# Proposal to the Credit Enhance for Charter School Facilities Program:

# Self-Help Charter School Loan Fund

## Executive Summary

The Center for Community Self-Help requests an $8 million Credit Enhancement for Charter School Facilities (CECSG) grant, which it will leverage at 25:1, to provide at least $200 million in financing at subsidized rates through an estimated 80 loans over a ten-year period. We estimate that, with this volume of lending, we can help create or maintain at least 30,000 classroom spaces for high quality charter schools that serve low-income students in communities in need of better educational choices.

Self-Help has an exceptionally strong record as a two-time CECSG grantee, deploying $300 million in loans over a 14-year period, more than tripling our performance goals. Fully 95% of our lending in the program has reached schools that serve low-income students and communities, and 86% reached areas in high need of quality educational choices, as defined below under Competitive Priorities. In all, our financing within the program has helped schools create or maintain more than 42,000 student spaces.

Long after fulfilling our original 2003 and 2006 performance goals, we have continued to lend at a substantial volume, leveraging the same pool of CECSG grant funds. A new grant award will reinforce our ability to reach quality charter schools in high-need communities, particularly those that other lenders fail to serve. Self-Help will set the following goals and benchmarks for its 2017 CECSG grant:

- Deploy $200 million in financing through 80 loans, helping to create or maintain an estimated 30,000 student spaces
- As a subset of that lending, create a specialized $30 million lending fund for higher-risk loans to schools that lease their space or that need loan amounts that exceed the value of their collateral
- Provide an average 1.1% interest rate reduction with the grant, delivering an estimated interest cost savings of $16 million to our borrower schools over the terms of their loans. In addition, we estimate

that our borrowers will benefit from approximately $2.5 million of savings in loan fees, when compared with those typically charged by other lenders in the field.

- Deploy at least 95% of our loans to schools in low-income communities or that serve predominantly low-income children
- Deploy at least 90% of our loans to schools located in districts in high need of quality educational choices, with standards detailed below
- Originate at least 10 loans in rural areas, a key underserved market
- Originate at least 20 loans to startups or schools in their first three years of operation, supporting important early-stage innovators that are often considered too risky by other lenders
- Deliver at least 2,000 hours of technical assistance annually to charter schools and the field at large.

We will be building on a nearly 40-year track record of creating wealth and opportunity for low-wealth families and communities. Self-Help is a Community Development Financial Institution (CDFI) that has, since 1980, worked on a national scale to provide $7.5 billion in financing to more than 134,000 families, businesses, and organizations. We draw on the financial strength of three CDFI lending affiliates: Self-Help Ventures Fund (SHVF) is a nonprofit loan fund that can leverage tax credits and capital from large financial institutions; Self-Help Credit Union, chartered in North Carolina, and Self-Help Federal Credit Union, which works on a national scale, draw on a combined deposit base of more than 140,000 credit union members. Our centralized charter school lending team deploys funds from each of these affiliates, drawing on a diversified and sustainable capital resource. Credit enhancement funding from the CECSG program ensures that we can deploy this capital to high quality schools, particularly those that lack the financial resources and collateral required by conventional lenders. A new CECSG award will support these schools in creating space for thousands of students in dire need of quality educational choices.

**Competitive Priorities: Targeting High-Need Communities**

Self-Help is deeply committed to lending that meets the central purpose of the CECSG program, serving communities that face both economic and educational distress. We will meet the Competitive Priorities in the following ways:

- **At least 90% of loans will reach districts in high need of quality educational choices** (as defined in E1 and E2 below)
- **At least 95% of loans will reach low-income communities or schools with majority low-income students** (as defined in E3 below)

Fully 98% of Self-Help's past lending in the CECSG program has met at least one of the standards above. The "Targeting Effectiveness" table in the appendix outlines how each past borrower met these criteria.

**E1 and E2: Targeting Communities with high needs for educational choice**

Self-Help will target **at least 90%** of its loans to districts with high educational needs, defined as meeting either criteria E1 or E2 below:

- E1. Districts where more than 20% of conventional schools are underperforming, based on the standards in the NOFA:

(a) In need of improvement, corrective action, or restructuring under the ESEA; or

(b) Priority or focus schools identified by the State prior to August 1, 2016 under ESEA flexibility. (After 2017-18, states will identify schools for "comprehensive or targeted support and improvement" and we will shift our target accordingly.);

- E2. Districts where fewer than 60% of students are proficient in reading or math assessments, which is our metric for targeting "geographic areas in which a large proportion of students perform below proficient on State academic assessments."

We have a strong record of serving high-need communities that meet these criteria, and we will further stretch to target areas with the greatest educational needs. To date, more than 86% of Self-Help's CECSG program borrowers have been in these high-need districts-- 42% were in districts where more than 20% of schools are categorized as Improvement, Focus, or Priority, and73% were in districts where fewer than 60% of students are proficient on math or reading assessments.

**E3. Targeting Low-Income Communities**, meeting the Competitive Priority to "*target services to communities with large proportions of students from low-income families*":

- **At least 95% of financing will reach communities and schools with a high proportion of students from low-income families**, defined as:

(a) Schools with 50% or more of students meeting eligibility for free or reduced price lunch; or,

(b) Schools located in a New Markets Tax Credit (NMTC) program eligible census tract. These neighborhoods have median incomes of no more than 80% of the area median, or they have a poverty rate of at least 20%.

We have a proven ability to meet these benchmarks, with 95% of our past borrower schools meeting at least one of these economic criteria**.** To date,75% of our borrower schools had more than 50% of their students receiving free or reduced lunch, and 91% were located in NMTC-eligible census tracts. The small number of borrower schools outside of these standards nonetheless have a strong commitment to serving disadvantaged students and diverse student bodies.

**Data-Driven Targeting to Reach the Highest Need Communities:** Self-Help will target its financing to the communities in the table below, as well as others that meet Competitive Priority targeting. Of these current target districts, 95% have a majority of children eligible for free and reduced lunch, indicating the high level of poverty in both urban and rural school districts in our target states. Similarly, 90% of these districts have low student proficiency, with less than 60% of students scoring proficient in reading or math assessments. Alarmingly, in 72% of these districts less than half of students are at a proficient level, with some falling below 20% proficiency.

Self-Help has an exceptional track record and mission-driven commitment to delivering a high volume of lending in alignment with these Competitive Priorities, reaching students and communities with the greatest needs. A new CECSG award will reinforce our ability to continue lending that meets ambitious targeting metrics.

*See the next page for data on our targeted communities.*

**Targeted Districts- 2016-2017, unless otherwise indicated as the most recently available)**

| State | Number of Schools | Enrollment | Free & Reduced Lunch | Focus and Priority Schools | Reading Proficiency (2015-16) | Math Proficiency (2015-16) |
|---|---|---|---|---|---|---|
| **California** | | | | | | |
| Alum Rock Union Elem SD | 29 | 11,624 | 88% | N/A | 37% | 28% |
| Los Angeles Unified SD | 1,107 | 633,621 | 82% | N/A | 39% | 28% |
| **Colorado** | | | | | | |
| Adams-Arapahoe | 62 | 41,797 | 66% | 23% | 22% | 15% |
| Denver County 1 | 203 | 91,132 | 68% | 22% | 36% | 29% |
| **Florida** | | | **(2015-16)** | | | |
| Alachua County | 63 | 29,475 | 50% | 14% | 55% | 55% |
| Miami-Dade County | 491 | 357,249 | 75% | 13% | 55% | 53% |
| **Georgia** | | | | | | |
| Atlanta Public Schools | 89 | 51,927 | 77% | 24% | 32% | 27% |
| **Louisiana** | | | | **(2014-15)** | | |
| East Baton Rouge | 84 | 40,949 | 87% | 25% | 63% | 56% |
| **Mississippi** | | | | | | |
| Jackson Public Schools | 25 | 26,948 | Not Available | 32% | 18% | 12% |
| **North Carolina** | | | | | | |
| Halifax County | 10 | 2,873 | 100% | 60% | 35% | 34% |
| Northampton County | 7 | 1,905 | 64% | 29% | 31% | 27% |
| Vance County | 17 | 6,363 | 63% | 12% | 45% | 45% |
| **Ohio** | | | | | | |
| Cleveland Municipal | 101 | 38,098 | 100% | 60% | 36% | 38% |
| **Rhode Island** | | | | | | |
| Cumberland | 9 | 4,568 | 23% | 0% | 48% | 44% |
| Woonsocket | 12 | 5,863 | 73% | 0% | 20% | 14% |
| **South Carolina** | | | | | | |
| Berkeley County Schools | 40 | 33,287 | 57.2% | N/A | 19% | 18% |
| Charleston School District | 81 | 48,147 | 53.3% | N/A | 21% | 20% |
| **Tennessee** | | | | **(2014-15)** | **(2014-15)** | **(2014-15)** |
| Davidson County Schools | 163 | 85,123 | 54% | 15% | 40% | 47% |
| Shelby County Schools | 206 | 112,077 | 59% | 27% | 34% | 42% |
| **Texas** | | | | | | |
| Beeville ISD | 6 | 3,373 | 76% | 17% | 56% | 56% |
| Fort Worth ISD | 137 | 86,869 | 76% | 27% | 62% | 65% |
| Lubbock ISD | 56 | 28,755 | 65% | 25% | 67% | 69% |

**F. Invitational Priority**

*Projects proposing the development of one or more partnerships that will enable the applicant to leverage newly created or previously untapped sources of capital or other assistance, which may include non-Federal programs, in financing charter school facilities.*

We will partner with new organizations and leverage new untapped sources of capital by bringing at least five new mission-focused lenders into the charter financing arena. Our Self-Help Community Development Banking Seminars, which we launched in December 2013, are an important channel for outreach to new partners. We have hosted an average of 25 participants representing a wide range of community-based lenders and other nonprofit colleagues. Our charter school lending program is a featured part of the training. We have also developed seven technical assistance tools, included in the appendix, that help both schools and lenders understand the complexity of charter school lending and facility development. As part of this proposal we are committing to develop at least three additional TA tools that will help those new to the field deliver mission-focused capital while avoiding common pitfalls.

