, BCLF has secured $7.5 million in other forms of public and private credit enhancement for community development projects, which we have leveraged at rates comparable to those projected for our proposed Program. The Program will enable us to deploy more capital with more favorable terms and rates to key charter school projects, demonstrating results that will incent lenders to re-engage in this sector.

Goals and Outcomes: Ambitious Performance Targets

BCLF and NFF have developed a robust *Logic Model* (see *Appendix B*) with ambitious yet realistic outcomes that focus on ensuring that all childen – especially those from low-income families or communities – have access to a high-quality education. We have used the *Logic Model* to develop our Program Goals and project-specific performance measures and targets, outlined below.

Chart 1: Project Specific Targets Supported by Strong Theory

The following are the **clearly specified, measurable and appropriate objectives and outcomes** against which we will measure success. Our measurable objectives are aligned with the purposes of the Department of Education and are likely to be achieved.

Goal 1: Serve Communities and Schools in Need.

A minimum of 75% of the charter schools served will meet at least one of the following criteria:

- Located in a district where more than 40% of students perform **below proficient on State academic assessments.**
- Located in a district or have current or projected enrollment where 75% or more of the student population is **eligible for free or reduced-price lunch**.
- Located in a district where more than 25% of public schools have been **identified for improvement,** corrective action, or restructuring under Title I of the ESEA.

Goal 2: Strengthen the Project Pipeline; Ensure the Academic and Organizational Quality of Charter School Borrowers.

When evaluating charter schools applying for credit enhancement, the Consortium will:

- Assess whether the charter school's development team has the **financial and real estate expertise** required for a successful facility project, and make referrals to our network of experienced charter school real estate development resources as necessary.
- **Rigorously underwrite** the charter school's capacity to undertake the proposed real estate development project. We will provide financial technical assistance to help charter schools access Consortium financing and attract other debt and equity capital.
- Require a third-party **organizational and academic assessment** for Early Stage Schools (see below) that have proceeded to underwriting. Charter schools will receive critical feedback from the assessment, which we believe is beneficial to the schools and their leadership.
- Prioritize applications from charter schools that have **excellent academic programs**, as measured against criteria established by their charter authorizers, **serving low-income**

families and communities and schools in need.

Goal 3: Increase Access to Capital to Early Stage Charter Schools.

- We will finance at least four charter schools, or schools serving a total of at least 1,200 students at full enrollment, **in their first three years of operation under their first charter** ("Early Stage Schools"). Our leasehold improvement and lease guaranty products are designed to meet the needs of Early Stage Schools. We expect to provide credit enhancement to 9 schools to support leasehold improvements and guaranty leases; many of these are likely to be Early Stage Schools.
- We will finance permanent facilities for between seven and nine schools, or schools serving a total of at least 2,100 students. These schools may be more mature, with four or more years of operating history, but they may still be in their first charter cycle; first charter renewal is not a requirement. Our predevelopment/acquisition and construction/permanent loan products are **appropriately designed to meet the needs of these projects and schools**.

Goal 4: Reduce the Cost of Borrowing; Expand the Supply of Capital to Charter Schools.

In deploying the Grant, the Consortium will:

- Charge a maximum credit enhancement fee equal to 1% of the credit enhancement amount;
- Charge interest rates between 6% and 8%, **well below market rates** for comparable mezzanine-like debt, to deliver the lowest possible blended interest rates to borrowers;
- Require **lower borrower equity contributions** between 0% and 10% of total development costs for construction/permanent loans and bond guaranty products, well below the requirements of conventional lenders, often as high as 30%;
- Lend at **higher overall loan-to-value** (LTV) ratios of up to 100%, compared to conventional lenders, which are often capped at 70% or 75%;

- For construction/permanent loans and bond guaranty products, offer terms of at least 5 years, and amortization periods of 20 years, which are not tied to charter renewal cycles (i.e., can extend beyond charter expiration), to **reduce monthly debt service burdens**;
- Deploy between $20 million and $50 million of BCLF and NFF loan capital over five years;
- Attract between $48 million and $96 million of additional capital to charter school projects over five years from existing, **new and diverse sources**, using BCLF's and NFF's expanding networks of lending relationships, which include banks, other CDFIs and foundations; and
- Achieve a portfolio leverage ratio of between 6:1 and 12:1, with a target **of 9:1**.

Goal 5: Shared Charter School, Marketing, Real Estate and Lending Expertise

In marketing the Grant, the Consortium will:

- Meet with **between five and ten charter schools per year** in each of the following targeted geographies: Northeast/New England; Mid-Atlantic; and California;
- Present at **one or more state and national charter school conferences** and trainings; and
- Provide **guidance and financial technical assistance** materials to charter schools through mail, meetings, conferences, workshops and websites.

<u>School Viability: Assessment and Underwriting</u>

The Members' combined expertise in school assessment and underwriting gives our Consortium the tools needed that make our ambitious goals realistic. Our assessment and underwriting has three components: **(i)** Organizational and Educational Assessment; **(ii)** Real Estate Feasibility; and **(iii)** Financial and Full School Assessment.

Organizational and Educational Assessment

BCLF and NFF have deep experience underwriting and assessing charter school viability. This experience has allowed us to build important partnerships with key organizations –

experienced evaluators and charter school authorizers – that share our goal to provide quality educational opportunities for low-income students. These partnerships ensure we have a thorough academic and organizational assessment of schools requesting credit enhancement. Any out-of-pocket costs associated with the assessment can be folded into the overall project budget. Academic and organizational assessment will be a component of all real estate feasibility and loan underwriting (see *Appendix C*). Charter school evaluators such as [redacted] have a breadth and depth of charter school knowledge nationally that enables them to accurately assess schools' strengths, challenges, and likelihood of success. Even in states with strong authorizers that perform extensive analysis, we find that a specific viability assessment is useful for early stage charter schools. For mature schools that have received at least one charter renewal, we may rely on authorizer data for organizational assessments or we will also require a viability assessment.

Real Estate Feasibility Assessment

Consortium Members will simultaneously assess proposed facility development projects for real estate feasibility, and connect schools with experienced local consultants such as owners' representatives, environmental engineers, architects, and appraisers, as appropriate. Both BCLF and NFF have in-house expertise as well as deep connections in real estate development. We will also evaluate sites based on zoning conditions and any potential political considerations.

Financial and Full School Assessment

Our underwriting process includes **the appropriate criteria for selecting schools for assistance and determining the type and amount of assistance we will provide**. As part of our underwriting, Members will conduct a **thorough financial and organizational review**, applying the same credit standards and processes for selecting qualified charter schools that we have developed and adapted successfully in our respective loan programs.

Ideal candidates will balance the competing priorities of charter school management, including day-to-day administration, meeting academic performance goals, and maintain their financial health while also managing a facility project. **Credit enhancement selection criteria,** detailed in *Appendix C*, include: **(i)** demonstrated financial need for the credit enhancement; **(ii)** serving communities in need; **(iii)** strength of board and management team; **(iv)** financial strength and stability; **(v)** capacity to undertake a facility development project; **(vi)** academic results, and **(vii)** special requirements for early-stage schools, including a third-party assessment of ability to execute on the charter agreement and performance to-date.

Program Activities: Innovative Loan Products to Serve High-Need, High-Capacity Schools

Loan Products: Amount and Type of Assistance, Fees and Lending Terms

Through decades of community development lending, BCLF and NFF have identified obstacles specific to charter school facility development in distressed markets, including: **(i)** schools often lack the equity capital needed to identify and secure appropriate development sites; **(ii)** development costs are often higher than appraisal values, especially for special purpose school buildings that have limited possibilities for adaptive reuse; **(iii)** leasehold improvements are relatively costly for early-stage schools and have little or no traditional collateral value; and **(iv)** early-stage schools are often considered uncreditworthy, mainly due to uncertainty around charter renewals and a lack of charter school knowledge among conventional lenders.

