Expanding Charter School Opportunities Program

An Initiative of Nonprofit Finance Fund and Boston Community Loan Fund

Overview

Nonprofit Finance Fund (NFF) and Boston Community Loan Fund, Inc. (BCLF), the "Consortium" or the "Members", respectfully request consideration of a $12 million credit enhancement grant (the "Grant") to expand the reach and depth of their existing partnership to assist more charter schools in meeting their facility financing needs. NFF and BCLF are successfully deploying BCLF's 2015 $8 million credit enhancement grant ("2015 Award") through a proven, effective consortium. Through the proposed Expanding Charter School Opportunities Program (the "Program"), they will provide a comprehensive set of products, services and expertise to **connect high-quality charter schools in high-need communities with critical flexible capital and other assistance** to bring facility projects to completion. NFF and BCLF are uniquely positioned to deploy and leverage this credit enhancement. They are private, nonprofit, mission-driven Community Development Financial Institutions (CDFIs) each with more than three decades of experience making loans that conventional lenders have been unwilling or unable to provide. Since 1980, NFF has provided over $751 million in financing and technical assistance to nonprofits, improving their capacity to serve their communities. Its financing has supported 587 nonprofits in 25 states. Since 1984, BCLF and its affiliates have provided over $1.3 billion in financing to support community facilities and affordable housing, serving low-income people and communities.

NFF and BCLF believe that charter schools play a key role in providing low-income families and communities with meaningful school choice and access to high-quality public education, and they have been financing charter schools for more than 15 years. Members have deployed $248 million of debt and New Markets Tax Credits (NMTCs) to 77 charter schools since 2002. This financing has helped charter schools in 11 states and the District of Columbia, and spreads across the Northeast and Mid-Atlantic in addition to California, Michigan and Tennessee. Since 2009, they have developed a working partnership that provides efficient, affordable and flexible capital to charter schools. With their 2015 Award, received and administered by BCLF, the Consortium expanded their lending activities into Tennessee, a market underserved by CDFIs and in need of an estimated $80 million in financing over the next several years. Since early 2017, Members have closed [redacted] for schools in Memphis and Nashville, TN. They intend to build upon this expansion by using the Program to meet the financing needs of charter schools unmet by conventional sources in other under-resourced, high-need communities as well as their core markets (Northeast, Mid-Atlantic, California and TN).

Demand for their lending is evidenced by the growing pipeline of 22 charter schools currently in need of facility financing (see *Appendix A*) and 23 letters of support from existing and prospective charter school borrowers (see *Appendix B*). The Grant will allow them to expand the geographic reach of their lending, deploy more capital with more favorable terms, and leverage over [redacted] million to support 27 charter school facility projects over the next five years.

<u>Quality of Project Design & Significance</u>

Better Rates & Terms

The Grant will enable the Consortium to provide interest rates below market by an average of [redacted] for comparable financing, which, without credit enhancement, would more appropriately be filled by mezzanine debt or equity. The Program will also create access to financing that otherwise would not be available to schools. Most of the schools served by the Program will not be able to access conventional debt due to perceived credit worthiness (i.e., still ramping up enrollment and have not realized full revenue potential, lack equity, low-valued collateral, etc.).

Products offered will include: leasehold improvement, predevelopment, acquisition, and construction/term loans as well as lease and bond guarantees and subordinate financing. Their financing is offered on **a fixed-rate basis** for the term of the loan, mitigating the risk of rising interest rate environments. The Grant will enable Members to: 1) provide longer-than-standard interest only periods to lessen the debt burden on a school that is still ramping up enrollment and has not yet realized its full revenue potential; 2) offer loan-to-values (LTV) up to and in excess of 100%; 3) extend amortization periods up to 25 years; 4) provide favorable interest rates; 5) offer products not typically offered by Members (lease and bond guarantees); and 6) provide financing to "early-stage schools", those in their first three years of operation. Debt service coverage covenants will be more flexible than commercial standards, to avoid triggering events of default for schools running on tight cash flow budgets.

Members often take a subordinate lending position to enable deals to attract complete capital. They will negotiate flexible subordination and standstill agreements, and accept unconventional and non-real estate collateral, to facilitate the participation of conventional lenders in senior position, and to accommodate the needs of other funding sources (i.e., NMTCs).

The credit enhancement will not carry any fees. Any credit-enhanced loan products, including subordinate debt, will be offered at an average interest rate of [redacted] and have a loan commitment fee of [redacted] They will be able offer these **below-market rates for these high-risk lending products** with the support of the requested $12 million Grant.

Chart 1 below details Members' terms before and after credit enhancement is applied:

Chart 1: Summary of Loan and Credit Enhancement Product Terms

Consortium Members Standard Loan Terms

[redacted]

*Product not typically offered by Consortium Members.

Consortium Members Loan Terms Adjusted for Credit Enhancement

[redacted]

Project Goals, Objectives, & Timeline

NFF and BCLF have developed a robust *Logic Model* (see *Attachment 5*) with ambitious yet acheivable outcomes that focus on ensuring that all childen – especially those from low-income families or communities – have access to a high-quality education. They have used the *Logic*

Model to develop **clearly specified, measurable and appropriate Program goals, objectives and outcomes** against which they will measure success. The following goals and objectives are aligned with the purposes of the Grant and can reasonably be achieved.

Goal 1: Expand and Preserve Charter School Seats in Poorly Performing Districts and/or Low-Income Communities (See Appendix K for data on Members' core and targeted districts).

- At least 75% of the charter schools served will meet at least one of the following criteria:
  - Located in a district where more than 40% of students perform **below proficient on State academic assessments in either ELA or Math;**
  - Located in a district where more than 50% of public schools have been **identified for improvement,** corrective action, or restructuring under Title I of the ESEA[1].
  - Located in a district or have current or projected enrollment where 50% or more of the student population is **eligible for free or reduced-price lunch**.

Goal 2: Expand the Supply of Affordable, Flexible Capital to Charter Schools.