We seek to leverage our lending history to help expand the overall scope of capital resources far beyond what we could do on our own. In the past two years, we have significantly increased our collaboration with other mission-oriented lenders, to amplify each organization's reach and impact. We currently have a growing working relationship with CSCEG grantee Hope Federal Credit Union of Jackson, MS, as they have sought to develop a high-impact charter school lending portfolio in the Southeast. We have partnered on a loan to a school in [redacted] and are working on another collaboration in [redacted]. Self-Help is committed to building similar partnerships that can leverage new capital sources for charter schools across the country.

## A. Quality of Project Design and Significance

### A1. Provide financing to charter schools at better rates and terms than otherwise available:

Self-Help will continue to offer lower fees, lower rates, and better terms for charter schools than the standard terms available through conventional financing. This supports long-term financial sustainability for schools in low-wealth communities that typically have few resources and tight operating margins. CECSG will enable Self-Help to reduce its interest costs to school borrowers by approximately $16 million, or twice the amount of the grant, in addition to an estimated $2.5 million in loan fee savings, as detailed below. Combined, the interest and fee savings for our borrower schools total about $18.5 million -- made possible by a CECSG award of $8 million. Our program will provide:

<u>A1(i). Lower Fees at Closing</u>:

(1) Self-Help is unique among lenders in using experienced in-house legal counsel for drafting and negotiating transaction documents at no charge to the borrower, and absorbing those costs ourselves. This helps charter schools avoid the tens of thousands of dollars in hourly attorney fees that lenders typically pass along to borrowers. We also do not require outside accounting or investment banking services. We estimate that this saves schools at least $5,000 per $1 million borrowed. For charter schools that would have received New Markets Tax Credit (NMTC) or bond financing from other sources, the savings are even greater. We help these borrowers avoid outside consultant costs that can range from $30,000 up to $250,000 per transaction. We estimate that the projected 80 loans we will finance with the requested grant will help schools avoid an average of $20,000 each, for a total of $1,600,000 in legal fee savings.

(2) Self-Help will charge a below market origination fee for all schools financed with the requested grant. Our origination fee of 0.9% falls below the 1% market level, saving our schools at least $200,000 over the life of the program.

(3) For our in-house construction loan administration, we will charge a flat fee based upon 0.50% of anticipated actual hard costs of construction, rather than the industry standard 1%. Assuming that approximately 75% of the loan uses are for construction costs, these lower fees will save our borrowers an estimated $750,000. In addition, our oversight, advice and value engineering often save our borrowers considerably more in construction costs than we charge in fees. Self-Help is both a lender and a facility developer, and our staff (each of whom has construction industry experience) has worked on over $300 million in charter school construction projects.

A1(ii). Lower Interest Rates**:** Unlike most charter school lenders, Self-Help has three different lending affiliates, each with different interest rates and terms that vary based on the sources of funds drawn upon. Using those three entities, Self-Help always offers charter schools the most advantageous interest rates it has available, and we offer CECSG lower interest rates in two ways:

1. For all CECSG-eligible loans, we lower our interest rate by 0.40% to reflect the backing of the pool of grant funds; and
2. For approximately 70% of our charter school loans, the CECSG grant makes it possible for borrowers to qualify for financing from our credit unions, when they would otherwise not meet the collateral requirements. As a result, we can offer a 1% lower interest rate, due to the relatively low cost of credit union capital (which comes from the deposits of our members). Credit unions must adhere to regulatory collateral requirements that rule out many of our charter school applicants, who face the depressed property valuations and lack of financial resources within low-income communities. The backing of CECSG funds fills collateral gaps and helps many of these borrowers meet the stricter requirements of credit union financing. This allows us to offer interest rates that are 1% lower than those of our non-regulated and nonprofit Self-Help Ventures Fund (SHVF), which primarily uses funds borrowed from large financial institutions.

We estimate that these two benefits will produce an average of 1.10% lower interest rates across our portfolio of CECSG charter school borrowers. Altogether, our projected 80 loans will save borrower schools an estimated $16 million in interest costs over the lives of their loans.

Our interest rates vary based on the source of capital, and we work to match charter schools with the most advantageous financing possible. The base interest rates we charge for loans originated through SHVF are a function of the current market rates (known as "Swap rates," as published on the Bloomberg page USD SWAP SEMI 30/360 X YR screen) plus 4.75% for loans of $1 million and over, and 0.50% higher for smaller loans. As stated, Self-Help's credit union rates are 1% lower. And, schools that are eligible for SHVF's New Markets Tax Credit loans receive an addition 1.5% reduction below our credit union rates.

The most common base interest rate for a credit union loan to a CECSG-eligible school is the Swap rate plus 3.35%. For example, as of May 8, 2017, that base rate for a 5-year $1 million+ loan would be 5.33%. In some cases, a "risk premium" would also apply as an increase to the base rate related to unusually high predicted risk of default and/or losses. This allows us to account for differences in experience of management team, building age and condition, etc., while maintaining a financially sustainable loan portfolio consistent with the objectives of the CECSG program.

A1(iii). More Flexible Underwriting and Terms**:** The CECSG grant allows Self-Help to offer loans with higher loan-to-value (LTV) ratios. (*LTV = loan amount divided by the value of the collateral, which is typically the building we are financing.*) We will use the requested grant to create a specialized $30 million lending fund to reach schools that lease their facilities or that need financing that exceeds 100% LTV (*i.e.- the loan amount will exceed the value of their building*). This targeted High Impact Low Assets (HILA) pool will help early-stage schools that rent their facilities and schools in low-income neighborhoods with deflated real estate values. Importantly, the majority of the $170 million of loans financed outside of the specialized

HILA Fund will also have high LTVs, typically in the 80-100% range, which would exclude the borrowers from conventional and even some CDFI financing.

Other examples of our flexibility include consideration of loans with extended interest-only periods and low debt-service coverage ratios, common needs for schools with limited resources. We will also take on borrowers that have had inconsistent financial performance, due to the tight economics of new schools operating in low-income communities. In addition, we consider projects that have encountered major problems such as a troubled construction process, change in management or in turn-arounds. For example, we were able to offer great flexibility in making a [redacted] loan to a school in [redacted] that had halted construction of its new building after disputes with contractors. Our construction team stepped in to help resolve the liens, get the job running again, and close a successful loan to a high-mission school.

Self-Help can also offer letters of credit to guarantee leases or strengthen the schools' ability to receive other financing. As one example, we issued a [redacted] letter of credit for a startup school in [redacted] when its landlord required security for its leased facility.

<u>A1(iv). Longer Amortization Period</u>**:** The credit enhancement grant allows Self-Help to offer amortization periods of up to 25 years. This has a dramatic effect on the monthly debt service cost to a borrower -- in most cases a greater reduction than an incremental lowering of the interest rate. For example, increasing a 15-year amortization to 25 years lowers the average loan payment by 20% (roughly the equivalent of reducing an 8% interest rate to 5%).

**A2 and A3: The following Project Description addresses two scoring criteria:**

- **A2. Goals, objectives, and timeline are clearly specified, measurable, and appropriate for the purpose of the program; and**
- **A3. The project implementation plan and activities, including the partnerships established, are likely to achieve measurable objectives that further the purposes of the program;**

Meeting the CECSG Program Performance Measures and Targets: Self-Help will deliver strong results as defined by the Program Performance Measures in the application instructions.

"(1) The amount of funding grantees leverage for charter schools to acquire, construct, and renovate school facilities"**:** Self-Help will deliver $200 million to charter schools over ten years, leveraging the requested $8 million grant at 25:1. This is a dramatic increase over the goals for 2003 and 2006 CESCG grants, which we committed to leverage at less than 10:1. Our goal is ambitious, with grant funds equaling only 4% of lending volume and a labor-intensive focus on small and early-stage schools. Yet, we believe our targets are achievable, based on our record of far exceeding our 2003 and 2006 CECSG grant goals. We have leveraged those funds at nearly 30:1 to provide $301 million in financing over the past 14 years.