Our Program will play a critical role in overcoming these barriers and expanding facility capital available to charter schools. With an $8 million Grant, we will offer financing terms significantly better than charter schools can otherwise access. Loan product terms and fees are detailed in *Chart 3*. Construction projects will typically range from $4 million to $15 million in size. BCLF and NFF will provide subordinate debt, typically up to maximum of 25% of project financing, to leverage senior debt into projects. Our subordinate debt will also be priced at a **significant discount to typical risk-based premium pricing** in the market, which falls in a range from 8 – 10%. For smaller projects involving leasehold improvements, acquisition or predevelopment financing, BCLF and NFF may act as senior lender and make credit enhancement available to mitigate risks associated with a lack of sufficient collateral. These project sizes may range from $100,000 to $4 million, averaging $2 million.

Other advantages of our Program are: **(i)** higher overall loan-to-value ratios; **(ii)** minimal school equity requirements; **(iii)** loan terms that are not tied to the charter term; **(iv)** average leverage of 9:1 on up to eight early-stage school projects and 17 mature school projects; **(v)** willingness to lend to early-stage charter schools and schools not associated with a CMO network; **(vi)** new sources of capital attracted by conventional senior debt credit profiles; and **(vii)** making borrowing more affordable, with a guarantee fee of no more than 1% while other credit enhancements such as that offered by the [redacted] can add up to 5% in additional fees.

It is important to highlight that our predevelopment and leasehold improvement loans and lease guaranty product are specifically targeted to Early-Stage schools, which have not had their first charter renewal and typically have trouble accessing capital. Our current pipeline includes 8 Early-Stage schools – more than a third of our total pipeline of 25 schools – and we have set a Performance Target to finance at least four of them.

Chart 2: Credit Enhancement Transaction Forecast

Credit Enhancement Schedule	Year 1		Year 2		Year 3		Year 4		Year 5	
	$	# of Deals	$	# of Deals	$	# of Deals	$	# of Deals	$	# of Deals
Predevelopment Loans [1]	$ 660,000	2	$ 660,000	2	$ 330,000	1	$ -	0	$ 660,000	2
Construction / Permanent "Collateral Gap" Loans [2]	$ 2,250,000	3	$ 1,500,000	2	$ 750,000	1	$ -	0	$ -	0
Leasehold Improvements [3]	$ 600,000	2	$ 300,000	1	$ -	0	$ 600,000	2	$ -	0
Lease Guarantees [4]	$ 840,000	2	$ 840,000	2	$ -	0	$ -	0	$ -	0
Bond Guarantees [5]	$ 500,000	1	$ 500,000	1	$ 500,000	1	$ -	0	$ -	0

Annual New Credit Enhancement Deployed	$ 4,850,000	10	$ 3,800,000	8	$ 1,580,000	3	$ 600,000	2	$ 660,000	2
Prior Years Credit Enhancement Outstanding			$ 4,010,000		$ 6,310,000		$ 7,230,000		$ 7,170,000	
Total Credit Enhancement Deployed	$ 4,850,000		$ 7,810,000		$ 7,890,000		$ 7,830,000		$ 7,830,000	

[1] Assumes that Predevelopment loan credit enhancement burns off after 24 months.

[2] Assumes that Permanent loan credit enhancement burns off after five years.

[3] Assumes that Leasehold Improvement loan credit enhancement burns off over seven years.

[4] Assumes that Lease Guarantees burn off after 12 months.

[5] Assumes that Bond Guarantees burn off over seven years.

We will use our Credit Enhancement award to support five specialized products:

1. Predevelopment Loans

Our charter school lending experience has taught us that these projects require significant expenditures during predevelopment, both to establish project feasibility and to move feasible projects forward to construction/permanent loan closing. Few nonprofit sponsors of charter schools, especially early-stage schools, have sufficient equity to invest in the predevelopment process. Predevelopment **product terms are more flexible** than conventional sources – interest payments are capitalized for the life of the loan, allowing borrowers to conserve their funds as they prepare for their capital projects, and this product is available on an unsecured basis.

Example: [redacted]'s NMTC financing was delayed to the point where it threatened the school's development timeline driven its academic year. [redacted] did not have funds to keep the project moving, and conventional lenders were unable to lend against real estate that appraised too low, or against capital campaign pledges and other uncommitted take-out sources. Together, BCLF and NFF analyzed the [redacted]s management, academic track record, real estate development team, financing commitments and fundraising track record, and committed a $2.8 million preconstruction loan that enabled [redacted] to acquire land and complete site work. No other lender was able to make this loan, which was repaid at construction loan close. To close the loan to [redacted] we obtained credit enhancement from a third-party, which increased the time and costs to close. The Consortium's proposed Program would have allowed this transaction to move forward with greater speed, less complexity, and at a lower cost to the school.

2. Collateral Gap Loans

Debt that is not adequately supported by collateral requires credit support, which continues to be scarce in this market. The subordinate loans we have made to-date have most often addressed the needs of project sponsors who lack equity capital and are faced with conventional lenders whose loan amounts are constrained by loan-to-value ratios on properties and projects that are appraising at low values. Charter school projects typically have the added burden of being single-tenant, special-purpose facilities, which reduce the ability of conventional lenders to rely on the collateral.

Consortium Members carefully analyze the real estate fundamentals of a project, but we do not lend solely based on collateral value. We weigh the following factors more heavily than LTV ratios: community need; community support; quality of services provided; capacity of the management and project teams; and cash flow to be generated from the project to repay the debt.

The Collateral Gap Loan product will be offered with a **longer than standard term** of up to ten years, to reduce the borrower's monthly loan payments to a more manageable level. Additionally, this product will be available with a subordinate mortgage.

Example: NFF provided subordinate mortgage for the [redacted] School, a public middle school serving [redacted] students in grades 6 – 8 with 228 enrolled students. The school is only one of two charters [redacted] and the only middle charter school. After leasing cramped and inefficient space for years, the school purchased and renovated a cinema building. A local commercial bank provided debt for two tranches, up to 100% loan to value, with the benefit of a guarantee issued by a third party. NFF did not have access to this guaranty, but provided a $500,000 loan secured by subordinate mortgage behind the bank debt. Without this loan, the project would not have been able to proceed. If NFF had additional Credit Enhancement available, it would have been able to reduce transaction costs by reducing the number of financing parties, and reducing the cost of its deeply subordinate debt.

3. *Leasehold Improvement Loans*

Early-stage schools face particular facility challenges. Leased space is often delivered as a "white box" with improvements to be provided and paid for by the tenant. Items needed to make space usable as a school – including furniture, fixtures and equipment – typically have little collateral value and may not be able to be financed, putting additional pressure on a school's finances. Finally, new and growing schools typically need three to five years to reach full enrollment and revenue levels that support loan repayment. We have found that many charter schools are unable to afford the upfront capital expenditures required to occupy new space. With our Grant, we will offer Leasehold Improvement loans with **flexible terms** that help schools meet enrollment targets and build a sustainable revenue base to support loan repayment.

Example: The [redacted], undertook an $8,000,000 leasehold renovation to accommodate enrollment growth. NFF was instrumental in providing the financing for this project, leading a group of school lenders in a $7.5 million loan. The financing required a creative structure as the school had limited assets to provide equity to the project. The loan included a sinking fund to give the school time to raise their equity contribution, and $1.3 million in US DOE Credit Enhancement provided by [redacted] If our Tenant Improvement loan product had been available, this financing would have been more efficient and economical with fewer parties in the deal.

4. Lease Guaranty Product

Commercial landlords are often unwilling to lease to Early-Stage or growing charter schools because of the school's start-up status or necessity to increase enrollment to support lease payments. With our Grant, the Consortium will offer a lease guaranty product, structured similar to a standby letter of credit, to allow schools to **secure needed space** from landlords.