In deploying the Grant, the Consortium will:

- Charge affordable interest rates and fees. Members will:
  - **Not charge a credit enhancement fee**, which typically ranges from 1% to 5%; and
  - Offer interest rates between [redacted], well **below market rates** for comparable mezzanine-like debt of 9% to 12%;
- Have flexible terms.
  - Require **equity contributions** of between 0% and 10%; significantly lo**wer than standard** requirements of conventional lenders, often as high as 30%;
  - Lend at **higher overall loan-to-value** ratios of up to, or in excess of, 100%,

[1] Or, amended by ESSA, those identified for comprehensive support and improvement or targeted support and improvement.

compared to conventional lenders that are often capped at 60% to 75% LTV;

- For construction and leasehold improvement loans, offer **terms of at least 5 years, and amortization periods of up to 25 years,** which are not tied to charter renewal, to **reduce monthly debt service burdens**; and
- Offer **longer interest only periods** to early-stage schools or those still ramping up enrollment and have not yet realized full revenue potential to service full debt payments;

- Leverage the Grant to a target ratio of [redacted].
  - The Consortium will deploy approximately [redacted] million of their own loan capital into Program projects; and
  - Attract approximately [redacted] million of additional capital from existing, **new and diverse sources**, using Members' expanding networks of lending relationships, which include banks, other CDFIs and foundations.

Goal 3: Increase Early-Stage Charter Schools' Access to Capital; Increase Capital Deployment in Underserved States

- Finance a minimum of 9 charter schools (or, in total, schools serving at least 3,000 at full enrollment) **in their first three years of operation under their first charter** ("Early-Stage Schools"), and a minimum of 11 mature schools (at least 3,400 students at capacity).
- A minimum of 20% of the schools financed will be in states where Members have financed six or fewer charter schools as of May 1, 2018.

Goal 4: Improve Charter Schools' Sector Knowledge of Real Estate Financing and Project Planning and Management

- Provide **customized technical assistance** to all borrowers to support project planning, including connecting them to real estate development professionals and explaining the benefit of third-party site reports (e.g., capital needs assessment, market study, etc.).

- Meet with a minimum of **5 charter schools per year** in each of the following geographies: Northeast; Mid-Atlantic; Tennessee; California; and in at least one new geography.
- In the first five years of the Grant, present at **three or more charter school conferences or training events (state or national) or via webinars.**
- Provide schools with **detailed analysis of cashflow projections**, including a debt burden and facilities expense analysis, so they understand how to appropriately budget and plan for all relevant facilities-related costs.

Project Implementation Plan & Activities

The primary focus of the Program will be to open the market in communities where financing options are limited and to provide flexible capital designed to meet a specific school's needs to move projects through to completion. The Consortium will undertake outreach activities to identify potential borrowers and projects; provide technical assistance; underwrite and close loans and guarantees; and perform portfolio monitoring. In addition, they will undertake market research and studies to determine communities that need more school options; have a growing, high-quality charter school sector; and unmet capital needs, as they have recently done in TN.

Program Structure

NFF intends to use the $12 million Grant to establish a credit enhancement "pool" to cover losses that may be suffered on certain charter school loans originated by NFF and BCLF. The pool will have a first-loss, cross-collateralized structure. The Consortium anticipates that the first round of 27 schools will receive total project financing of [redacted] million in the first five years of the Program (*see Charts 2 & 3 on coming pages*). The detailed pipeline is in *Appendix A*.

Upon closing of a loan that meets Grant and NFF/BCLF credit enhancement requirements, a portion of the Grant shall be deployed and dedicated to cover losses on any loan in the pool. The amount allocated to the pool to cover loan losses shall be [redacted] of the original principal amount of each loan that has one or more of the following characteristics: (i) loans to early-stage schools; (ii) charter schools located outside of an established NFF or BCLF lending geography, (iii) an LTV of 100% or higher; (iv) subordinate loans (lien or payment priority); or (v) predevelopment loans. For all other loans, the credit enhancement contribution to the pool shall be equal to [redacted] of the original principal amount of each loan.

Members contemplate that up to 10% of any Grant received by NFF may be used outside the pooled structure to directly provide lease and bond guarantees and the balance, up to 100% of the award, shall be allocated to the pooled reserve. It is expected that most of the loans receiving pooled credit enhancement support will be jointly underwritten, approved and originated by NFF and BCLF under a lead lender/participant or co-lender structure. Members may each include up to $10 million of loans in the credit enhancement pool that have not been jointly underwritten and approved, provided the charter schools are in good academic standing and such loans meet the following criteria: (i) a projected annual debt service coverage at stabilization not less than 1.15 to 1.0, (ii) secured by real estate collateral (including leasehold mortgages) with an LTV at approval not greater than 100%, and (iii) the charter school receiving financing will meet one or more measurable objectives pertaining to each of the Grant's performance goals pertaining to: (a) serving communities and schools in need, and (b) reducing the cost of borrowing and expanding the supply of capital to charter schools.

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

Through decades of community development lending, NFF and BCLF have identified obstacles specific to charter school facility development in distressed markets. Most stem from not being able to meet conventional lenders' credit criteria for one or more reasons: limited or no equity; limited collateral and / or low appraised values; limited operating track record and / or have not yet reached charter renewal; or not having reached full enrollment and thus not operating at full revenue potential. Members' products are specifically designed to address these issues, and they will use their Grant to support six specialized products, ones that are either not offered in the market or are not offered with the terms and rates charter school projects require:

1. *Predevelopment Loans*

Facility projects require significant expenditures during predevelopment to establish project feasibility, obtain site control and move feasible projects forward to acquisition and / or construction / term loan closing. Few charters, especially early-stage schools, have sufficient equity to invest in the predevelopment process. The Program's predevelopment **product terms are more flexible** than conventional sources – interest payments are capitalized for the life of the loan, allowing borrowers to conserve their funds as they prepare for their capital projects, and this product is available on an unsecured basis with limited equity requirements, up to 10%.