**"**(2) The number of charter schools served**":** Self-Help is committed to originate at least 80 loans with the grant funds over ten years, again meeting the target outlined below. This ambitious goal entails leveraging only $100,000 per school in CECSG grant funds into an average of $2.5 million in financing per school, while also providing intensive technical assistance and meeting high-mission targeting requirements. The benchmark is nonetheless achievable given our track record of serving 64 schools through 14 years in the program, with loan sizes ranging widely, from $10,000 up to $15 million.

**Self-Help's Project-Specific Performance Measures and Targets.** Self-Help's lending will be highly targeted to support the CECSG's program purpose, enhanced with technical assistance to aid individual schools and the field at large. The four Objectives below flow from the four Outcomes in the logic model we've included in the appendix.

**Objective #1: Helping charter schools provide quality school choice in low-income communities, meeting the needs of diverse populations,** as supported by the following Project Targets:

- Deploy at least 80 loans and $200 million in total financing within ten years. This overall 25:1 leveraging of the requested grant is ambitious, yet achievable based on our record of leveraging $10.2 million in CECSG funds into more than $300 million in financing over 14 years.
- At least 95% of financing will reach communities and schools with a high proportion of students from low-income families, as defined above under Competitive Priorities. The student bodies of these schools will be 50% or more low-income, and/or the school will be located in a census tract that is New Markets Tax Credit program eligible.
- At least 90% of financing will reach charter schools located in districts in high need of quality educational choices as defined above under Competitive Priorities. These include districts where 20% or more of schools are severely under-performing, and/or areas where less than 60% of students are proficient on annual assessments.
- At least 10 loans will reach rural areas, defined as locations outside of Metropolitan Statistical Areas and/or places with populations under 50,000. Our rural lending has included early-stage loans in [redacted]. Both have gone on to become the highest performing Title 1 Schools in North Carolina, and to expand their predominantly low-income and minority enrollments with additional rounds of Self-Help financing.

- At least $30 million of total lending will be deployed in our new High Impact Low Assets fund, as leasehold loans or financing of 100% LTV or greater. Low real estate values in economically distressed neighborhoods create a persistent challenge for schools and lenders, with the capital needs of schools often far exceeding the appraised value of the buildings and land that serve as collateral. CECSG funds are essential to filling that gap and supporting schools in the neighborhoods where low-income students live. For example, we are currently working with potential borrowers in [redacted] in neighborhoods where property values make it extremely difficult to access conventional financing. Startup schools that are leasing their facilities have the two-fold challenge of no operating record and little-to-no collateral.

Beyond meeting these project targets, we will continue to:

- Reach out specifically to schools led by people of color, with both lending and technical assistance, continuing our work with key partners such as the National Coalition on School Diversity, the National Association for the Advancement of Colored People (NAACP) and the National Association for Latino Community Asset Builders, among many others.
- Build support for authorization processes and regulations that prioritize schools with strong academic potential, especially in low-income communities, and work with partners to support charter school policies and funding models that make transportation and free/reduced price lunches available for disadvantaged students. We will also promote weighted lotteries for schools like the [redacted] that are seeking to diversify by giving low-income students a greater chance of admittance.
- Explore our role as facility developer for charter schools in low-income communities. We aim to create a sustainable and replicable business model for our charter school real estate development, drawing on our deep experience as a developer. Our team has acted as developer on two major renovations for

charter schools that serve low-income Durham neighborhoods, and we plan to expand on this initiative and share our model with other mission-oriented developers.

**Objective #2: Helping a full spectrum of charter schools to grow and thrive, including small early-stage innovators and expanding networks that replicate best practices.** Fully 78% of our CECSG loans have been to community-based schools outside of charter networks, and 45% have been to schools led by people of color. But we also have the capacity to make the larger loans that can help successful networks reach new communities. Our Project Targets include:

- Providing at least 20 loans to schools that are in their first three years of operation, using flexible underwriting and loan terms to meet the needs of early-stage schools.
- Providing at least 2,000 hours of pro bono technical assistance annually to charter schools and the field at large. We routinely provide extensive technical assistance to prospective borrowers, and even to schools that seek capital from other sources. We also participate in conferences and trainings to reach authorizers, state associations, and new charter school leaders. We offer a broad range of assistance, including avoidance of predatory developers and lenders, tools for budgeting, models for financial analysis of projects, and tips on red flags in the development process.

To support these Project Targets, we will work to serve a full spectrum of schools by:

- Providing financing ranging from $50,000 up to $20 million, meeting the capital needs of a broad variety of schools at all stages of maturity. Our capacity to serve such a range of schools is unusual in the field, and has allowed us to make very small loans to promising early-stage innovators that later developed into successful networks.
- Increasing emphasis on leasehold improvement loans that are frequently needed by newer schools, drawing on the $30 million High Impact Low Assets lending pool

- Partnering with other CDFIs and lenders when a large school's capital needs exceed their lending limits, leveraging our financial capacity to strengthen the field as a whole. In one recent example, our loan to a school in rural [redacted], brought together three lenders as well as the USDA.

**Objective #3: Helping charter schools around the nation have greater access to adequate and varied sources of capital,** as supported by the following Project Targets. Self-Help will:

- Raise at least $200 million in capital to leverage the CECSG grant and deliver facility financing to schools, including expanded investments from foundations and corporations, additional New Markets Tax Credits allocations, and our growing pool of credit union deposits. By using credit union deposits that we directly control rather than relying completely on large financial institutions, we can serve charter schools with a sustainable source of funding and low transaction fees.
- Provide technical assistance to at least five lenders that are new to the charter school lending field. We will share replicable models for underwriting charter school loans in low-income communities, tools for assessing the educational quality and performance of schools, and loan portfolio modeling tools to increase the capacity of lenders that are unfamiliar with the sector. (Seven tools we currently share are in the appendix, and we are committing to create at least three others during the project period.)
- Provide refinancing loans for schools that are faced with imminent loan maturity or balloon payments, a specific challenge faced by schools with New Markets Tax Credit (NMTC) financing. This fulfills the CECSG program purpose of helping schools *"to obtain debt to make a balloon or bullet payment and continue to finance a facility."* Self-Help can help schools in low-wealth communities to maintain financial stability by avoiding the large cash drain required to pay off maturing loans.

**Objective #4: Helping charter schools become financially stable and better equipped to navigate facility development challenges,** as supported by the following Project Targets:

- Providing at least 2,000 hours of free technical and legal assistance each year
- Developing and sharing at least three replicable tools to aid schools, lenders and facility developers, beginning with a model operating budget and a template pro forma for real estate development
- Providing at least 5 trainings and presentations each year at conferences and other knowledge-sharing venues for schools, authorizers, charter support organizations, and leadership initiatives.

**Projected 10-Year Timeline**

**For each year of the program period**: $20 million in capital raised and deployed to an estimated 8 schools; 2,000 hours of technical assistance provided, including 5 conference/training presentations.

**Cumulative project targets by year three**: $60 million in total lending to 24 schools; $8 million deployed from the High Impact Low Assets lending pool; at least 5 early-stage schools and 3 rural schools reached; TA provided to at least two lenders new to charter sector; two replicable tools/models developed and shared with field.

**Cumulative project targets by year five**: $100 million in total lending to 40 schools; $15 million deployed from High Impact Low Assets lending pool; at least 10 early-stage schools and 5 rural schools reached; TA provided to at least 3 lenders new to charter sector.

**Cumulative project targets by year seven**: $140 million in total lending to 56 schools; $20 million deployed from High Impact Low Assets lending pool; at least 14 early-stage schools and 7 rural schools reached.

**All final project targets above achieved by end of year 10**.

**Partnerships That Strengthen Our Program**: Extensive outreach and cooperation with partners is hard-wired into all of our work at Self-Help and is crucial to the success of our charter school lending. Steve Saltzman leads Self-Help's Charter Lending Team and is actively engaged with charter schools and charter support organizations throughout the country. He serves on the Walton Family Foundation grant review committees in Memphis and Atlanta and reads charter school applications for Atlanta Public Schools. In addition, Self-Help is a founding member of The Charter School Lenders Coalition (CSLC), a trade group addressing financing industry needs and challenges, and an affiliate members of the National Association of Charter School Authorizers. We have drawn on these relationships to form an advisory committee made up of school leaders, network representatives and education experts, to advise us on a quarterly basis around outreach, products, assessment, and technical assistance, and monitoring.

**Charter School Loan Fund Advisory Committee**

| | Affiliation | Expertise |
|---|---|---|
| Bryan Hassel | Public Impact, Co-Director | Academic and policy issues |
| Dujan Johnson | Community School for Apprenticeship Learning | Working with CDFIs to open schools in new markets |
| Ariana Kanwitt | PAVE Schools | School operations and growth |
| Anand Kesevan | Charter School Growth Fund | Charter School facility development and financing |
| Chris Stewart | Wayfinder Foundation | Academic needs of low-income and African American children |
| Tammi Sutton | Founder and CEO of KIPP Eastern North Carolina | School start up, operations and growth. Rural education |

**A4. Likelihood of producing results that will be documented, replicable, and helpful to others.** Self-Help will continue its work to create a replicable, successful model. To track and document results, Self-Help draws on more than three decades of data collection and reporting experience, including 14 years of reporting in the CECSG program, providing dozens of data points for each loan. We report a full spectrum of demographic and impact data to more than 40 private and public funding sources (e.g., the CDFI Fund, HUD, USDA, and the SBA). We use a custom-designed SQL Unified Database to aggregate current and historic loan and impact data from our various lending and core processor systems.