Example: [redacted] School desired to expand its space to carry out its academic goals and expand enrollment to 1,000 students. It identified a building in the neighborhood that required customized fit-out, which the owner agreed to provide and fold in the construction costs into the lease. NFF provided a $2 million term loan which funded a $1.1 million security deposit required from the school under the terms of the lease. The owner also required a guarantee for lease payments in order to secure the lease. [redacted] provided a $1.3 million guaranty of the lease payments for a five year term with 1% annual guaranty fee and burns off 20% per year. With our program in place, the financing would have been more efficient and economical with fewer parties in the deal.

5. Bond Guaranty Product

While the tax-exempt bond market has grown nationally, as of 2012 less than 10% of the nation's charter schools have used bonds to meet their facility needs. ("Charter School Bond Issuance, Vol 2;" LISC, October 2012). **Bond enhancement is rare and valuable**. Credit enhancement has allowed 13% of total issuances to obtain credit ratings, and rated issuances carry debt approximately 50 basis points better than un-rated issuances. Early stage, standalone schools in particular struggle to enter the bond market – as of 2012, the median age of schools with bond offerings was 6.4 years, and of the new schools that did use bond offerings, two-thirds were for schools that were part of charter networks. With our Grant, we will offer a Bond Guaranty product structured similar to a standby letter of credit, to support bond obligations.

Example: In 2009, [redacted] utilized the DOE Credit Enhancement to guaranty bond financing for 4 schools in the [redacted] network in [redacted] The guaranty provided a $1 million guaranty that enabled the schools to obtain a long term, low cost financing – fully amortizing loan on 35 year term at a fixed interest rate of 6.28%.

Chart 3: Summary of Loan and Credit Enhancement Product Terms

Loan Terms	*Leasehold Improvement*	*Lease Guaranty*	*Pre-Development*	*Collateral Gap Constr / Perm*	*Bond Guaranty*
Equity	10%	0%	25%	5%	0%
Sub Debt	0%	0%	0%	25%	N/A
Senior Debt	90%	N/A	75%	70%	100%
Credit Enhancement	15% of TDC	10% of Lease or 1 Yr Rent	67% of Senior Debt	10% of TDC	5% of Bond
Term	7 years	12 months	24 months	≤ 7 years	≤ 7 years
Amortization	7 years	12 months	24 months	≤ 20 years	≤ 20 years
Interest Rates: Senior Debt	6.0% - 8.0%	6.0% - 8.0%	6.0% - 8.0%	Market Rate	Market Rate
Collateral: Senior Debt	1st Leasehold Mortgage	N/A	N/A	1st Mortgage	1st Mortgage
Interest Rates: Sub Debt	N/A	N/A	N/A	6.0% - 8.0%	N/A
Collateral: Sub Debt	N/A	N/A	N/A	2nd Mortgage	N/A
Fee for Credit Enhancement	1%	1%	1%	1%	1%
Average Credit Enhancement	$ 300,000	$ 420,000	$ 330,000	$ 750,000	$ 500,000
Approximate Leverage	6.00	10.00	1.50	9.50	20.00

Consortium Members anticipate that the first round of schools (17 mature and 8 early-stage schools) will receive total project financing of $102,000,000 by the close of the five year of the Program. More detail on our pipeline can be found in *Appendix A*. **We expect to leverage Program proceeds at an average ratio of 9:1, and to attract different sources of capital.** As our credit enhanced loans age and a favorable track record emerges, these results will **facilitate replication**. In the first five years of the program, Consortium Members are committed to deploying at least $20 million of their own capital in loans to early-stage charter schools for leasehold improvements and existing schools for acquisition and/or construction of permanent facilities to develop **secure school space for 7,500 students** and approximately **600,000 square feet of school space** based on current projections. We expect to draw upon a wide range of sources of financing including conventional bank debt, tax-exempt bonds, foundation program-related investments, private grants, and regional and state lending programs.

Chart 4: School Characteristics and Types of Assistance

	Early Stage Schools	Mature Schools
Number in Pipeline	8	17
Average Age of Schools	2 years old	7 years old
Average Size of Schools	200 students	400 students
% of students eligible for Free or Reduced Lunch	75%	75%
Targeted Loan Products	Predevelopment and Leasehold Improvement loans; Lease and Bond Guaranty	Construction / Permanent "Collaterl Gap" and Leasehold Improvement loans, bond guaranty

Our credit enhanced loan products will be offered at an average interest rate of 7% and a commitment fee of 1%, which are standard for Consortium Members. We are able to offer these **below-market rates for these high-risk lending products** with the support of the requested $8 million DOE Credit Enhancement. Grant funds will be used to provide loan loss protection to the Consortium if a project runs into difficulty.

Program Evaluation

Project Specific Performance Measures: Data Collection and Reporting Methods

Consortium members have deep evaluation expertise, with **high-quality data collection, analysis, and reporting.** Assessment of our project-specific performance measures requires both project-level and community-level data. While some of the measures used are unique to the Credit Enhancement Program, they will be collected in a manner consistent with our regular collecting and reporting of data.

For community level data, we have selected measures that are recognized at the state and federal level as important determinants of financial need (eligibility for free/reduced price lunch and NMTC-eligible economic distress) and academic need (failure to meet adequate yearly progress on state academic assessments.) Additionally, these measures are obtained directly from highly reliable government data sources.

Our lending data is collected at closing and input into our loan management system (TEA X – The Exceptional Assistant). From here, reports can be automatically generated annually to demonstrate the impact of the program on aggregate.

Taken together, the community and lending (project) level data represents **reliable, valid, and meaningful performance data** against the performance measures we have identified for this program. Data sources and collection schedule are described in *Appendix O.*

Project-Specific Performance Measures: Capacity to Collect Reliable, Valid & Meaningful Performance Data

BCLF and NFF will each collect data for the loans they originate at the time of underwriting and closing. In addition, BCLF will collect and maintain community level data, and will aggregate and report on the data points for the program as a whole. BCLF's Director of

Portfolio & Community Impact is a **dedicated staff person** focused on assessing and reporting on the social and economic impact of BCLF's activities. BCLF uses these tools to generate data which is used for program compliance and as a management tool; we remain in good standing with all program reporting requirements for federal and institutional awards and investments.

Both BCLF and NFF were recognized with the top impact rating (AAA) by CARS, which uses data collection and utilization as a measure. The description of the AAA rating indicates that "The CDFI presents data that clearly indicate that it is using its resources effectively to **achieve positive impacts related to its mission**. It has processes and systems that track output and outcome data on an ongoing basis, **and it can provide data showing positive changes in the communities or populations being served**. This CDFI uses its data on an ongoing basis to adjust strategies and activities in line with its desired impact."

Leveraging Private and Public Sector Funding to Help More Charter Schools

Credit enhancement proceeds will be **leveraged 9 times to attract a total of $102 million in private and non-Federal capital** to more than 25 charter schools across the target region (see *Chart 2* for timeline and deployment schedule and *Chart 5* for leverage assumptions and calculation). Some schools will benefit from credit enhancement for predevelopment, construction and permanent loans, all for a single facility project. The leverage calculation assumes that predevelopment loans leverage subsequent financing, since projects would not get done without this critical source of early capital, and we can only make these risky, uncollateralized loans if they have access to credit enhancement. These leverage projections are **specific to the first five years of the Program**; as loans become more seasoned and repay, credit enhancement proceeds will be redeployed to support financing for new borrowers.