Example: [redacted] NMTC financing was delayed to the point where it threatened the school's development timeline driven by its academic year. [redacted] did not have funds to keep the project moving, and conventional lenders were unable to make a loan at this stage due to a high LTV and uncommitted take-out sources. Members analyzed [redacted] management, academic track record, project team, financing commitments and plan, and committed a \$2.8 million preconstruction loan that enabled [redacted] to acquire land and complete site work. The loan was repaid at construction loan close. Credit enhancement came from a third party, which increased the time and costs to close. The proposed Program would have allowed this transaction to move forward with greater speed, less complexity, and at a lower cost.

2. Construction / Term Loans

Many schools need financing for construction or renovation of owned facilities, but struggle with having the equity contribution or property value needed to attract conventional capital. Others are viewed as risky credits due to their age, while other lenders do not like to take construction risk, especially with borrowers new to real estate development. With the Grant, Members will provide financing with LTVs up to or exceeding 100%, subordinate debt to serve as the equity gap required by a senior lender, extended interest only periods, and amortizations up to 25 years depending on the needs of the school.

Example: [redacted] in Memphis, Tennessee was seeking to acquire and renovate a property for an elementary school in its second year of its first charter. The acquisition and renovation was estimated to cost $2.5 million, and the school had $15,000 to put toward the project (0.6% equity). With an as-complete appraised value of $2.1 million they needed project financing with an 117% LTV. To address the collateral gap, Members provided a [redacted] million subordinate loan, backed by [redacted] of credit enhancement from their 2015 Award, which facilitated a [redacted] LTV senior loan from [redacted]

3. Leasehold Improvement Loans

Early-stage schools face particular challenges as they frequently lease space that is delivered as a "white box" or an older, former parochial school building that requires improvements. In addition, early-stage schools have constrained cash flow during their first years as they have not reached full enrollment, lease and tenant improvement costs are high relative to revenue, and leasehold loans offer limited collateral for lenders. With the Grant, Members will offer leasehold improvement loans, senior or subordinate, with **flexible terms** that help schools meet enrollment targets and build a sustainable revenue base to support loan repayment.

Example: [redacted] undertook a $3 million leasehold renovation to accommodate enrollment growth at one of its newly opened schools in Memphis. With the 2015 Award, Members provided financing for this early-stage school, lending the full $3 million needed and not requiring an equity contribution. The project also had an LTV above 90%.

4. Acquisition Loans

Similar to construction and leasehold improvement loan needs, charter school borrowers often do not have the equity needed to acquire properties and, depending on the market, are likely located in communities with low property values. Members understand that the cash constraint faced by schools does not necessarily translate to a weak financial condition. Also, Members have more than three decades of experience working in communities that can struggle with property values. Through the Program, Members will provide schools with acquisition loans [redacted] in a senior or subordinate position.

Example: [redacted] in Nashville, TN wanted to exercise the purchase option for their leased facility at the first possible opportunity. If they waited longer, the purchase price would increase over time and they would not have the funds needed to expand square footage to accommodate enrollment growth. When appraised, the property's value was $3.2 million and the financing needed resulted in a 116% LTV. With their 2015 Award, Members provided a [redacted] million subordinate loan, which helped attract a [redacted] million senior loan [redacted] at [redacted] LTV. But for this Member financing, the school would have had to wait out the market or tried to raise the equity needed to purchase the facility at a higher cost.

5. Lease Guaranty

Commercial landlords are often unwilling to lease to early-stage or growing charter schools,

Chart 2: Credit Enhancement Transaction Forecast

Assumptions				Year 1			Year 2			Year 3			Year 4			Year 5		
Project Type	Average Total Development Cost	CE Activation Rate	Average Loan / Guaranty Size	$ CE Activated	# of Deals	Total Loan / Guaranty	$ CE Activated	# of Deals	Total Loan / Guaranty	$ CE Activated	# of Deals	Total Loan / Guaranty	$ CE Activated	# of Deals	Total Loan / Guaranty	$ CE Activated*	# of Deals	Total Loan / Guaranty
Pooled Credit Enhancement																		
Predevelopment Loans	$ 400,000	20%	$ 200,000	$ -	0	$ -	$ -	0	$ -	$ -	0	$ -	$ 40,000	1	$ 200,000	$ 40,000	1	$ 200,000
Acquisition Loan**	$ 1,500,000	15%	$ 1,000,000	$ 150,000	1	$ 1,000,000	$ 150,000	1	$ 1,000,000	$ -	0	$ -	$ 150,000	1	$ 1,000,000	$ 150,000	1	$ 1,000,000
Construction / Term Loans**	$ 7,000,000	15%	$ 4,000,000	$ 600,000	1	$ 4,000,000	$1,200,000	2	$ 8,000,000	$1,200,000	2	$ 8,000,000	$1,200,000	2	$ 8,000,000	$ 1,200,000	2	$ 8,000,000
Leasehold Improvements**	$ 4,500,000	15%	$ 3,500,000	$1,050,000	2	$ 7,000,000	$1,050,000	2	$ 7,000,000	$1,050,000	2	$ 7,000,000	$1,050,000	2	$ 7,000,000	$ 1,050,000	2	$ 7,000,000
Annual New Credit Enhancement Dedicated - Pooled				$1,800,000	4		$2,400,000	5		$2,250,000	4		$2,440,000	6		$ 2,110,000	6	
Total Credit Enhancement Dedicated - Pooled				$1,800,000			$4,200,000	9		$6,450,000	13		$8,890,000	19		$11,000,000	25	
Direct / Non-Pooled Credit Enhancement																		
Lease Guarantees	$ 4,000,000	100%	$ 400,000	$ 400,000	1	$ 400,000	$ -	0	$ -	$ -	0	$ -	$ -	0	$ -	$ -	0	$ -
Bond Guarantees	$ 10,000,000	100%	$ 600,000	$ -	0	$ -	$ -	0	$ -	$ 600,000	1	$ 600,000	$ -	0	$ -	$ -	0	$ -
Annual New Credit Enhancement Dedicated - Direct / Non-Pooled				$ 400,000	1		$ -	0		$ 600,000	1		$ -	0		$ -	0	
Total Credit Enhancement Dedicated - Direct / Non-Pooled				$ 400,000			$ 400,000	1		$1,000,000	2		$1,000,000	2		$ 1,000,000	2	
Total Credit Enhancement Dedicated																		
Annual New Credit Enhancement Dedicated				$2,200,000	5		$2,400,000	5		$2,850,000	5		$2,440,000	6		$ 2,110,000	6	
Total Credit Enhancement Dedicated				$2,200,000	5		$4,600,000	10		$7,450,000	15		$9,890,000	21		$12,000,000	27	

*$ CE Activated will not exceed $12M even though sum total of $ CE Activated is greater than $12M.
**Assumes 50% are activated at rate of 10% per loan amount originated and 50% are activated at a rate of 20% of loan amount originated.