As outlined earlier, we will maintain our efforts to share the replicable aspects of our program with at least five conference presentations per year, development of at least three new tools/models for the financing field and technical assistance to at least five lenders who are new to charter school finance. In addition, Self-Help is in the early stages of developing a replicable tool for schools, CSO's, authorizers, and other lenders to assess schools' commitment to and progress toward racial equity and access on the part of loan applicants and active borrowers. Equity will be evaluated using quantitative data (enrollment, application, and discipline data, for example) and through qualitative data (interviews with school staff regarding school policies and practices).

**A5. Appropriate Criteria used to select charter schools for assistance:** The strict targeting outlined above and Self-Help's seasoned underwriting process ensure that our financing reaches quality schools in areas that are most in need of improved educational choices, with the following key factors:

**1) Does the school serve a low-income population or community?** As outlined in the targeting criteria, Self-Help will for the most part use the NMTC program's standard for low-income communities (median income of the census tract must not exceed 80% of the area median income, or poverty rate in the census must be greater than 20%). In addition, Self-Help's ability to use its own capital allows us to serve schools not in NMTC-eligible census tracts but that nonetheless serve low-income students.

**2) Does the school serve a community that is particularly in need of educational choices?** As outlined in *Section A2(i)* above, a school meets this criterion if it is in a district where at least 20% of schools are needing improvement by specific federal standards, or where fewer than 60% of students perform proficiently on state academic assessments. Additionally, schools led by people of color, and that target special needs children and English language learners are considered to fulfill our mission.

**3) Is the school of sufficient academic quality?** Self-Help expects its borrower schools to meet or exceed the academic results of the surrounding public school district. We engage the expert consulting firm Public Impact to provide in-depth academic assessments that includes demographic characteristics, student performance, quality teachers, attendance, and retention, and suggests areas for improvement

**4) Does the school have quality staff and board leadership, including governance and financial management?** Our staff performs a detailed analysis of the school's leadership and board of directors, typically attending board meetings before making loans. Yet we do not insist on a faultless record, recognizing that schools in disadvantaged communities face great challenges

**5) Is the school financially stable and receiving adequate revenue to meet its debt and operational obligations?** Again, we do not insist on a perfect financial record or a prosperous income stream, recognizing the substantial challenges faced by schools in low-income communities. This factor is key to determining the amount and type of financing offered.

**6) Is the school facility adequate to meet the school's needs and provide sufficient collateral for the loan?** Self-Help recognizes its responsibility to the school to ensure that the project is realistic and will meet its needs. This factor also contributes to determining the amount of financing we can offer.

**7) Is the school located in a state with strong charter laws that encourage the establishment, growth, and replication of high-quality schools?** As detailed below in Section A7, Self-Help will use its national scale to target states with strong charter school laws, without excluding other high-need states

**8) Does the teaching staff reflect the racial diversity of the student body?** A recent study of North Carolina and Tennessee elementary school students by experts from American University, UC Davis, and John Hopkins indicates, "having even one black teacher in elementary school, black students experience major benefits, from being less likely to drop out of high school to being more likely to aspire to college and take college entrance exams." The impact is particularly dramatic with non-white males, especially those from low-income families.

**A6. Grant funds maximized by leveraging public and private sector funding and increasing the number and variety of charter schools assisted.**

**Increasing the Number and Variety of Schools Assisted:** Complementing the socio-economic targeting outlined above, Self-Help will reach out to schools that face particular difficulties in accessing capital, including early-stage schools, schools that lease their facilities and schools with the greatest collateral challenges. Rather than lending only to established networks, we will continue to work very hard to support small independent schools with strong leadership and solid academic programs.

**Leveraging Financial Capital:** Self-Help is confident that we can meet the goal of providing $200 million in loan capital. As fully outlined below in Section C, we currently have more than adequate liquidity on hand, and can readily raise additional capital if needed, having raised over $600 million in private sector capital over the past 10 years. We are able to lend using credit union deposits, a wide range of program related investments and the New Markets Tax Credit program, which has funded $205 million of our charter school lending. Past and current Self-Help investors Bank of America, JP Morgan Chase, SunTrust and Wells Fargo have all issued letters of support for this proposal (attached).

**A7. Schools targeted in States with strong charter laws:** Our twelve target states have strong charter laws according to the criteria stated in ESSA. In the University of Arkansas's definitive study, only three states received an A or B on the A through F scale; two of those three (Tennessee and Texas) are among Self-Help's target states. On the remaining four criteria, all 12 meet at least three of the four. A key criterion – equitable financing – is one on which very few states can answer "yes."

| | **ESSA Criteria for Strong Charter Laws** | | | | |
|---|---|---|---|---|---|
| **State** | **(A) Alternate Authorizer** | **(B) Equitable Financing** | **(C) Facilities Support** | **(E) At-Risk Students** | **(F) Best Practice Authorizing** |
| California | Yes | No | Yes | Yes | No |
| Colorado | Yes | No | Yes | Yes | Yes |
| Florida | Yes | No | Yes | Yes | No |
| Georgia | Yes | No | Yes | No | Yes |
| Louisiana | Yes | No | Yes | Yes | Yes |
| Mississippi | Yes | No | Yes | Yes | Yes |
| North Carolina | Yes | No | Yes | Yes | No |
| Ohio | Yes | No | Yes | Yes | Yes |
| Rhode Island | Yes | No | Yes | Yes | No |
| South Carolina | Yes | No | Yes | No | Yes |
| Tennessee | Yes | Yes | Yes | Yes | Yes |
| Texas | Yes | Yes | Yes | Yes | Yes |

**A8. Results expected are in reasonable relation to amount requested and project costs are reasonable in relation to objectives, design and significance:** By using the proposed $8 million grant to provide $200 million in financing over ten years, Self-Help will extend the direct impact that CECSG funds have on capital availability for charter schools. In addition to the quantity of lending, the program will be strictly targeted to serve students and communities that are most in need of financing options, as measured by the specific criteria detailed in *Section A2* above*.* Furthermore, our goal is to create a replicable and successful model that delivers financing through a variety of flexible channels. Finally, Self-Help will not charge any project costs other than loan losses to the grant.

**A9. Supported by Strong Theory**

Self -Help's charter school financing program is based on more than just lending. Our approach – summarized in the logic model in the appendix – is inspired and informed by nearly four decades of community-based economic development and 20 years of charter school lending. The project plan described above in A2 is based on the four desired Outcomes in our logic model. To briefly summarize, we work to: 1) help charter schools provide quality school choice in diverse low-income communities; 2) help a full spectrum of charter schools to grow and thrive; 3) help schools access adequate and varied sources of capital; 4) help schools become financially stable and better able to navigate facility challenges.

Our model's Inputs include large-scale capital, decades of experience in community development finance, partnerships, and a deep commitment to civil rights and economic justice. Our Activities are driven by our broader vision and desired Outcomes. Financing is central, and specifically financing designed to meet the specific needs of schools serving high-need students. That means offering a range of loan sizes, from those as small as $50,000 for early-stage innovators to packages as large as $20 million for expanding networks. It means creating the $30 million HILA pool focused on schools in low-wealth communities that lack the collateral to support traditional loans, And it means offering lower rates and fees, generating savings that schools with tight budgets can invest in great teaching and student experiences. We provide expansive technical assistance, recognizing that educational innovators are rarely experts in finance and real estate development. Since charter schools live in a complex ecosystem that includes charter support organizations, authorizers, funders, and other lenders, we conduct outreach to, provide technical assistance to, and create tools for this broader set of partners who can make or break schools' success. The model's Outputs have been detailed throughout this proposal—80 loans totaling $200 million, highly targeted to low-income communities in need of quality educational choice. We have set specific benchmarks for reaching rural and early stage schools, and we have set concrete targets for technical assistance, outreach, and replication. These tangible results are all aimed at working towards the logic model's four major Outcomes, to benefit low-income students on a national scale.

## B. Quality of Services

### B1. Services provided reflect needs of charter schools to be served.

**a) Variety of Financing Tools:** This proposal meets the needs of schools of a wide variety of sizes and at quite differing points in their development. Our borrower schools typically lack significant grant or foundation funding, relying instead on government-issued, per-pupil funding allocations that give them little financial cushion. In fact, 78% of our borrowers were independent schools outside of charter management organizations (CMOs) at the time of our first loan to them. With thin margins for debt service and limited operating records, early-stage independent schools need the depth of underwriting and assistance that Self-Help provides. Our HILA loan fund will benefit schools that need high loan-to-value loans, due to facilities like aging school buildings or modular classrooms that offer subpar collateral values. Many early-stage schools with limited start-up capital also turn to inexpensive leased facilities that need extensive upfitting to meet their needs for classroom space. Leasehold and high LTV loans were the most commonly cited need among the charter school leaders that we consulted during the grant application process.