Chart 5: Leverage Assumptions and Calculations

Construction & Permanent "Collateral Gap" Loans	Dollar Amounts	Assumptions
Total Development Costs (TDC)	$ 45,000,000	Six projects averaging $7.5MM TDC; credit enhancement assumed to burn off over seven year term: no ability to redeploy in five year period.
Developer Equity	$ 2,250,000	Average of 5% of TDC
Conventional Senior Debt	$ 31,500,000	Assumes maximum of 70% of TDC
Consortium Subordinate Debt	$ 11,250,000	Projected at 25% of TDC
Credit Enhancement	$ 4,500,000	Projected at 10% of TDC to provide Subordinate Debt with 90% LTV
Leverage Ratio	9.50	= (TDC - Developer Equity) / Credit Enhancement

Leasehold Improvement Loans	Dollar Amounts	Assumptions
Total Development Costs (TDC)	$ 10,000,000	Five projects averaging $2MM TDC; credit enhancement assumed to burn off over seven year term; no ability to redeploy in five year period
Developer Equity	$ 1,000,000	10% of TDC
Consortium Senior Debt	$ 9,000,000	Assumes no conventional debt; Consortium finances 90% of TDC
Credit Enhancement	$ 1,500,000	Projected at 15% of TDC to provide Consortium Debt with 75% LTV
Leverage Ratio	6.00	= (TDC - Developer Equity) / Credit Enhancement

Predevelopment Loans	Dollar Amounts	Assumptions
Total Development Costs (TDC)	$ 4,620,000	Seven projects averaging $660,000, credit enhancement assumed to burn off over two year term, allowing it to be redeployed.
Developer Equity	$ 1,155,000	25% of TDC
Consortium Senior Debt	$ 3,465,000	Assumes no conventional debt; Consortium finances 75% of TDC
Credit Enhancement	$ 2,310,000	Projected at 67% of Consortium Senior Debt to mitigate lack of collateral
Leverage Ratio	1.50	= (TDC - Developer Equity) / Credit Enhancement

Lease Guaranty	Dollar Amounts	Assumptions
Total Development Costs (TDC)	$ 16,800,000	Four facilities with annual rents averaging $420,000 for ten years; credit enhancement assumed to burn off after 12 months, allowing it to recycle
Credit Enhancement	$ 1,680,000	Projected as a 10% guaranty of lease payments or first year of rent
Leverage Ratio	10	Total Development Costs / Credit Enhancement

Bond Guaranty	Dollar Amounts	Assumptions
Total Development Costs (TDC)	$ 30,000,000	Three bond issuances averaging $10MM; credit enhancement assumed to burn off over 7 year term; no ability to redeploy in five year period.
Credit Enhancement	$ 1,500,000	Projected as a 5% guaranty
Leverage Ratio	20	TDC (Bond Issuance) / Credit Enhancement

As part of the proposed pipeline, BCLF and NFF are prepared to deploy $20 million in debt financing for charter schools. Without this Grant, it is unlikely that BCLF and NFF will be able to reach this scale of loan activity, particularly in a subordinate position. Further, as evidenced by letters of support from nine banks and finance institutions, including [redacted] the Grant will increase interest among banks to expand lending activity in the charter school arena. The proposed structure creates strong leverage and offers attractive terms to introduce new lenders to the charter school arena and expand lending relationships with existing lenders.

The Consortium is also dedicated to expanding the number and type of charter schools that receive financing from CDFIs and conventional lenders such as banks. One clear example is **early stage charter schools** that have not gone through their first renewal. While Consortium Members have made loans to early-stage charter schools, these loans are challenging because the schools have limited or no prior track record of school performance and management capacity. Further, new charter schools are typically not able to contribute their own capital or equity to the project financing, thereby requiring high loan-to-value ratios for lenders who are already wary of the start-up nature of the school. The Program structure, however, mitigates these risks by providing a guarantee for a portion of the loan amount or lease payments and limiting the combined loan exposure; for example by reducing overall financing from 100% LTV to 90% LTV to qualify. Credit enhancement lowers the risk to each lending party, thereby encouraging capital providers to lend to early-stage charter schools previously deemed too risky to finance.

Another way that new types of charter schools are served by the proposed Program is by our commitment to **target 75% of Grant proceeds to schools in low-income areas or schools in districts identified for improvement or school restructuring under Title I**. By guaranteeing a portion of the facility financing and limiting loan-to-value exposures, our Program makes lenders more likely to be flexible in providing longer terms not tied to charter renewals, longer amortization schedules, and less onerous requirements regarding collateral, debt service reserves and/or debt coverage ratios.

Likely Reserve Account Investments

The 1% Credit Enhancement Fee charged at the closing of each transaction under our proposed Program will be returned to a reserve Account, as required. Reserve accounts – and the interest earned on the guarantee funds – will be maintained in a 5-year Treasury investment vehicle, with a budgeted interest rate of 1.53% per annum.

Serving Charter Schools in States with Strong Charter School Laws

The proposed Credit Enhancement Program will allow the Consortium to deepen its presence in key charter school markets across the country. Currently, 41 states and the District of Columbia have charter school laws in place, and as of fall 2010, there were more than 5,400 charter schools serving more than 1.7 million children across the country. Based on 2011 data obtained from the Center for Education Reform, the geographic areas served by the Consortium Members include 2,084, charter schools or 38% of the nation's charter schools, representing over 800,000 students or 46% of charter school enrollment nationwide.

Based on The Center for Education Reform's ranking of the 42 states with charter school laws, four of the 13 states in our target market rank in the top ten for **strongest charter laws** – Washington, D.C. (1st), Michigan (5th), New York (6th) and California (7th) – and three more are ranked in the top half – Pennsylvania (13th), Delaware (18th) and Massachusetts (19th).

Consistent with subparagraph 5202(e)(3) of the ESEA criteria for strong charter school laws, over half of the states in our target market feature additional independent

authorizers, expanding authorization power beyond the State Board of Education (DC, MI, NY, CA, PA, DE, ME). The table in *Appendix E* shows each state ranking according to charter school law (based on the Center for Education Reforms criteria), the number of charter schools and enrollment, state caps, and whether or not the state provides facilities financing.

Replication and Marketing

The Consortium's Credit Enhancement Program will start out in 13 states due to our Members' combined footprints. We will first work quite selectively with high-quality, high-need schools as we roll out the Program, and collect data through our evaluation of our program activities. **By highlighting and sharing best practices and lessons learned, we expect to demonstrate replicable results.** As the first round of our Program funding recycles and with future funding, we will be able to broaden product access to more schools within our market. Additionally, as more of the states in our market provide stronger charter laws and more access to charter schools, the Consortium will be poised and well prepared to expand into these markets. Finally, we plan to share best practices and lessons learned in our Program with our partners – including banks, quasi-public funders, foundations, and sister CDFIs. As we demonstrate that the real risks of charter school funding are less than currently perceived, we believe that these institutions will also widen access to their capital.

Lastly, Members will publicize the activities of our Program in conferences, lender roundtables with conventional lenders, charter school events such as national, regional and statewide conferences, and online and through the Members' communications and marketing channels. NFF, with its geographic presence in Detroit, San Francisco, and Los Angeles, will facilitate roll out of a Program with a national reach.

Reasonable Grant Amounts and Project Costs

The Consortium projects that an $8 million Grant will leverage additional debt to provide a total of nearly $102 million in financing to at least 25 charter schools over the next five years. These funds will be used to finance the construction or renovation of owned facilities, leasehold improvements, site acquisition, predevelopment costs and lease guarantees. The design of the program assumes that Grant proceeds will be managed by BCLF, invested in accordance with DOE guidance, and monitored according to the same standards as BCLF's other funds. The budget for the program assumes charging no administrative fee and that the 1% guarantee fee will be rolled back into the pool of guaranty funds.

The cost to launch the program, perform outreach, underwrite and provide technical assistance will be borne by each of the Consortium Members. To achieve efficiency and minimize cost, BCLF and NFF will develop standardized template documents, which will include the participation and loan agreements. We will share the cost of developing the template documents; if review by each Member's respective legal counsel is required, each Member will cover their own legal costs. Existing staff will perform outreach, underwrite and administer the Program; their salaries and fringe benefits will be absorbed by the BCLF and NFF.