Commented [OK1]: Redact please

or those that have not yet reached renewal due to perceived risk of financial sustainability and operational viability. With the Grant, Members will offer a lease guaranty product, like a standby letter of credit, to reduce the uncertainty and help schools **secure needed space** from landlords.

Example: [redacted] desired to expand its space to expand enrollment to 1,000 students. It identified a building in the neighborhood that required customized fit-out, which the owner agreed to provide folding the construction costs into the lease. NFF provided a $2 million term loan, which funded a $1.1 million security deposit required under the terms of the lease. The owner also required a guaranty for lease payments to secure the lease. [redacted]. provided a $1.3 million guaranty of the lease payments for a five-year term with 1% annual guaranty fee. If the Program had been in place, the financing would have been more efficient and economical with fewer fees and parties.

6. Bond Guaranty

Charter school bond issuance has continued to increase with over 70 schools issuing more than $1 billion annually from 2012 to 2014 (latest available data). However, it continues to be accessed by a small fraction of charters; about 5% of all charter schools accessed the bond market from 2010 to mid-2014. ("Charter School Facility Finance Landscape" LISC, September, 2014). **Bond enhancement is rare**. Credit enhancement has allowed 13% of total issuances to obtain credit ratings, and rated issuances carry debt approximately 50 basis points better than un-rated issuances. ("Charter School Bond Issuance, Vol 2;" LISC, October 2012). This data shows a real need / market gap for this type of product. The Consortium will offer a bond guaranty product similar to a standby letter of credit, to support bond obligations.

Measurable Objectives

Members have extensive evaluation expertise. Over their 30-year history they have established and refined effective methods and tools to **collect, analyze and report high-quality data.** Their strength is evidenced by their four-star AERIS impact ratings, the highest. A four-star rating indicates that "The CDFI presents data that clearly indicate that it is using its resources effectively to **achieve positive impacts related to its mission**. It has processes and systems that track output and outcome data on an ongoing basis, **and it can provide data showing positive changes in the communities or populations being served**. This CDFI uses its data on an ongoing basis to adjust strategies and activities in line with its desired impact."

Assessment of their project-specific performance measures requires both project-level and community-level data. Similar to their overall data collection, they will collect both **community-level** data (e.g. location in low-income, NMTC-eligible neighborhoods, or districts with poor academic results) and **school or project level** data (eligibility for free/reduced price lunch or the % of students outperforming state and districts academically).

While some of the measures used are unique to the Program, they will be collected in a manner consistent with Members' regular collecting and reporting of data. Members first gather data during the application and underwriting processes and continue until the loan is repaid and the credit enhancement no longer required. They source this data from 1) documents and materials submitted by the borrower (e.g. application materials, annual financial and academic reports, required annual surveys), 2) highly reliable public data sources, 3) site visits, and 4) third parties, including authorizers and funders. More detail on the data sources and collection schedule are described in *Appendix C*.

NFF stores the data in its Salesforce database and, from there, can generate reports to document the impact of the individual loans and the Program in the aggregate. Taken together, the community and project level data represents **reliable and meaningful performance data** against the performance measures they have identified for this program.

Replicable Results

Members believe that the results they are proposing with the Program are and can be easily replicated. Their approach to market expansion and the specific products that they offer can be replicated, and, in fact, this proposal is a replication of a strategy they developed and have been implementing since late 2015.

After receiving the 2015 Award, in early 2016, Members worked with charter school experts [redacted] – to identify potential expansion markets so that the grant could have the highest impact. The following market characteristics were sought: high-quality charter operators; growing charter school movement; capital-constrained market; market with low real estate values; strong local funding community; and low-income community marked by underperforming school district. After narrowing down geographies to Tennessee, Members commissioned [redacted] to conduct an analysis of the state's charter school market. [redacted] identified a need for nearly $80 million in capital over the next five years for schools in Memphis and Nashville. Members used this research to pursue an effective outreach strategy in these cities, including meeting with schools with financing needs, the local authorizer, and local funders. Through these relationships and regular site visits, Members have closed [redacted] charter schools in TN since early 2017 and, currently, have a pipeline [redacted]

Members intend to replicate this strategy with the Program. They have already met [redacted] to discuss potential new markets that have many of the characteristics ripe for Member investment [redacted] to conduct market studies on the following geographies: [redacted]

Members will use this research to determine which markets, if any, they should consider expanding into, and then seek to visit and meet with local stakeholders, including schools, authorizers, funders, and support organizations. For instance, at the request of harbormasters in [redacted], Members have already made a trip to that market, met with schools and funders, and have been in discussions with the local authorizer (see *Letters of Support in Appendix B)*. Receipt of the Grant would enable Members to move forward with these conversations with more certainty, as the Grant would help mitigate the risk of expansion into new geographies.

Members will continue to offer flexible products and services to schools. They approach each transaction with a willingness to craft terms for each individual financing. For instance, some schools are concerned with locking in longer term financing so they do not have to worry about refinancing several years out, like [redacted] With their 2015 Award, Members provided a one-year-old school operated by [redacted] with a 20-year fully amortizing loan that also included an extended interest only period to help ease the debt service burden while the school ramped up enrollment. Similarly, their 2015 Award made it possible for Members to provide [redacted] with the $2 million subordinate financing it needed to complete its construction project, which was in jeopardy of not moving forward when the senior lender received the appraisal and discovered the LTV was 93%. Member financing brought the senior lender's LTV to 85%, making the transaction possible.