Self-Help also has the scale to reach larger schools and networks that are seeking to expand and replicate. With a combination of NMTC financing, investments from major banks and corporations, and our broad base of credit union depositors, we will remain a long-term financial resource for the charter finance field. With an ability to lend up to $20 million per loan, we can take on major school projects that exceed the capacity of most lenders. Furthermore, Self-Help has the capacity to support seasoned schools by refinancing loans with approaching maturity dates and balloon payments, allowing them to continue financially stable operations. Given our financial capacity, Self-Help is well positioned to provide schools with long term, affordable loans that can address their facility financing needs for years to come.

**b) Training and Technical Assistance:** Self-Help complements our financing with more than 2,000 hours per year of technical assistance, which we view as an essential component of serving our target market. Through our experience of lending to charter schools, we have intimate knowledge of budgeting, financial projections, and charter school regulations. We have dedicated construction managers who have worked with dozens of schools on the myriad details of purchasing, building, expanding, and leasing a facility. We frequently alert schools to trouble spots in the process and introduce them to the types of financing available, often putting them in contact with alternate sources of credit, including local banks, that might better serve their needs. The appendix includes seven tools and models that we share with the field, and we will develop three more as a project target of this proposal. All operating and technical assistance expenses will be covered by Self-Help, with no use of the CECSG grant outside of credit enhancement.

We also reach beyond lending and real estate technical assistance to offer broader advice on governance, student diversity, and financial stewardship. For example, in 2013 we advised a North Carolina charter school (Central Park Charter School for Children) on the process for setting up a weighted lottery giving preference to low-income applicants, the first of its kind in the state and consistent with recently released US Dept. of Education guidance on weighted lotteries.

**B2. Charter schools and agencies involved in planning and show support:**

Self-Help regularly seeks input from the charter school field and works to incorporate their ideas and concerns into our lending operations. In preparation for this proposal, Self-Help interviewed seven charter movement leaders and then hosted two focus groups with nine participants. This included four charter school leaders, three charter school support organizations (CSOs**),** four lenders; two philanthropic providers of grant and debt to schools and two nonprofit charter school real estate developers.

The CSOs expressed a concern that single-site charter schools are "being pushed out to the edge" of the capital market because the vast majority of lenders now work only with large networks. Fully 78% of our borrowers are independent non-network schools, and we were encouraged to keep them as a priority. Authorizers and charter organizations also highlighted the need for experienced national lenders such as Self-Help to educate local lenders.

Self-Help's plan to create the High Impact Low Asset Loan Fund was supported by both focus groups, as each highlighted the need for more capacity and willingness to finance early-stage schools. Participants also acknowledged the increasing difference in some areas between project cost and appraised value, highlighting the need for high-LTV lending. When we asked if they would rather that we further reduce our interest rates or increase our collateral risk, increased collateral risk was preferred, especially by school leaders. Two participating CDFI peers, [redacted] are expert charter school lenders who expressed interest in referring and partnering on loans.

The groups emphasized the lack of lenders in rural areas and encouraged us to add Mississippi as a target state. They emphasized the need for collateral gap coverage – as we plan with the proposed HILA Fund – because rural appraisals are so often so significantly below the project cost.

Participants agreed that we should refrain from financing high-priced "turnkey" for-profit real estate developers that present schools with above-market buyout options coupled with escalating rents. These schools often find their futures are constrained by unwise deals struck at their early stages. We were also encouraged to continue our guidance to schools on the true cost of their facility decisions. Andrew Lewis of the Georgia Charter Association said, “Facilities are still a critical piece and they make people desperate and they get into bad deals. Young schools need to hear facilities guidance early and often.” We were encouraged, though, to consider refinancing schools that had used for-profit developers for a lease-to-own package, where we could offer take-out financing when the 7-year leases expire.

We also discussed the value of targeting schools led by people of color. One of the interviewees (Deb McGriff of New Schools Ventures Fund), shared that Teach for America alumni of color who are starting schools don’t have the same successes and clout as their white peers. We were encouraged to look at number of teachers of color and assess school policies and practices with a social equity lens. These ideas support our plan to add a racial equity assessment component to our pre-loan academic appraisals and our post-loan portfolio reviews. Issues of equity and access will be evaluated using quantitative data (enrollment, application, and discipline data, for example) and through qualitative data (interviews with school staff regarding school policies and practices).

Several participants referenced the Charter School Growth Fund’s Emerging Leaders Fund that focuses on school leaders of color already at CMOs or planning to become such. We were encouraged to continue and grow our work serving schools that are earlier stage and/or planning to stay independent.

In addition to providing feedback on our services and products, charter school leaders, current borrowers, school organizations and lending partners continue to show exceptionally strong support for Self-Help and our CECSG lending. Self-Help has received 26 letters of support, including nine from charter schools, five from charter support organizations and authorizers, seven from banks and CDFIs, and five from elected officials, including our two Senators, two US Representatives, one of whom is Chair of the House Committee on Education and the Workforce, and Mississippi’s Lieutenant Governor. The Appendix contains the full list and the letters.

**B3. Use of cost effective strategies, including reasonableness of fees and lending terms:** As detailed in *Section A1* above, Self-Help will provide affordable, flexible and low-cost financing to charter schools, and will continue to assist schools in developing the lowest cost strategies available for facilities financing, with particular targeting to projects with weak collateral. All operating and technical assistance expenses will be covered by Self-Help, with no use of the CECSG grant outside of credit enhancement for loans. The strategies detailed in Section A1 can be briefly summarized as: (i) lower fees at closing; (ii) lower interest rates; (iii) more flexible loan terms; (iv) longer amortization periods; and (v) enhanced technical assistance. Additionally, our construction management support allows school leaders to stay focused on the classroom and often results in significant borrower savings through reduced construction costs, far exceeding the below-market fees we charge for that assistance.

**B4. Services that assist quality schools with the greatest needs:** As outlined throughout this proposal, Self-Help is committed to meeting a set of concrete metrics:

**1) Financing that is targeted to quality schools in disadvantaged communities,** with at least 95% of our financing reaching schools in low-income areas and/or schools in districts with a significant need for quality school choice. With underwriting that accommodates the financial and facilities challenges of schools with limited funding, Self-Help is well positioned to serve borrowers with the greatest needs, and 98% of our past CECSG borrowers have met the strict targeting criteria of this proposal. In addition, our capacity to refinance maturing charter school loans for existing schools helps us deploy our financial resources to help seasoned schools maintain long term stability, and potentially free up capital for other lenders.

**2) Financing for leasehold improvements and for early-stage schools with very weak collateral**, with at least $30 million targeted to a market served by few CDFI or conventional lenders. This is particularly important for highly distressed schools in communities hit hard by the recession. For schools to reach low-income students, they must locate in neighborhoods with low real estate values. They often must lease facilities and make hard-to-finance leasehold improvements. The CECSG grant is critical to our ability to make loans with the greatest benefit to disadvantaged students.

**3) Extensive and comprehensive free technical assistance to schools,** as detailed throughout, including guidance on fiscal management and board governance that complements our advice on real estate development and financing. We will offer at least 2,000 hours of TA annually through one-on-one exchanges, structured group trainings and conference presentations.

## C. Applicant's Business and Organizational Capacity

### C1. Amount and Quality of Experience

Founded in 1980, Self-Help is one of the nation's oldest and largest community development financial institutions. In its 37-year existence, Self-Help has provided $7.5 billion in financing to more than 134,000 small businesses, nonprofits, and homeowners nationwide. Our focus has always been on creating wealth and opportunity for those left out of the economic mainstream, and more than 77% of our overall lending has reached low-income borrowers and communities. Self-Help's economic impact has been substantial, having helped our borrowers create or maintain 44,000 jobs, including 4,000 jobs in the charter school sector.

In the 21 years since our home state of North Carolina passed charter school legislation, Self-Help has become a national leader in lending to the sector, providing more than $327 million in loans that have helped our borrowers create or maintain more than 49,000 student spaces. Our charter school lending is particularly focused on reaching disadvantaged students, with 95% of financing reaching schools that serve predominantly low-income students and/or communities. Through diligent underwriting, we have experienced o*nly three defaults in the course of making 143 charter school loans, 99 of which were in the CECSG program. Our all-time charter school loan charge-offs total less than 0.2% of our total charter school financing dollar volume.* As such, Self-Help's track record shows that responsible lending and technical assistance lead to successful and financially stable borrowers, even in communities with very limited financial resources.

Our work in the charter school sector is driven by a commitment to reach beyond economic impact and support overall community wellbeing. As one of the earliest lenders to develop a targeted childcare lending program, we have financed 502 loans to borrowers who provide over 24,000 spaces, predominantly for children in low-wealth communities. We have made 163 loans totaling more than $38 million to healthcare providers and financed 23 supportive housing projects that address mental illness, developmental disabilities, addiction, and homelessness. With more than $234 million in sustainability-related lending, we have supported borrowers who confront problems such as pollution, landfill expansion, and lack of access to fresh foods that disproportionately impact low-wealth communities. Self-Help will continue to expand the breadth of its impact, with the CECSG program playing an important role.