QUALITY OF SERVICES

Identified school needs and assistance provided

Data on School Needs

BCLF and NFF recently assisted [redacted] with a **survey of charter schools** in our target markets. Out of 49 responding charter schools, 25 (or 51%) indicated that they did not have sufficient space; and a higher number, 36 (or 73%), indicated that they expected to undertake a facility project – to expand or relocate, in either leased or owned space – within five years. Respondents included 32 (65%) schools located in districts performing below proficient on state assessments. The survey also asked whether the schools had faced any obstacles to obtaining project financing. 28 respondents indicated that they had, including 16 schools that reported facing more than one. These obstacles include: (i) insufficient collateral, often due to low appraised values for single-tenant, special purpose facilities that may be located in weak commercial real estate markets; (ii) insufficient equity to contribute to the project, which is common among new charter schools and those serving low-income communities where fundraising is a challenge; and (iii) interest rates that are too high and amortization periods that are too short, resulting in loan payments that the school cannot afford.

High-Need Schools: Early-Stage Schools and Schools in Challenged Communities

Our discussions with **state authorizers highlighted the capital and financing challenges of Early Stage schools** that do not have the equity or track record typically required to lease and fit out space. These charter schools are typically viewed as risky by banks because they are located in districts that have long struggled to improve academic performance, have little spare capital to put towards facility improvements, and lack extensive fundraising capacity. This causes uncertainty about the charter school's ability to meet enrollment targets, achieve sufficient academic requirements for charter renewal, and develop additional cash reserves for debt service to allay the fears of conventional lenders. Further, lenders express concern about the quality of the collateral since the value of a special purpose building such as a school is limited in the event of a school's closure. In this scenario, lenders are typically hesitant to provide long-term financing at typical loan-to-value ratios.

Project Design and Endorsement

Our Program is designed to specifically address these obstacles as they undertake projects to lease, acquire, renovate and/or construct new facilities. Our Collateral Gap loan product is designed to address the challenge of insufficient collateral, and our Predevelopment loan product is designed to address the challenge of insufficient equity. Our Leasehold Improvement loan and Lease Guarantee products are targeted to meet Early-Stage school challenges. All of our credit-enhanced loan products will be offered on advantageous terms that address schools' financing needs.

For this application, we obtained **letters of support from 19 charter schools and CMOs, 9 financial institutions, 6 charter school consultants and developers, and 1 state charter organization (see *Appendix D*). We also discussed our Program goals with national charter school development consultants and state authorizers to confirm our assessment of needs in the market.** Those conversations helped shape our proposed lease guaranty and leasehold improvement loan products, which are more likely to address the unmet credit needs of early-stage schools; and our bond guaranty product, which is more likely to meet the needs of high-performing mature schools. We have established a network represented by the attached letters of support, but which also includes numerous relationships with authorizers and state organizations such as the Massachusetts Department of Elementary and Secondary Education; the Massachusetts Public Charter School Association; the Rhode Island Department of Education; the Office of the State Superintendent of Education (OSSE) in Washington, D.C.; the New Jersey Department of Education; the Charter School Institute of the State University of New York; the California Charter School Association; and the National Association of Charter School Authorizers.

Cost Effective Services

Better than Market Fees and Lending Terms

Interest rates will be below market by an average of 2% for comparable financing, which without credit enhancement would more appropriately be mezzanine debt or equity. All of our financing is offered on **a fixed-rate basis** for the term of the loan, so our rates will not vary as the interest rate environment changes. Amortization periods will be up to 20 years, and debt service coverage covenants will more flexible than commercial standards, to enable schools to avoid triggering events of default while running on tight cash flow budgets. We will negotiate flexible subordination and standstill agreements, and accept unconventional and non-real estate collateral, in order to facilitate the participation of conventional lenders in senior position, and to accommodate the needs of other funding sources such as New Markets Tax Credits.

Technical Assistance

We are firm believers in the long-term value of appropriate early stage consultation as **the most cost-effective strategy** to completing a project efficiently and under budget. We encourage and provide financing for schools to connect with experienced real estate and financing consultants. At underwriting, we offer considerable review at no cost and comment on the feasibility of project development and operating budgets. We provide extensive review of the organizational assessments performed as part of our due diligence, giving schools important feedback about improvements needed to sustain solid school results and outcomes. Although difficult to quantify, we believe this careful attention, especially for Early Stage schools, is invaluable not only to us, but also to our borrowers and other transaction participants.

NFF's consulting team provides hands on guidance customized for each client that may include scenario and contingency planning and cash flow management. NFF's Nonprofit Advisory Services assesses an organization's underlying business health, and has worked with over 50 charter schools to provide financial diagnostics and facilitate Board conversations about financial goals, as well as provide guidance to the schools on the employment of tools to effectively manage cash flow and develop contingency plans in preparation for future financial challenges. This financial acumen is necessary for obtaining sustainable facility financing.

CAPACITY TO CARRY OUT THE PROPOSED GRANT PROJECT

BCLF and NFF's shared history – each organization has over 30 years of community development finance experience – documents a proven expertise providing financing to projects and communities underserved by traditional markets and investors, and the organizational capacity necessary to implement the proposed Program.

Experience Enhancing Credit and Facilitating Financing

Each Consortium Member is known in the market for its flexible underwriting, willingness to evaluate creative sources of repayment and collateral, and capacity to support complex structures to help good projects get completed. We do this within self-imposed constraints to maintain a high quality portfolio to safeguard our investors' funds. We carefully structure our loans to maximize the benefits to our borrowers and to the low-income individuals they serve. In addition to expertise lending to community facilities, each lender has deep experience providing predevelopment financing and financing that is under-collateralized by traditional measures. We not only have the staff to underwrite and close good loans, but we also have the staff and the systems to monitor these complex projects with elevated risk profiles.

Age of Organizations

Boston Community Loan Fund, Inc. (BCLF), a subsidiary of Boston Community Capital, was established in 1984 with a mission to build healthy communities where low-income people live and work. We pursue this mission through socially responsible lending and investing; BCLF finances affordable housing, child care facilities, charter schools, health clinics, youth programs and other community services.

Since inception, BCLF and affiliates have provided over **$975 million** to support organizations and businesses that benefit underserved communities. These loans and investments have helped: build or preserve affordable homes for over **15,850** families and individuals; support child care facilities and youth programs serving almost **10,000** children; renovate over **1.6 million** square feet of commercial real estate in distressed communities, and create more than **4,000** jobs in low-income communities.

BCLF and affiliates have provided **$54 million** in loans and NMTC to charter schools. In 2013 BCLF committed **$6.1 million in new lending** to charter schools. BCLF serves as a vehicle for a wide range of investors, including individuals, institutions and faith-based organizations. Working together with public and private partners, BCLF provides cost-effective access to capital, which is key to building healthy communities. BCLF is headquartered in Boston, MA and provides loans across the Northeast and Mid-Atlantic region.

Nonprofit Finance Fund (NFF) is a national leader in financing nonprofits, strengthening their financial health and improving their capacity to serve their communities. With NFF's help, nonprofits build and renovate facilities, fund growth needs, and expand and sustain operations over time. NFF offers an integrated package of financial and advisory services, including facility financing and working capital loans, terms loans and revolving lines of credit, as well as emergency loan pools to bridge state payments; asset-building programs; intensive workshops; and consulting engagements to strengthen nonprofit organizations. NFF Capital Partners helps nonprofits develop effective plans to attract equity-like growth capital.

Since inception in 1980, NFF has provided **$312 million in loans to over 800 nonprofit organizations** across the country. NFF's niche is providing affordable financing for small to medium size nonprofits to help them expand, build, or renovate their facilities, bridge working capital gaps, or fund growth needs. NFF provides facility financing to a wide range of organizations in a variety of sectors, including charter schools, healthcare, human services and youth serving organizations. NFF is headquartered in New York City, and has offices in Boston, Philadelphia, San Francisco and Los Angeles, which provide important local presence "on the ground" as we implement this Program in those areas.