In addition to the viable replication of the proposed Program in terms of market expansion and product development and delivery, Members also provide technical assistance to charter schools, which they will continue to replicate. Currently, Members are working with two schools in Memphis, TN that plan to undertake major development projects that will include both commercial development and school facilities. Members have worked with both schools to identify the risk of commercial real estate development and the capacities needed by the schools in order to see these projects through to successful completion and operation without jeopardizing their school programs. Members have encouraged these groups to hire consultants to perform capital needs assessments and market studies and to serve as development representatives on behalf of the school. Based on this work, Members are working with their CDFI partners in the Charter School Lenders' Coalition to develop a tool that CDFIs can share that lists strong real estate professionals in various markets.

Selection Criteria

Members' cumulative experience demonstrates their ability to select viable schools for growth and financing and convert their ambitious goals into realized goals; they have a cumulative write-off rate of 0.5% for charter school financings. The Consortium will apply the same credit standards and processes for selecting qualified charter schools that they have developed and adapted successfully in their respective loan programs. **Credit enhancement selection criteria,** detailed in *Appendix D*, include: (i) Educational Quality and Demand, (ii) Real Estate Project Management Capacity, (iii) Financial Strength and Capacity, (iv) School Leadership and Governance, including school culture and (v) Population Served, including low-income students and students in underperforming school districts.

Educational Quality and Demand

Educational quality is at the core of the Members' assessment. They have adopted a set of criteria and indicators, based on industry standards, that they use to select schools with a high degree of likelihood that will be effective in achieving strong academic results. Criteria include internal and external longitudinal assessment data, college acceptance and persistence rates, and student and teacher retention rates, among others. They assess demand through an analysis of waitlist data, the quality of school options in the neighborhood, and number of applications per seat, to name a few. In addition, they conduct school visits as part of their due diligence and observe classrooms firsthand and to get a sense of school culture. They supplement this with feedback and assessments from outside experts, including charter school authorizers.

Real Estate Project Management Capacity

Facility projects can stretch the capacity of school leadership. Poorly planned or executed real estate projects can create significant disruptions of learning and at worst cause the demise of the project or the school. The Consortium will assess the degree and scope of planning that schools have taken (timeline, budget, fundraising etc.), the appropriateness of the project's financing, and the quality and capacity of the project team in determining their ability to successfully complete the project and maintain seamless operations. They also work with schools to determine the appropriate project financing, including debt amounts and terms (interest rate, amortization and maturity, interest only period, etc.). When needed, they can provide guidance on critical planning components, and using their established networks connect schools with experienced local consultants such as owners' representatives, project managers, environmental engineers, architects, zoning experts, and appraisers. Depending on the scope of the project, lenders might also obtain a plan and cost review to ensure the project budget is reasonable.

Financial Strength and Capacity

Consortium Member's perform assessments of the school's financial strength. Since reasonable financial health is an essential foundation for growing or scaling schools, the Members assess historical financials and operating projections, including a stress testing of the assumptions (e.g. enrollment, per pupil revenue amounts, salaries and occupancy costs) and analysis of debt service coverage and other charter school-relevant ratios to have confidence that the school can manage through changing conditions. They will also assess the impact of project financing on the school's operations and financial stability and whether the school has the appropriate financial team in place to manage its scale and growth.

School Leadership and Governance

As part of underwriting, Members will assess the school's leadership and oversight in terms of capacity and expertise, how well they reflect / represent students served at the school, and the school culture they have created (specifically one in which the needs of families and students is paramount). Strong candidates will have management teams that can demonstrate the ability to balance the competing priorities of charter school management, including day-to-day administration, meeting academic performance goals, and maintaining financial health, while also managing a facilities project. They will consider internal and outsourced functions in the key areas of finance and budgeting, school administration, academic and curriculum development, and performance measurement, among others. In addition, they will assess board capacity and engagement as those individuals can help fill or address any organizational gaps or weaknesses, particularly for early-stage schools that do not have the resources to have a fully built out management team. Members will seek to work with schools that have a diverse set of skills on their boards, including finance, real estate, academic, legal, human resource, and marketing / communications professionals.

After assessing each potential borrower in these areas, Members will determine the best course of action for partnership. Members may determine that it is not prudent to lend to a school and therefore will give schools feedback as to what is needed to make them or their projects finance-ready. For instance, if facilities expenses are expected to cost more than the recommended 15%-18% of total revenues due to the size and scope of the proposed facilities projects, lenders will explain why it is not prudent for the school to take on a project of that size and ask the school to come back once the projected facilities costs are more affordable. If Members decide to make a loan through the Program, they will work with schools to determine their preferred terms and try to meet those needs to the extent possible.

Leverage & Schools Served

Consistent with their 2015 Award, the Grant proceeds will be **leveraged [redacted] times to attract a total of [redacted] million in private and non-Federal capital,** prior to recycling, to more than 27 charter schools across the target region (see *Chart 2* for timeline and deployment schedule and *Chart 3* for leverage assumptions and calculation). These leverage projections are **specific to the first five years of the Program**; as loans become more seasoned and repay, credit enhancement proceeds will be redeployed to support financing for new borrowers.