**C2 Applicant's Financial Stability Self-Help's Operations:**

Few community financial institutions have the financial strength and stability of Self-Help. Self-Help has remained strong and has grown through three recessions, staying true to its mission of connecting low-wealth families and communities to economic opportunity. We have deliberately built a strong net worth to give us capacity to take risks, undertake innovations, and respond to the changing financial needs of our target borrowers. At the end of 2016, Self-Help's total assets were just short of $2 billion, with net worth of $600 million. This size and financial strength has permitted Self-Help to increase its impact significantly. In 2016, for example, we provided $360 million in financing benefiting more than 14,000 individuals, families, businesses, and non-profits.

**Raising Capital to Expand Our Impact:** Self-Help has more than three decades of experience in raising capital from a broad variety of private and public institutions. With a multi-affiliate structure that includes a nonprofit loan fund and two community development credit unions, we draw strength by attracting a diverse set of small and large capital investors that can support our charter school lending. In the past three years alone, Self-Help's combined affiliates have raised more than $31 million in capital grants, $256 million in debt and equity, and $190 million in deposits. These funds come from an increasingly diverse set of investors that include banks, insurance companies, non-profits, businesses, mutual funds, foundations, individuals, government agencies, government-sponsored enterprises, pension funds, universities and religious organizations. Self-Help Ventures Fund, our non-profit CDFI, has been able to diversify its capital sources and negotiate better terms with its investors because of its financial strength ($450 million net worth) and size ($1.4 billion assets under management), resulting in better terms to our borrowers. Debt and equity sources include [redacted]. SHVF has also received $410 million in New Markets Tax Credit allocations since 2004. With these tax credits SHVF has raised $107 million in equity from 8 different investors, creating an even broader variety of capital sources. We have lent $240 million of our NMTC funding in 84 loans to charter schools. Finally, last year SHVF was awarded a $100 million CDFI Bond – a source a low-cost, long-term debt that is attractive to many of our charter schools borrowers. We are exploring how to use CECSG with the Bond program, which, at present is not allowed due to government concerns around "double dipping."

In addition to the success in attracting a diverse base of debt and equity in SHVF, Self-Help's two CDFI credit unions have access to an enormously deep source of debt: federally insured deposits from a combined 140,000 member base. We draw deposits from consumers that use the credit unions' loan and basic banking services, and from impact investors that invest their funds in the credit unions to receive a social return as well as a financial return. As of the end of 2016 Self-Help Credit Union, chartered in 1984, has $628 million in deposits. Self-Help Federal Credit Union, chartered in 2008 to support our nascent work in other states, has grown at an historic pace to reach $577 million in deposits.

Between our current liquidity, grants, commercial sources of debt and equity, and our expanding deposit base, Self-Help clearly has the capacity to provide the $200 million in loan capital required for this proposal. In addition, Self-Help's financial condition insures that it has the staying power to remain a financial resource for charter schools for decades to come.

**Strong Balance Sheet:** Self-Help's net worth and loan loss reserves contribute largely to our financial stability. With $600 million in combined net worth across our affiliates, Self-Help has one of the strongest balance sheets of any CDFI. Our goal is to maintain a combined capital ratio (net worth divided by total assets) of not less than 15% - more conservative than the customary 8% ratio for conventional banks and credit unions. Today this ratio is an even more conservative 31%, making us exceptionally well-positioned to take the measured risks required in charter school lending. Our net worth has enabled us to weather the financial and foreclosure crisis, undertake innovative new programs and to leverage additional liquidity when needed. For example, during the Great Recession, we launched Self-Help Federal Credit Union to support low-income and minority families beyond our home state of North Carolina. SHFCU grew largely by absorbing and reviving weak community credit unions, merging them into a stronger whole that could provide better products and services. This was only possible because we were able to inject substantial net worth into SHFCU and bring its management talent to these smaller credit unions. SHFCU is now large enough to be a contributing lender to our charter school lending program. We were able to undertake this large expansion despite the fact that we were managing a $2 billion portfolio of low-income home mortgages during the worst foreclosure crisis since the Depression.

Self-Help monitors its loan loss reserves carefully to insure Self-Help's stability. We carry an Allowance for Loan Loss to cover the potential losses in the loans held on our balance sheet, and the Liability for Contingent Losses covers potential losses for off-balance sheet loans we guarantee. These two reserves meet the loan loss requirements established by Generally Accepted Accounting Principles. In addition, Self-Help holds more than $30 million in cash loan loss reserves, similar to the charter school enhancement grant but for other sectors and markets (child care, energy-efficiency, and healthy foods financing), giving us even greater protection against loan losses. These factors, plus a track record of consistent earnings, make us a reliable long-term financial resource for low-income communities.

**Consistent Earnings:** Self-Help has had very stable net income over its three-decade history. It has had only one year in which it did not have positive net income, and that was in 2010 during the depths of the financial crises. Despite this one off-year, Self-Help's net worth actually increased during the four years of the Great Recession, from $324 million to $409 million at the end of 2012. Self-Help's net income allows us to avoid dependence on grants and contributions for basic operations. Rather, we use grants to support new programs, major expansions and lending that involves higher risks. We cover combined operating costs with earned income exclusively. For example, Self-Help's 'sustainability ratio" (earned revenue divided by operating costs) has been 1.09, 1.03 and 1.10 for each of the last three years.

**C3. Applicant's ability to protect against unwarranted risk in its loan underwriting, portfolio monitoring, and financial management.**

**Underwriting Standards for Participants:** Self-Help has been able to narrowly target its charter school lending to low-income communities that have limited financial resources by using flexible but prudent standards that have contributed to our program's success and sustainability. In our 14 years of CECSG charter school lending, we have only experienced three defaults among the 99 loans originated, and the net $187,459 in CECSG funds we have drawn upon represents less than 0.2% of our total loan production in the program.

Our underwriting standards have evolved over 30-plus years of commercial lending, with current standards detailed in the Commercial Loan and Investment Policy included in the Appendix. Underwriting is performed by a credit committee which includes the organization's most senior credit officers, senior real estate and construction experts and charter school specialists. Loan officers who are trained specifically for lending to charter schools are involved throughout the entire closing process and work closely with senior underwriters to make sure the borrower is credit-worthy and the loan is structured appropriately. To be eligible for the credit enhancement, schools must: (1) demonstrate ability to repay the loan; (2) serve students in locations of need for quality education choices; (3) meet the federal definition of a charter school; (4) show promise of offering a high-quality education; and (5) provide available collateral to secure the loan, mitigated by our ability to compensate for weaknesses with the CECSG program and, sometimes, other credit enhancements. Beyond those basic threshold requirements, Self-Help focuses on the following underwriting factors to determine credit-worthiness:

*(i) School Leadership and Governance:* Self-Help assesses a school's capacity in leadership, financial management, personnel management, and education expertise, through site visits, interviews, references and assessment of track record when available.

*(ii) Educational Quality and Social Impact:* We use the specific criteria outlined in *Section A2* above as an objective tool to ensure social impact targeting. Our approach in assessing educational quality, in collaboration with our skilled partner Public Impact, gives us confidence that borrowers are having positive impacts in disadvantaged communities. And, we are developing new replicable tools to assess how well schools are serving children of color.

*(iii) Financial Viability:* Significant analysis is dedicated to determining the ability of a school's operating cash flow to cover debt payments, with input from school staff, outside advisors (accountants, auditors) and in some cases authorizers. Self-Help compares an applicant's current and projected operating statements to those of other comparable schools using an in-house database of charter school financial information. While we prefer to see debt coverage ratios above 1.20, we frequently make loans to schools with thinner margins that demonstrate an ability to grow. Creative partnerships with other operating entities and development of grant resources can bolster a school financially and demonstrate its strong organizational capacity.

*(iv) Collateral:* Self-Help generally takes a lien on all reasonably available collateral and also routinely takes a blanket lien on accounts and equipment. While we prefer loan-to-values (LTV) at or below 70%, few of our charter school loans have met that criterion, and several loans have had loan-to-value ratios based on real estate of over 100%. CECSG grant support will be crucial to our ability to not only continue to prudently supply flexibility on collateral, but to expand our flexibility using the HILA loan fund.

*(v) Statutory, Regulatory, and Political Climate:* Self-Help always assesses the influence of state law and regulatory environment on the operation of a school. We also seek to understand the political dynamics at the local and state levels, as they can significantly influence a school's ability to attract students and obtain charter renewal.

*(vi) Competitive Analysis:* Charter schools often compete for enrollment with other schools. We analyze the Title I environment and how the surrounding schools perform on state academic assessments, in addition to student and parent demand for school spaces.

*(vii) Credit Enhancements:* Self-Help considers the use of partial and full corporate guarantees, loss reserve arrangements, operating reserves, and supplemental collateral to support an application that does not meet credit standards. Nevertheless, these tools alone are often not enough, making the CECSG program vital to those schools with the greatest financial challenges.

*(viii) Project Development Capacity:* Our staff expertise in construction allows us to both assess this phase and provide needed technical assistance. Construction-related risk is deceptively complex, and we have learned through experience how important it is to be attentive to this potential pitfall. Our program is enhanced by the availability of three staff construction experts.