NFF has **twelve years of experience in lending to charter schools**, and over the past five years it has expanded its commitment to serving this sector. In addition to having provided **$98 million in loans to 136 charter schools**, NFF has partnered with the Gates Foundation to help charter school organizations build business models and strategize about ways to scale operations. Other charter school facility programs aimed at helping charter schools sustain operations and plan for future needs include the Building For the Future (BFF) program (see *Appendix F*), an initiative to help charter schools set aside money with the added incentive of matching grants to help them plan, build, develop and manage cash assets such as building reserves and endowments for necessary building system replacement projects. The *Systems Replacement Plan (SRP)* is also a valuable resource (see *Appendix G*). It is an assessment of the 20-year repair and replacement needs and costs for a nonprofit facility.

In addition to its standard loan portfolio, NFF deployed and currently manages $231 million in New Markets Tax Credits (NMTC) to support affordable facility financing for nonprofits. In 2013, NFF was awarded an additional $40 million NMTC allocation to continue this work. Charter schools currently make up **nearly 35% of the NMTC deployed and**

leveraged almost $225 million in financing and investment in underserved communities. Where possible, Program products will be incorporated into NMTC transactions to further deliver financial benefit to charter schools.

Financial Stability

BCLF and NFF have a **strong financial track record**. Key indicators are summarized in the chart below:

FYE 2013	BCLF	NFF
Total Capital Under Management	$ 410,903,960	$312,046,878
Operating Expenses	$ 1,484,645	$12,878,412
Total Assets	$ 117,977,747	$102,016,560
Total Liabilities (not incl EQ2s)	$ 72,027,125	$43,591,078
Total Equity, Net Assets or Net Worth:	$ 22,974,133	$58,425,481
Equity/Total Assets	19%	57%
(Equity + EQ2)/Total Assets	39%	59%
Total Portfolio (Loans + Investments + Guarantees)	$ 102,706,983	$64,690,748
Loan Loss Reserves/Total Loans Outstanding	9.17%	8.34%
Cumulative Net Loss Ratio (Cumulative Net Write-offs/Cumulative Lending)	0.20%	1.18%
Delinquency>90 days/Total Loans Outstanding	0.00%	0.23%

BCLF and NFF have diverse revenue shared between earned income and contributed sources. Earned income, comprised of loan interest, loan fees and consulting/technical advisory income, amounts to roughly half of the total annual income for each of BCLF and NFF. The remaining half of income is comprised of public and private grants as well as government contracts for carrying out specific programs. Our capital structures are very similar and primarily represent loans from banks and socially-oriented lenders and program related investments (PRIs) from foundations. Finally, each organization has **strong net worth** with equity (including equity equivalents) to total assets of 39% or greater.

Risk Mitigation Strategies

Both organizations have **written risk management policies** to ensure that strong internal financial controls exist to safeguard assets. Additionally, both institutions are in compliance with all applicable rules, regulations and covenants and file A-133 audits annually with no significant deficiencies or material weaknesses cited by its auditors.

Cash Management: Cash management is a critical concern and both organizations manage several financial accounts at multiple financial institutions. BCLF and NFF regularly report on the use of both foundation and public agency funds.

Each Member uses financial reporting systems to produce monthly internal financial statements. These statements are a tool for management to review activity and compare performance against budget on an ongoing basis. On a quarterly basis, financial statements are reviewed at the management and Board level, and distributed to investors and stakeholders.

Maintaining Liquidity and Operating Reserves: Both organizations manage liquidity risk on a portfolio basis, rather than by matching maturities, and have access to lines of credit if needed to provide additional liquidity.

Financial Projections

BCLF has elected not to take the 0.25% administration fee allowable under the Program. All program expenses will be borne by the Consortium Members and therefore are not included in the program budget. Charter schools receiving credit enhancement under the Program will pay the following fees and expenses:

- 1% Credit Enhancement Fee calculated on the amount of credit enhancement provided. This will be a one-time fee, payable at transaction closing. This fee will be returned to the Reserve Account to be used on future projects.
- If a Consortium Member provides a loan that needs credit enhancement, the school will pay the lender a 1% financing fee. This would apply to the Construction/Permanent "Collateral Gap" product, the Leasehold Improvement Product and the Predevelopment Product.
- If a Consortium Member provides a loan that needs credit enhancement, the school will pay the lender interest on the loan. Interest rates will be set at or below market rates based on a risk-adjusted pricing model. The credit enhancement will reduce lender risk and this will be reflected in loan pricing on Construction/Permanent "Collateral Gap," Leasehold Improvement and Predevelopment loans.
- School participants will be required to pay a reasonable portion of third-party fees incurred by the Consortium to close the guaranty transaction, including legal costs. The Consortium intends to create standard loan documents which will result in low transaction costs for the schools.
- When required and when feasible, school participants will be required to pay for third-party assessments.

Estimated Effective Financing Rate for Participating Charter Schools

The Consortium has endeavored to make its Program extremely cost-effective for charter schools and to minimize use of the grant for Consortium operating expenses so as to maximize its use by charter schools. Consortium members will not take the allowed 0.25% administration fee and will not deduct any direct or indirect costs from the Grant. BCLF and NFF will cover the costs associated with administering this program from their own general operating sources. The 1% financing fee and interest collected on loans are established to cover BCLF and NFF's cost of funds, staff costs and organizational overhead associated with underwriting, closing, monitoring and establishing prudent reserves for each loan. We are self-sufficient organizations, but there is no material revenue earned in excess of our direct costs. Our fees and interest rates are commercially reasonable. We conclude this because our fees and rates are either consistent with our peers, or in many cases, more advantageous to the borrower than our peers.

Ability to Protect Against Unwarranted Risk in Loan Underwriting, Portfolio Monitoring, and Financial Management.

Policies and Procedures

Our loan underwriting, monitoring and financial management policies and procedures are included as *Appendix H.* Both BCLF's and NFF's lending is governed by formal, board-approved credit policy guidelines. BCLF's guidelines are approved annually by the Board and were most recently updated in July 2013. NFF's most recent Loan policies were updated in 2011. Their Charter School Lending guidelines supplement the Underwriting Manual to provide specific guidance for the assessment of charter schools. These tools serve as guiding documents in the lending and credit review process, describing the specific steps the lending staff undergoes to ensure strong credit and adherence to social mission. Lending staff are encouraged to think creatively about structuring options while mitigating risk in order to best balance the credit needs of borrowers and maintain strong credit quality. The policies also describe credit approval thresholds with clear guidelines around which credits are approved by external loan committee.

Underwriting

The Consortium will require potential credit enhancement recipients to submit a **comprehensive application** with supporting materials including: current and historical audited financial statements, financial projections, cash flow projections, project budgets, board and management lists with bios, corporate documents, and funding sources. The underwriting process also includes independent research, a site visit and in-depth conversations with senior management and other relevant stakeholders such as board members, CMOs, funders, charter authorizers, and consultants. Staff evaluate the requests, focusing on: (1) Organizational History and Mission; (2) Management, Financial Oversight, and Governance; (3) Financing Need or Project Analysis; (4) Financial Condition and Repayment Source; (5) School academic performance; and (6) Organizational capacity and program quality and sustainability.

The approval processes and credit authorities for NFF and BCLF are determined by the aggregate exposure to the borrower and related entities. Further described in *Appendix H*, this outlines specific approval authority for varying loan sizes. Both organizations use an external credit committee to approve loans of a certain size and risk profile: members of the committee bring expertise and backgrounds in community development and commercial lending. For projects receiving Credit Enhancement through this program, organizational approval will be needed per the *Credit Enhancement Program Organizational Chart* (see *Appendix I*).