The average leverage ratio of [redacted] includes both Consortium capital and other third-party sources of capital. In the first five years of the program, the Consortium is committed to deploying approximately [redacted] million of their own capital in loans to charter schools. Currently, the Members have [redacted] million of loan funds available for lending, and because these funds will be sourced from their balance sheets, they consider this "balance sheet" leverage. The source of this 'balance sheet' capital is predominantly bank debt, in addition to corporate and foundation debt, (program-related investments or "PRIs"). More than 80 institutions have provided this capital to Members, [redacted]

As of May 1, 2018, BCLF and NFF leveraged their 2015 Award by approximately [redacted] Sources of third-party capital include conventional bank debt, NMTC equity, foundation program-related investments, private grants, and regional and state lending. For example, they

Chart 3: Credit Enhancement Transaction Forecast

Assumptions								
Project Type	**Average Total Development Cost**	**CE Activation Rate**	**Average Loan / Guaranty Size**	**Total $ CE Activated***	**Total # Deals**	**Total Loan / Guaranty**	**Total Development Costs**	**Total Leverage**
Pooled Credit Enhancement								
Predevelopment Loans	$ 400,000	20%	$ 200,000	$ 80,000	2	$ 400,000	$ 800,000	10.00
Acquisition Loan**	$ 1,500,000	15%	$ 1,000,000	$ 600,000	4	$ 4,000,000	$ 6,000,000	10.00
Construction / Term Loans**	$ 7,000,000	15%	$ 4,000,000	$ 5,400,000	9	$36,000,000	$ 63,000,000	11.67
Leasehold Improvements**	$ 4,500,000	15%	$ 3,500,000	$ 5,250,000	10	$35,000,000	$ 45,000,000	8.57
Total Credit Enhancement Dedicated - Pooled				$11,000,000	25	$75,400,000	$ 114,800,000	10.44
Direct / Non-Pooled Credit Enhancement								
Lease Guarantees	$ 4,000,000	100%	$ 400,000	$ 400,000	1	$ 400,000	$ 4,000,000	10.00
Bond Guarantees	$ 10,000,000	100%	$ 600,000	$ 600,000	1	$ 600,000	$ 10,000,000	16.67
Total Credit Enhancement Dedicated - Direct / Non-Pooled				$ 1,000,000	2	$ 1,000,000	$ 14,000,000	14.00
Total Credit Enhancement Dedicated								
Total Credit Enhancement Dedicated				$12,000,000	27	76,400,000	$128,800,000	10.73

*$ CE Activated will not exceed $12M even though sum total of $ CE Activated is greater than $12M.
**Assumes 50% are activated at rate of 10% per loan amount originated and 50% are activated at a rate of 20% of loan amount originated.

Commented [OK2]: Redact chart

provided a [redacted] million subordinate loan with [redacted] of credit enhancement which leveraged an $8.4 million senior loan from a regional bank and a $5 million grant – a [redacted] leverage. They NFF and BCLF generated a [redacted] leverage on another transaction by using [redacted] of credit enhancement to leverage [redacted] million of financing - [redacted] million from Members and an additional [redacted] million from [redacted] a regional CDFI seeking lending partners with capital to move projects forward. As mentioned earlier, bank debt is particularly elusive for **early-stage charter schools** and this school was in its first year of operation when financed by Members. The combination of limited or no prior track record of school performance and student demand,

and high LTVs, results in transactions that typically do not meet banks' credit standards. But for the 2015 Award, NFF and BCLF would not have been able to provide the loan to a new school in a new market and the school would have been unable to proceed.

Lastly, they have many partners who are interested in providing financing to support NFF's charter school financing. They have received 10 letters of support from banks and finance institutions, [redacted]. They are particularly excited and confident that the Grant will increase interest among banks to expand lending activity in the charter school arena. Members' track records, including the examples above, and the support letters demonstrate their ability to use the credit enhancement at catalytic tool to attract significant amounts of capital to undertake projects.

Reserve Account Investments

The Grant will be maintained in a 5-year Treasury investment vehicle, with a budgeted interest rate of 2.50% per annum.

Serving Charter Schools in States with Strong Charter School Laws

The proposed Program will allow the Consortium to deepen and expand its presence in key charter school markets across the country in need of affordable financing options. In 2017, they successfully used BCLF's 2015 Award to expand into Tennessee, a state The Center for Education Reform ("CER") ranks 13th in charter school law strength and one that was limited with no CDFI actively serving the community facility or charter school market. [redacted]

Currently, 44 states and the District of Columbia have charter school laws, and there are more than 7,103 charter schools serving more than 3.07 million children across the country.

Based on 2018 data obtained from the National Alliance for Public Charter Schools ("NAPCS"), the geographic areas served by Members include 2,627, or 37%, of the nation's charter schools, representing over 1.2 million students, or 40% of charter school enrollment nationwide.

Of the 12 states currently served by the Consortium, five scored or ranked within the top ten on either the NAPCS's or CER's rankings for states with strong charter laws. These include Washington, D.C., Maine, New York, California and Massachusetts – and four more are ranked in the top half – Delaware, New Jersey, Pennsylvania and Tennessee. **Consistent with subparagraph 5202(e)(3) of the ESEA criteria for strong charter school laws, over half of the states served feature additional independent authorizers**, expanding authorization power beyond the State Board of Education (DC, NY, CA, PA, DE, ME, MA). The table in *Appendix E* shows state scores and rankings.

In addition to continuing to lend in current markets, Members will use the Program to further their geographic reach to finance schools in states with charter laws that rank highly. [redacted] They are doing market research to determine the strength of the charter schools, the overall viability of the financing market, and percentage of schools that serve low-income students and students from underperforming school districts.

Reasonableness of Proposal

The Consortium projects that a $12 million Grant will leverage [redacted] million in financing for 27 charter schools over the next five years. These funds will be used to finance the construction or renovation of owned facilities, leasehold improvements, site acquisition, predevelopment costs, and lease and bond guarantees. NFF will manage the Grant proceeds and will invest them in accordance with Department of Education guidance, and monitor them according to the same standards as NFF's other funds. The budget for the program assumes NFF will receive the 2.5% administrative fee and the Consortium is not charging a credit enhancement fee.

Any cost to administer the program above the 2.5% administrative fee will be borne by the Consortium and will include market assessments, outreach, underwriting, portfolio management, technical assistance, and collecting and reporting on performance goals. To achieve efficiency and minimize cost, NFF and BCLF have developed standardized template documents, which include guaranty, participation and loan agreements.

<u>Quality of Project Services</u>

Services Reflect Charter School Needs & Input into Design

Members recognize the importance of providing charter schools with flexible capital to make their facilities projects realized. Through the 2015 Award and their research for the Program, Members identified several challenges charter schools face in accessing capital for their facility projects: (i) insufficient collateral to meet lenders' conservative LTV requirements, due to low appraised values for single-tenant, special purpose facilities that may be located in weak commercial real estate markets, (ii) insufficient equity to contribute to a project, which is common among early-stage charter schools; (iii) lenders' limited appetite for leasehold improvement loans due to weak collateral; (iv) interest rates that are too high and amortization periods that are too short, particularly for early-stage schools, resulting in loan payments that the school cannot afford; and (v) lenders' reluctance to lend to schools that have not gone through a charter renewal cycle.