Self-Help has a track record and reputation for providing loans to charter schools that other lenders perceive to have too much risk. The specific terms and conditions of a loan are carefully crafted both to meet borrower needs and to minimize risk, sometimes including measures that require the school to adapt its policies or approach. While the bond market and mainstream commercial lenders often view a short operating history, limited financial resources, and small loan size (some sources have minimums as high as $3 million) as impediments to lending, Self-Help is willing to analyze the total picture and thus make capital available to newer and smaller charter schools.

**Portfolio Monitoring:** Self-Help devotes a significant amount of creative energy and technical assistance to working on problem loans in order to avoid foreclosure. As our charter school lending has achieved a critical mass, we have created specialized portfolio management tools and procedures to assess risks of individual loans and at the portfolio level. The Appendix includes multiple tools for assessing charter school loans, which we have shared broadly with the field. We have also developed, with the educational consulting firm Public Impact, an annual academic performance rating that compares the performance of Self-Help's charter school borrowers across the states and districts where these schools are located.

Self-Help has a full-time Director of Commercial Loan Risk Management with twelve years of experience in monitoring our charter school loans and a full-time Portfolio Risk Analyst with three years of experience focused on charter school loans. The Director and the Analyst review the financial and academic performance of the school on a regular basis, organize routine site visits and make sure there are no compliance or enrollment concerns. Our goal is to come to the aid of schools that might be struggling, either by making short-term working capital loans (from Self-Help's non-credit enhanced funds), attending monthly board meetings for sustained periods, recommending operational changes, and/or even taking over the completion of construction projects. In a situation of default, we view it as our duty to intervene to protect not only our interests, but also the interests of a school's students, families, and communities. Our loan servicing and collection staff members are experienced in working with borrowers to correct payment problems and, in the worst-case scenario, to maximize loan recovery. Only when all other options are exhausted will Self-Help begin foreclosure proceedings.

**Portfolio Quality:** Self-Help's overall commercial loan portfolio performs as expected, with low overall loan losses and slightly higher delinquency rate due to the nature of our borrowers. At the end of 2016, our 60-day plus delinquency stood at 0.64%. Although we mainly serve borrowers who are unable to obtain credit from conventional sources, our delinquency levels have been low in the past few years due to our workout and loan restructuring activities and a growing portfolio. In addition, due to our underwriting standards and the technical assistance we provide, actual losses are always very low. In 2016 the charge-off rate was 0.01% of the outstanding balance, a negligible amount. Our charter school portfolio generally performs better than our overall portfolio and in 2016 this was also true with no delinquency and no charge-offs. Our watch list is a collection of delinquent loans and loans that we believe have a good chance of experiencing operational problems. These borrowers receive extra attention and assistance, consistent with our strong, mission-driven commitment to help them overcome difficulties and get back on track. At the end of 2016, 4.1% of our total commercial portfolio and 6.6% of our charter school loans were on our watch list. These loans, with time and technical assistance, generally cure and pay off in full, which explains our low loan loss ratio. Our portfolio quality has improved over the past few years despite the slow economic recovery, and Self-Help's Commercial Lending Asset Quality team monitors the commercial portfolio on a daily basis and maintains regular contact with our borrowers.

Currently, Self-Help's charter school portfolio has no delinquencies or defaults. We consider 6.6% of our charter school portfolio to be on a watch list to receive special attention in order to avoid delinquency, which is typical of a portfolio of organizations often faced with thin operating margins. Although Self-Help's charter school loan losses have been low, our existing CECSG awards are increasingly highly leveraged, with an outstanding portfolio of $154 million that is much larger than originally envisioned. Additional grant funding is essential to our ability to continue charter school lending with a level of credit enhancement adequate to offset risk.

Some degree of delinquency and default is likely in the process of lending to schools that have limited financial resources and serve high-need students, but Self-Help's record has been very solid and prudent. We have drawn on CECSG funds for less than 0.2% of our total charter school loan pool. Self-Help has suffered only two charter school loan losses, one in 2010 and one in 2014, with a third loan is currently in the collateral liquidation process. These defaults illustrate that charter lending does involve real risks.

We experienced our first loss in [redacted]

[redacted]

[redacted]

[redacted].

These experiences illustrate the risks of working with early-stage and independent schools. In some cases, early-stage borrowers such as [redacted] have replicated and become national success stories. However, it is not always possible to foresee the difficulties a school will face, despite close scrutiny in the underwriting process. The lessons learned from these challenges include: (a) school leadership and their boards can have conflicting plans and priorities, especially when there is change in this leadership; (b) academic achievement above weak surrounding schools is insufficient if achievement still lags behind state standards, and (c) sometimes our best efforts are simply not enough to predict future school performance or save struggling schools, creating a long-term need for credit enhancement**.**

In addition to meeting with a school's leaders, Self-Help now attends a board meeting or meets with board members before originating a loan, to better understand leadership capacity an oversight. Our academic assessment now compares a potential charter school borrower's academic performance with that of nearby schools, the local school district, and the state. We continue as always with our in-depth overall scrutiny of applicants, leading to successful loans in the vast majority of cases.

**Our 2016 year-end loan performance figures are shown in the following table:**

| **Self-Help Commercial Loan Delinquency:12-31-16** | ***Charter Schools*** | ***All Commercial Loans*** |
|---|---|---|
| % outstanding balance 60+ days past due | 0.00% | 0.46% |
| % of outstanding balance on watch list | 6.6% | 4.1% |
| Loan losses (dollars lost divided by outstanding balance in a given year) | 0.00% | 0.01% |

**Financial Management/Risk Mitigation at the Institutional Level:** Self-Help is an experienced and capable financial manager. We have endured several recessions and the most severe economic storm seen since the Great Depression, staying stable and active throughout, and actually gaining in financial strength. We have developed a strong culture of fiscal control and risk management that carefully balances risk with our mission to provide capital for deserving community projects. We have internal systems of checks and balances to ensure that no funds are misused either accidentally or intentionally. Self-Help's financial condition is routinely assessed by external parties. Our two credit unions are consistently examined for their financial health by state and federal regulators. If they were in any way distressed, the regulators would make that information public and limit our activities. Because our credit unions are overseen by federal and state regulators, we have adopted the same disciplined financial management procedures required of a regulated institution for all of our entities. Our nonprofit Self-Help Ventures Fund is reviewed by AERIS (an independent ratings agency) annually and has a financial strength rating of AA+ (in the top 13% of rated CDFIs) and four stars (the most one can achieve) for our impact and policy work. A summary sheet of our AERIS rating is included in the Appendix. In addition, Self-Help's lenders, which include commercial banks, investment banks, insurance companies and other financial institutions, set specific covenants and undertake annual reviews of Self-Help's financial condition.

The Self-Help credit unions' risk management controls are reviewed externally at least once a year by state and federal examiners. In addition, all Self-Help entities are audited annually (including the requisite A-133 compliance evaluations) by Dixon Hughes Goodman, LLP, a large public accounting firm specializing in financial institutions.

Self-Help employs a series of policies and procedures that address credit risk, asset-liability risk, liquidity risk, operations risk and security risk. These policies and procedures are reviewed and updated by management and Boards of Directors regularly, and assessed by auditors and credit union examiners at least annually. They have been refined over three decades of community lending, and tailored specifically to our sectoral specialties (such as charter schools). Finally, internal compliance with these policies is reviewed by Self-Help's internal auditor on a regular basis.

We have sufficient separation of duties to insure that transactions are performed by one set of employees and reviewed by different employees to insure compliance with policies. Credit risk is addressed by underwriting, loan monitoring and collections policies and procedures, and carried out by our Commercial Lending and Commercial Lending Asset Quality teams. Our robust asset-liability risk management system, which analyzes liquidity and interest rate risks on a monthly basis, runs several stress tests to determine the possible impact of different types of interest rate and other shocks. These analyses give us immediate information to help us plan for and minimize the impact of future liquidity and interest rate deviations, and controls for interest rate risk.

Self-Help's financial management group controls the flow of cash in and out of Self-Help from operations, lending, funding, and deposit fluctuations. Self-Help manages and estimates liquidity on a daily basis to ensure that current and projected cash will meet our operating expenses, loan demand, and expected repayments to lenders. Cash required for operating expenses is paid for from income earned from loans and investments, thus a high priority is placed on deploying as many assets as feasible in community development loans to maximize earned income. For this reason Self-Help is not dependent on grants to fund its operations, allowing Self-Help to grow without needing outside funding. Self-Help's assets that are not deployed in loans are managed under its Board-approved Investment Policy (included in the Appendix). Self-Help utilizes a very conservative investment policy that limits its investments to short-term money market and treasury instruments. We also operate under a liquidity policy (also Board-approved) that establishes minimum cash holdings and total liquidity requirements.

For short-term cash needs, Self-Help borrows on our various lines of credit. Currently, Self-Help has lines of credit and repurchase liability agreements ("repos") with [redacted]. [redacted]'s line is $25 million, and is undrawn at the end of 2016. Our borrowing capacity with [redacted] and the repo providers is $227 million, of which $212 million is available for immediate liquidity. Self-Help has the funding needed to make loans because of our ability to raise capital grants, borrow substantial funds from major commercial and capital markets, and attract federally-insured deposits from individuals and organizations across the country.