Portfolio Monitoring and Servicing

Both organizations use a tiered Loan Risk Rating System to facilitate the assessment of the individual transaction risk and cumulative portfolio risk, to help shape the loan monitoring cycle; and to serve as a guide in determining appropriate levels of loan-loss reserves. NFF reviews ratings annually for strong credits; weaker credits are reviewed more frequently as determined by the risk rating policy. NFF's National Financial Products Committee, a sub-committee of the Board of Directors, evaluates and approves the overall risk rating system regularly and reviews portfolio quality on a quarterly basis. BCLF staff review ratings quarterly and changes are shared in the quarterly portfolio report to the Board and Loan Committee. NFF and BCLF both hold regular scheduled internal lending staff meetings which include a review of delinquent loans, upcoming maturities, and borrowers with risk ratings indicating the potential of compromised credit quality.

Loans are proactively monitored through site visits and borrower meetings. BCLF conducts annual status reviews which ensure the receipt and review of required reporting, test loan covenants, and review the condition and appropriateness of loan collateral. NFF conducts annual meetings and calls with borrowers to access their overall financial health and identify potential risks. Both BCLF and NFF conduct annual surveys which provide information on the borrower's activities, social impact, and the market/sector in which they operate.

Finally, both Consortium Members mitigate risk of the overall portfolio through diversification. The portfolios are quite varied geographically, by sector, loan purpose and repayment structure. Concentration risk is monitored quarterly through a quarterly dashboard or set of reports which provide means to review distributions and trends within the portfolios.

Portfolio Quality

The BCLF and NFF loan portfolios have a history of **strong portfolio quality** with an average historical write-off rate below 0.75% of total cumulative lending. This track record is the result of lenders' thorough underwriting process and proactive loan monitoring. At FYE 2013, portfolio delinquency over 90 days was 0 for BCLF and 0.23% for NFF. In the case of troubled loans, BCLF and NFF are able to provide patient, creative strategies to support the financed project, while ensuring repayment to our investors. Furthermore, we conservatively reserve against losses: as of December 2013, our loan-loss reserves were 8.8%.

Financial Management

Credit Rating: NFF and BCLF (as an affiliate of Boston Community Capital) each have a CARS rating (the ratings standard for the Community Development Financial Institutions sector) of AAA+2 (see *Appendix J*). The financial score associated with this rating is described as follows: "A CDFI in this group is fundamentally sound. It exhibits solid financial strength, performance, and risk management practices relative to its size, complexity, and risk profile. Challenges are well within the board of directors' and management's capabilities and willingness to strengthen. The CDFI is stable and is capable of withstanding fluctuations in its operating environment."

Financial Staffing: NFF has a 5-person finance and accounting department headed by the Chief Financial and Administrative Officer who also functions as NFF's CFO. BCLF's 3-person finance team is headed by Boston Community Capital's CFO.

Expertise in Education

BCLF and NFF have a demonstrated track record in education finance, having provided a combined $152 million in debt and NMTC to 145 charter schools serving 18,000 students. We supplement our experience with relationships we have built with experts in the education field.

NFF's Education Expertise

With a mission to support the nonprofit sector, for almost 30 years NFF has successfully served a range of organizations with complex, multifaceted aspects to the their program, funding, and management. Since 2002, NFF has deployed $98 million of loans and NMTC to 136 charter schools, leveraging an additional $450 million in financing for 900,000 SF of space and 15,000 students in NFF markets across the country. Through this financing work along with technical assistance work, NFF has developed **extensive expertise in the education market.**

BCLF's Education Expertise

Since 2005, BCLF and affiliates have provided almost $54 million in debt and NMTC allocation to 9 charter school facility projects, supporting more than 2,800 students in four states. BCLF's lending has been focused on facilities needs and has typically filled a **uniquely challenging role** that could not be met by other sources of capital.

Outside Expertise Employed

The Consortium places great importance on consultation with other agency stakeholders: authorizers, management organizations, and education consultants. Consortium Members have relationships with statewide associations and Departments of Education in CA, NJ, NA, NY, MA, PA and Washington, D.C. Working in partnership with these entities is critical to due diligence and underwriting. Improved evaluation in the early stages of a charter school facility project allows for better designed loan products, stronger budgets, and better met needs.

Ability to Prevent Conflicts of Interest

Each organization follows its own Conflict of Interest Policy. At the Consortium level, the *Conflict of Interest Policy* outlines how credit enhancement decisions are to be made if a Member is determined to have a conflict or appearance of a conflict. Conflict of Interest Policies are included in *Appendix K.*

Specific Resources to be Contributed by Each Consortium Member

Each organization is committing resources to make the program successful. **BCLF and NFF have committed to providing between $20 million and $50 million for senior and**

subordinate charter school financing through this partnership. Additionally, Consortium Members are committing resources to support:

- Strengthening partnerships and identifying new sources of funding – allowing the projects we finance to better access capital tailored to their financing needs and to obtain follow-on financing as needed.
- Providing development services and technical assistance to borrowers and prospective applicants, to strengthen their proposed projects and help close identified financial, skill, or experience gaps at the project level.

Performance Under Prior Grant Awards

In 2011 BCLF and NFF applied in a consortium led by Build With Purpose (BWP), then known as READS, a nonprofit development consulting firm that was originally a program of Community Loan Fund of New Jersey. The 2011 application was not initially funded; we were subsequently awarded $3,347,843 in August 2012 and an additional $4,652,157 in July 2013 as funding became available, bringing the total to $8 million (matching our original request). BWP is currently working with DOE to close on this award. Once closed, we will quickly deploy that award with schools that have already begun the assessment process and are ready to proceed. The pipeline in this application does not duplicate the schools we will lend to under the 2011 and 2012 awards, further demonstrating the need for additional credit enhancement in our market. We do not have an annual performance report on these awards because they have not yet closed.

GRANT PROJECT TEAM

As demonstrated through our financing track record, financial strength, and expertise and partnerships in the charter school sector BCLF and NFF are strong teams at the organizational level. Our Consortium provides a deep pool of qualified individuals to deploy the Grant.

Staffing Plan & Qualifications of Team Members

The executed *Consortium Agreement* (*Attachment 3*) establishes governance around decision-making, roles and responsibilities of the Consortium Members. The current staffing plan for the Consortium matches staff from each Member with their area of expertise as it applies to the program. Below we have described the experience of the staff person identified to lead each key role. More detail is found in their resumes (see *Attachment 4*).

Underwriting and Credit Analysis

Underwriting and credit analysis will be conducted by the lending staff of the Consortium Partners, led by Anne Dyjak at NFF and Michelle Volpe at BCLF. Anne is the Chief Credit Officer, Chief Investment Officer, and Vice President at Nonprofit Finance Fund. Anne serves on the Steering Committee of the National Charter School Lenders Coalition, a collaboration of mission-driven community development organizations working to help expand the availability of educational options for the development of charter schools in low-income communities by providing access to capital and advocating for public policy changes that support charter schools' efforts to build and strengthen communities. As Loan Fund President at BCLF, Michelle has overall responsibility for the Loan Fund's lending activities, including raising capital, staff training and supervision, production, financial management, building external relationships and new business lines, loan and portfolio monitoring, and social impact reporting. Michelle also serves on the advisory committee to Federal Reserve Bank of Boston's Working Cities Challenge, the advisory group to CLF Ventures/MHIC Health Neighborhoods Equity fund, and on Massachusetts Grocery Access Task Force.