NFF and BCLF regularly monitor the needs of the charter school market. They understand that the key to making successful, impactful loans is to ensure they respond to true market demand. As such, they took a very **thoughtful approach to the design of this Program**. They began in late 2015 with their first credit enhancement grant application, taking the time to understand and acquire outside perspective on how the market has evolved to ensure that their products and services matched the actual, current needs of the market. They received input from a variety of stakeholders, including charter schools, and are using that to inform this proposal. Over the past two years, they have spoken with and gotten input 80 schools, 7 funders, 6 authorizers and 12 state associations and other service providers. In the past month, they have met with 16 charter schools and surveyed another 16 charters operating 128 schools to ensure the Program is designed to fit their needs. They incorporated the needs articulated into their Program design and tailored products to meet those needs; key among them were access to financing for early-stage schools[2], low interest rates, longer amortization periods and terms, and high LTVs. The quick uptake of their products in Tennessee [redacted] demonstrates the degree to which they have been effective at addressing schools' needs. For this application, they obtained letters of support from 23 charter schools or charter management organizations (CMOs); 10 banks; and 13 charter school authorizers, funders, developers and financial consultants, including [redacted] who detail how Members have met the needs of TN charter schools (see *Appendix B*). Furthermore, the market studies [redacted] will add to the knowledgebase of the types of financing schools need.

Members continue to talk to many in the field about the financing needs and challenges – schools, funders, authorizers, and state associations. They have established a network which includes relationships with the Massachusetts Department of Elementary and Secondary Education; Massachusetts Public Charter School Association; Rhode Island Department of

[2] Quote from one early-stage survey respondent: "We are new (less than 3 years' operating) and have financial challenges related to enrollment restrictions [in Rhode Island]. This makes us high risk, and we don't have state test results yet – our scholars are too young. Traditional lenders aren't interested."

Education; Tennessee State Board of Education; New Jersey Department of Education; Charter Schools Institute of the State University of New York; New York State Board of Regents; California Charter Schools Association; [redacted]

Cost-Effective Access to Financing

The Consortium has endeavored to make the Program extremely cost-effective for charter schools and to minimize use of the grant for Consortium operating expenses to maximize its use by charter schools. NFF will use the 2.5% administration fee allowed under the Program to support the administration of the Program. Expenses above the 2.5% will be borne by the Consortium and therefore are not included in the program budget. Charter schools receiving credit enhancement under the Program will pay the following fees and expenses and benefit from the following terms:

- **Reasonable portion of third-party fees** incurred by the Consortium, such as legal costs. The Consortium has standard loan and guaranty documents so they do not anticipate significant legal fees.
- **Third-party academic assessments**, when required and feasible for certain early-stage schools only (i.e., those in new geographies markets to either Member).
- **Origination / guaranty fee**, if a charter school is receiving a loan or guaranty from a Member, it will be responsible for typical financing fees and expenses. Specifically, the school will pay a [redacted] financing fee calculated on the loan or guaranty amount. This fee may be capitalized into the loan amount so a school does not have to pay out of pocket.
- **Interest rates** will be set at or below market rates based on a risk-adjusted pricing model. The credit enhancement will reduce lender risk and this will be reflected in loan pricing and terms (*See Chart 1*).

These cost-effective fees make financing from Members accessible to charter schools. The [redacted] financing fee and interest collected on loans cover NFF's and BCLF's cost of funds, staff costs and overhead associated with underwriting, closing and monitoring for each loan. They are self-sufficient organizations, but there is no material revenue earned in excess of their direct costs. Their fees and terms are commercially reasonable and consistent with, or more advantageous than, their peers.

Assisting Schools with Likelihood of Success and Greatest Demonstrated Need

Their discussions with **stakeholders including charter authorizers identified that barriers to accessing affordable financing are particularly acute for early-stage schools and schools located in economically challenged communities.** Early-stage schools do not have the equity or track record typically required to lease and fit out space. These charter schools are typically viewed as risky by banks because of their location in districts that have long struggled to improve academic performance, and they have little spare capital to put towards facility projects, and often lack extensive fundraising capacity. This causes uncertainty about the charter school's ability to meet enrollment targets, achieve charter renewal, and develop additional cash reserves for debt service. Further, lenders express concern about the quality of the collateral since the value of a special-purpose building, such as a school, is limited in the event of a school's closure.

Members designed the Program to specifically address these obstacles. For example, their leasehold improvement, subordinate loan and high LTV products are designed to address the challenge of insufficient collateral and equity. Their leasehold improvement loan and lease guaranty products are targeted to meet the needs of early-stage schools often overlooked by lenders and landlords alike. All credit-enhanced loan products will be offered on advantageous terms that address schools' financing needs, such as longer than usual interest-only periods to accommodate enrollment ramp up. We will continue to craft products to meet the needs of schools and their markets, as we did in the case of the TN expansion where we took a thorough approach to understand market needs and gaps.

Members experience underwriting and monitoring charter school financings speaks to their ability to work with schools that have a high likelihood of success. Members understand the various factors that make for a successful school and how to analyze these characteristics during underwriting: academic, financial and operating quality and capacity. Their collective write-off rate on charter school lending is [redacted], proving they make informed decisions about schools. The Consortium will apply the same credit standards and processes for selecting qualified charter schools that they have developed and adapted successfully in their respective loan programs.

Capacity

Proposed Activity & Experience

NFF and BCLF's shared history – each with over 30 years of community development finance experience – demonstrates proven expertise financing projects in communities underserved by traditional investors, and the capacity necessary to implement the Program.