Operating risks, including human and internal systems errors, and fraud are managed by a system of internal checks on major transactions. We regularly review operations reports to identify areas of weakness and spot irregularities. Lastly, security risk has become a greater focus as more and more of our activity takes place electronically. As a federally regulated institution, Self-Help is required to have comprehensive and detailed security practices to protect the confidentiality of our depositors' and borrowers' information and prevent the authorized access use of that information.

**C4. Applicant's expertise in education to evaluate the likelihood of success:** Self-Help will continue to use its combination of structured loan officer review and external review by the leading educational consulting firm Public Impact to assess borrowers. Of note from a replication perspective, Self-Help's pioneering work with Public Impact to develop this assessment tool is now being used by other charter lenders. Public Impact enhances our review with a detailed appraisal that assesses demographic characteristics, research-based instruction, student performance results, high-quality teachers, attendance, and retention, and provides areas in need of further assessment or technical assistance. We are developing, in conjunction with Public Impact, an Equity Assessment to enable us to understand and support schools' success in educating children of color. We will design a framework to assess commitment to and progress toward racial equity and access on the part of loan applicants and active borrowers.

Lending staff collect quantitative and qualitative information through site visits to the school and interviews with school leadership and other relevant third parties (i.e. authorizers, resource centers, etc.). Steve Saltzman's more than 15 years of experience evaluating for-profit and nonprofit businesses, including charter schools, gives him unique skill that he applies when assessing charter school proposals and Walton Family Foundation start-up grant applications for Atlanta Public Schools. Steve has his Master's Degree in African-American history, taught the subject at the University of Virginia, and has a deep appreciation of the impact of structural racism on the academic results of children of color.

Three of our loan officers who make charter school loans -- Brittany Bennett, Sheila Wheeler and Julia Malinoski -- have teaching experience. Brittany completed a year of service with the AmeriCorps-affiliated national nonprofit, City Year, in Columbia, SC. With City Year, Brittany served as a full-time tutor and mentor, offering pull-out tutoring and classroom support for middle school students who were off-track at an under-resourced, predominately low-income African-American Title I school. In this role, she worked closely with teachers to track student performance and to develop appropriate interventions for selected students. Sheila served as a HEART tutor for five years in Charlotte, NC, working one-on-one with two 2nd graders at a Title I district elementary school. Julia is a former Teach for America corps member who worked as a 5th grade special education teacher in the New York City Public School District for two years. After her time in New York, she provided technical assistance to the public school districts in Phillips County, Arkansas, helping schools apply for federal grant programs and building more collaborative relationships between schools, law enforcement, and the business community.

**C5. Adequate standards of conduct to prevent conflict of interest: (***Conflict of Interest Policies are in the appendix as "Standards of Conduct"*) Self-Help's Conflict of Interest Policy establishes very conservative rules governing lending, accounting, and account servicing, with disciplinary actions that include termination. Managers and board members are excluded from receiving Self-Help loans, and we cannot provide preferential loan terms for organizations where a Self-Help board member or staff person serves on the board. Staff and board members are prohibited from participating in credit decisions that might benefit their individual interests or the interests of an organization where they serve on the board of directors. Policies regarding government funds are particularly stringent:

*"Government Funds: Funds received by Self-Help from governmental units should be subject to a higher standard that avoids even the appearance of a Conflict of Interest. Hence, it is the policy of Self-Help to make no loan to a Staff Member or Family Member of a Staff Member if public funds are needed to make or guarantee the loan. If Self-Help makes a loan using public funds to a person who was not a Director or Staff Member at the time the loan was made, but who subsequently becomes a Director or Staff Member, such loan, if possible, shall be reclassified to a different funding or guarantee source, and another new or existing loan shall be substituted in its place for the loan funded with public funds…."*

**C6. and C7. are not applicable to this proposal.**

**C8. For previous grantees, performance in implementing these grants**

Self-Help's performance in the CECSG program has far exceeded goals and expectations. We have leveraged $10.2 million in grant funds to provide more than $300 million in financing through 99 loans to 64 schools, more than tripling the performance goals for our two awards. For our 2003 grant, we met the $80 million lending goal in 2010, three years ahead of schedule, and have now lent nearly $270 million backed by the grant. For our 2006 grant, we met the initial $10 million deployment goal on schedule in 2011 and have now lent more than $29 million. Despite this record of success, Self-Help has not received a CECSG grant in 11 years. Grant funds are leveraged to a much higher degree than initially envisioned, which increasingly hinders our ability to serve schools with the greatest collateral challenges. Additional credit enhancement funding is essential to our ability to sustain a highly successful program for the benefit of students in communities with the greatest needs and to maintain a long-term resource for the charter school field.

## D. Quality of Project Personnel

### D1. Qualifications of personnel, including relevant training and experience (Summary)

*Much more fully detailed Staffing Plan is in the Appendix, including complete charter lending team.* Self-Help employs more than 600 staff, fifteen of whom are involved significantly in charter school lending, as well as many more who are involved to a lesser degree in activities such as loan closing, loan servicing, financial management, impact measurement and raising loan capital. One of our great organizational strengths is the depth and breadth of talent of our entire staff, and our continued ability to recruit and retain highly qualified personnel. Key staff members include:

**Chief Executive Officer:** Martin Eakes is one of the founders of Self-Help and has served as the Chief Executive Officer of Self-Help and its affiliates for 37 years. Martin provides strategic direction for all of Self-Help's programs, including charter school lending, and must approve all loans over $1 million. He was also instrumental in the creation of North Carolina's charter school law and in the subsequent founding of Maureen Joy Charter School, a high-performing charter school in Durham, and is keenly aware of the challenges of starting an independent charter school without philanthropic, federal or state start-up grant funds. He brings an unparalleled understanding of the power of community development finance to expand opportunity for people traditionally underserved by the financial mainstream. Under his leadership, Self-Help has grown from an idea to an organization with more than $1.7 billion in assets. He has received numerous awards for his work at Self-Help, including a MacArthur Foundation "Genius" Award in 1996, the Humanitarian of the Year award from the North Carolina Chapter of the National Association for the Advancement of Colored People (NAACP) in 2010, and was one of only 12 Ford Foundation Visionaries named worldwide in 2011, and, last year received the Leadership Conference on Civil and Human Rights' 37th Annual Hubert H. Humphrey Civil and Human Rights Award.

**Director of Charter School Lending:** Steve Saltzman, who joined Self Help in 2006, is responsible for design of our charter program, outreach and technical assistance to charter schools and also plays a leading role in the origination of transactions. Steve participates on the Walton Family Foundation grant review committee for start-up charter schools in Atlanta and Memphis, reads charter school applications for Atlanta Public Schools and provides technical assistance to both the Georgia and Mississippi Charter School Associations. Steve has also provided technical assistance and advice to the new CEO of the Colorado League of Charter Schools in its leadership transition and board reconfiguration. Steve also led the creation of SPOON, Student Power Over Our Nutrition, a student-led food policy council at one of our charter school borrowers in conjunction with doctoral students at UNC's school of Public Health. The program which empowers students to get healthy cultural appropriate food at Title I schools is being implemented with more of our charter school borrowers and was adopted last year by the traditional public school system in Durham, NC. He has extensive experience in the capital markets, having spent ten years raising venture capital and managing technology companies before coming to Self-Help. He also spent five years teaching Civil Rights and Labor History at the University of Virginia and worked as a reporter for a daily newspaper in the Mississippi Delta covering African-American politics and rural poverty. Steve earned his undergraduate degree from Duke University and a Master's of Arts from the University of Virginia.

**Commercial Lending Team Leader:** Brian Schneiderman came to Self-Help in 2004 to manage our largest and most challenging commercial loan transactions and became Commercial Lending Team Leader in 2010. Since joining Self-Help, he has provided overall operational management for hundreds of millions in major real estate financing, including charter schools, and also serves as a lead underwriter and strategist.

**Project Consultant:** Bryan Hassel, Ph.D., Co-Director of Public Impact, continues to provide depth and expertise for Self-Help's academic appraisals. He consults nationally on charter schools and the reform of existing public schools. In the charter school arena, he is a recognized expert on state policies, accountability oversight systems, and facilities financing. He has also served as a consultant to leading efforts to create high-quality charter school systems, including the charter school office of the mayor of Indianapolis and Rhode Island's creation of a network of mayor-led charter schools.

**Boards of Directors:** Self-Help is composed of four primary entities: the Center for Community Self-Help (the applicant and Self-Help's parent organization), Self-Help Credit Union, Self-Help Federal Credit Union, and Self-Help Ventures Fund (a nonprofit loan fund). Each entity has its own board of directors. All four organizations share the same chief executive officer, Martin Eakes. Members include financial institution leaders, executive directors of nonprofit organizations that serve low-wealth communities, real estate professionals, and academic experts on poverty and community development. The boards of directors review and approve lending policies, and individual board members serve on our loan approval committees. The boards meet quarterly, review financial statements, approve new program developments, and monitor and evaluate budgets and program accomplishments. Loan decisions are delegated to credit committees, which are made up of key management staff and board members. The Center's board list and biographies are in the appendix.

**D2. Staffing Plan: Please refer to the Appendix for a summary of individual backgrounds for the entire project team, along with résumés of key staff.**