Portfolio Monitoring

BCLF and NFF will conduct ongoing portfolio monitoring for the Credit Enhanced loans in their portfolio. At BCLF, this work will be overseen by Mike Nilles. As Senior Loan Officer, he markets Boston Community Loan Fund to potential borrowers, underwrites loan requests, and conducts ongoing portfolio management. Mike has also worked as a private consultant in community-based financing and real estate development. At NFF, this function will be overseen by Anne Dyjak. Primary responsibility for the ongoing management of loans in the portfolio will reside with seasoned lenders, Cassandra Archbold and Jennifer Kawar. Jennifer Kawar is a Director and Investment Officer for Nonprofit Finance Fund, based in San Francisco. She is responsible for West Coast business development, lending and New Markets Tax Credit originations and has been instrumental in building NFF's portfolio of California charter school clients. Cassandra Archbold is a Director of investment Underwriting and works with the Chief Credit Officer and oversees a team of underwriters in the underwriting and closing of transactions nationally, across the organization. Cassandra is located in NFF's Philadelphia office and has been instrumental in building NFF's portfolio of charter school clients.

Marketing and Outreach

Although Consortium Members will share responsibility for marketing and outreach, the marketing function will be coordinated by Jen Talansky and her team of marketing professionals at NFF. Jen is Managing Director of Knowledge and Impact, responsible for NFF's strategies and activities on thought leadership, marketing, press and social media. As part of NFF's knowledge sharing mandate, her team conducts NFF's annual State of the Sector survey, which gathers and shares data on the challenges and financial condition of thousands of nonprofits.

Grant Reporting and Data Collection

Gail Berlinger from Boston Community Loan Fund will be responsible for the Consortium's compliance with the Assistance Agreement and for collecting data as described in the Data Collection and Reporting section. As Director of Portfolio and Community Impact at BCLF, she is responsible for assessing and reporting on the social and economic impact of Boston Community Capital's activities. Additionally, she is responsible for compliance reporting for several federal grants and institutional and foundation investments.

Board of Directors

Our respective Boards have been directly involved in the design, implementation, and monitoring of our business strategy, including involvement in charter school finance and our pursuit of credit enhancement. They play a key role in the administration and oversight of federal awards. Please refer to *Appendix L* for more detail.

BCLF is governed by the Board of Directors of its affiliate, Boston Community Capital (BCC). BCC's 11-member Governing Board has eight outside members, five of whom are representatives of Low-Income Communities. Two external Board members also serve on BCLF's nine-member Loan Committee, which provides additional external oversight and guidance for our lending activities. Two Loan Committee members – [redacted] – have deep education experience, in curriculum and development, and facility construction, respectively.

NFF's 15 member Board of Directors has 14 external members. The Board includes deep real estate development expertise. On the National Credit Committee, also an external committee, several members have relevant experience. Notably, [redacted] plays an active role in charter school finance.

Competitive Priority

BCLF and NFF are uniquely poised to support high quality educational choices in the communities with the greatest need for school choice. An $8 million DOE Credit Enhancement Grant will enable the Consortium to play a critical role in structuring and filling the gaps that impede high quality charter school development projects in high-need communities.

Since inception 30 years ago, both organizations have been highly mission focused to serve low income communities. Our charter school lending has always prioritized districts with high poverty indicators and/or low student success rates. As we have assessed our community development lending work to determine how we can have the most direct impact in low income communities, we have evaluated outcomes across project types (from affordable housing, community health centers, commercial revitalization, to charter schools) and project structures (from predevelopment, subsidy bridge loans to subordinate mezzanine debt). Based on this review, we have focused on our best practices and moved away from anecdotal, individualized project financing. We strategically prioritize place-based lending in the most challenged communities paired with project types that provide the greatest boost to the neediest families – like charter schools. With customized loan products made possible with Credit Enhancement we can resolve the hardest to fill capital gaps and make a difference with our investment in both the bricks and mortar of a community school facility, and in the children and families served by high performing charter schools. Our charter school loan products are discussed in thorough detail in the Quality of Design and Project Significance section of our narrative.

We determined that the most strategic use of our $8 million Credit Enhancement allocation would be to prioritize high performing charter schools in "Transformation Zones," defined as economically distressed areas that have suffered deep disinvestment which is reflected in poor indicators of student educational attainment and school performance. Transformation Zones include:

- Districts where more than 40% of students perform below proficient on State academic assessments.
- Districts where 75% or more of the student population is eligible for free or reduced-price lunch.
- Districts where more than 25% of public schools have been identified for improvement, corrective action, or restructuring under Title I of the ESEA.

These Transformation Zone communities suffer from interconnected causes and consequences of poverty. Gateway Cities in MA, defined as medium sized cities with median household income and educational attainment levels below the state average, illustrate the deep levels of distress found in Transformation Zones nationally.

In Gateway Cities:

(i) We find 60% of the Massachusetts schools that are rated "failing" by the state;

(ii) Fewer than one in four students are graduating from high school; and

(iii) Low-income students comprise more than half of the enrollment in over 80% of Gateway Cities. ("The Gateway Cities Vision for Dynamic Community –Wide Learning Systems," MassINC, November 2013).

Our Credit Enhancement Program will be an integral addition to our ongoing focused place-based investments in Transformation Zones. One charter school, affordable housing development, or community health center alone will not create the community-wide impacts that we all strive to achieve. However, education, housing and healthcare are each integral components of a community-wide strategy to improve community indicators by helping to stabilize and support families. By targeting Transformation Zones, our Credit Enhancement Program will leverage desperately needed investment capital to increase quality educational choices in Transformation Zones, resulting in significant investment in the people who live in these targeted communities.

Understanding the critical role of educational choice in Transformation Zones, the Consortium Members have set a program goal to use at least 75% of our requested credit enhancement grant to schools in communities in most need of investment, which we define as districts where more than 40% of students perform below proficient on State academic assessments; districts where 75% or more of the student population is eligible for free or reduced-price lunch and districts where more than 25% of public schools have been identified for improvement, corrective action, or restructuring under Title I of the ESEA. The Transformation Zone communities we are targeting are listed in our Transformation Zone chart, attached as Appendix N. These communities represent some of the nation's poorest school districts and districts with the greatest need for public school choice. All are home to neighborhoods struggling with a high proportion of schools in need of improvement, large percentages of low-income students and students performing below proficient on state assessments. These are also the communities that BCLF and NFF have a long history of working and investing in. To date, 80% of our charter school lending has been in these highly distressed communities, and we have made direct investments of $120 million to 36 charter schools to improve educational choices available in these communities.

We believe this goal is ambitious but realistic for our Consortium to meet. As illustrated in our Transformation Zone Chart in Appendix N, every Transformation Zone community targeted by the Consortium meets at least one of the criteria identified by the Department of Education, while many meet all three. We already work in these communities and have lent to high quality charter schools in these neighborhoods. For example:

- Bronx, NY: 87% of all students are eligible for free and reduced lunch, 84% of all students are performing below proficient on state assessments, and 49% of the borough's schools have been identified for improvement under Title I of the ESEA. Last year BCLF and NFF partnered to finance a permanent home for [redacted] promising school in the first year of its charter, which will serve at full enrollment 305 students in a community with a 43% poverty rate.
- Detroit, MI: 84% of all students are eligible for free and reduced lunch, 85%, 58% and 97% of all students, respectively, are performing below proficient on math, reading, and science state assessments and 48% of the city's schools have been identified for improvement under Title I of the ESEA. [redacted] has been working to support the development of charter public schools serving urban children in Detroit for over 12 years. In 2002 it began its work to develop a public charter school system serving grades K-12 within the City of Detroit known as [redacted] NFF provided $ 13.7 million in NMTC allocation to support the development of two schools in this system – the schools serving students in grades K-5 and in grades 6-8.
- Boston, MA: 78% of all students are eligible for free and reduced lunch, 53%, 58% and 74% of all students, respectively, are performing below proficient on math, reading, and science state assessments and 58% of the city's schools have

been identified for improvement under Title I of the ESEA. BCLF recently closed on a $400,000 predevelopment loan to [redacted] that will help the school to pay for crucial site diligence that will allow the school to move forward with a public zoning approval process and be well-positioned to secure construction financing later this year.