Experience Enhancing Credit and Facilitating Financing

Each Member is known in the market for its flexible underwriting and willingness to consider creative financing structures. They have a successful financing track record balancing the safeguarding of their investors' funds with their missions to maximize access to capital for their borrowers and the low-income communities they serve. They have seasoned teams and established systems and processes to underwrite and close loans, and to monitor complex projects with elevated risk profiles. And, they are quickly deploying the 2015 Award – with $4.9 million deployed and a $125 million pipeline that will utilize the remaining $3.1 million – in a manner similar to the proposed Program by using the credit enhancement to provide: subordinate debt; acquisition, construction and leasehold improvement loans; lease and bond guarantees; and risk mitigation for new market expansion.

Age and Quality of Consortium Experience

Founded in 1980**, Nonprofit Finance Fund** is a national leader in financing nonprofits, strengthening their financial health and enhancing their capacity to serve their communities. NFF offers a suite of financial products and advisory services to a variety of nonprofits including charter schools, health centers, and human services and youth-serving organizations. Since inception, NFF has provided **$751 million financing (including $274 million in NMTC allocation) to over 580 nonprofit organizations** across the country. Its facility financing helps nonprofits acquire, expand, build, or renovate their facilities; its working capital loans help fund growth; and its bridge loans and lines of credit smooth uneven cash flow. It also received and deployed $1.2 million of credit enhancement to support the expansion of child care facilities. Its advisory offerings include webinars, workshops, financial clinics, and in-depth consulting engagements to strengthen nonprofits' financial sustainability, identify and address financial challenges, and sustain operations over time. When market dynamics shift, NFF adds new products to meet evolving needs. Examples include Pay-For-Success financing; an emergency loan capital fund to bridge delayed state payments for charter schools; *Tools for Tough Times* advisory services to address recession-driven challenges; and the *Systems Replacement Plan (SRP)* (see *Appendix F*), to plan for facility replacement needs.

NFF is headquartered in New York City, and has offices in Boston, Philadelphia, Oakland and Los Angeles, and lending staff in Washington, D.C., which provide important "on-the-ground" presence as they implement this Program in those areas.

NFF has **15 years of experience lending to charter schools**, and has provided $**144 million in financing to 60 charter schools; more than 84% of that since 2010.** Charter schools currently make up **nearly 33% of both their loan portfolio and NMTC allocation.** In addition to financing, NFF has provided advice and consulting services to charter schools to help them build viable business models and strategize about ways to scale operations.

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

Since inception, BCLF and affiliates have provided over **$1.3 billion** to support organizations and businesses that benefit underserved communities, helping: build or expand 30 charter school facilities serving 20,0000 students; build or preserve affordable homes for over **21,000** families and individuals; support child care facilities and youth programs serving almost **13,000** children; renovate over **2 million** square feet of commercial real estate in distressed communities, and, since they began tracking in 2011, create more than **6,600** jobs in low-income communities.

BCLF and affiliates have provided **$103 million** in loans and NMTCs to charter schools, which now comprise 40% of their total loan portfolio. With the 2015 Award, they are effectively deploying $8 million in credit enhancement in partnership with NFF. With $4.9 million deployed to date and a $125 million charter school pipeline of projects, it will be fully deployed by year end. BCLF is headquartered in Boston, MA and provides loans nationwide.

Financial Stability

NFF and BCLF have a **strong financial track record**. *Attachment 8* contains the audited statements and *Attachment 11* includes the 990s; and key indicators from the audits are summarized in the chart below:

FYE December, 2017	BCLF	NFF
Total Capital Under Management	[redacted]	[redacted]
Operating Expenses	[redacted]	[redacted]
Total Assets	[redacted]	[redacted]
Total Liabilities (not incl EQ2s)	[redacted]	[redacted]
Total Equity, Net Assets or Net Worth:	[redacted]	[redacted]
Equity/Total Assets	[redacted]	[redacted]
(Equity + EQ2)/Total Assets	[redacted]	[redacted]
Total Portfolio (Loans + Investments + Guarantees)	[redacted]	[redacted]
Loan Loss Reserves/Total Loans Outstanding	[redacted]	[redacted]
Cumulative Net Loss Ratio (Cumulative Net Write-offs/Cumulative Lending)	[redacted]	[redacted]
Delinquency>90 days/Total Loans Outstanding	[redacted]	[redacted]

NFF's and BCLF's financial strength comes from their diverse revenue from earned income and contributed sources. Earned income, comprised of loan interest, financing fees and consulting/technical advisory income, amounts to roughly half of the total annual income for each of NFF and BCLF. The remaining half of income is comprised of public and private grants and contracts for providing advisory services or carrying out specific programs. Each organization generates consistent unrestricted operating surpluses. Their capital structures are stable with nets assets (including EQ2) ranging from 35% to 45%; liabilities are predominantly financing-related loans from banks and socially-oriented lenders and PRIs.

Risk Mitigation

Both organizations use a series of written policies to manage risk, including credit policies and underwriting and portfolio management manuals. In addition, they have policies that cover key financial management risk areas including cash management, liquidity and asset-liability matching policies.

Underwriting

Both NFF's and BCLF's lending is governed by formal, board-approved credit policy guidelines that are reviewed annually. NFF's and BCLF's loan underwriting, monitoring and financial management policies and procedures, most recently updated in January 2017 and July 2016, respectively, are included as *Appendix G*. In addition, NFF and BCLF have more detailed underwriting manuals including a charter school underwriting supplement that provides specific guidance for the assessment of charter schools. These are used to guide the lending and credit review process, describing the overall risk thresholds, product and portfolio parameters, specific steps to follow to ensure strong credit and adherence to social mission, and the credit approval authorities. Staff are encouraged to think creatively about structuring options while mitigating risk to best meet the credit needs of borrowers and maintain strong credit quality.

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

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

Portfolio Monitoring and Servicing

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

Loans are proactively monitored through the receipt and review of required financial and programmatic reporting. In addition, NFF conducts annual in-person meetings and calls with borrowers to assess their overall financial health and identify potential risks. BCLF conducts annual status reviews which include loan covenant tests and collateral reviews to ascertain condition. Both NFF and BCLF conduct annual surveys to collect information on the borrower's activities, social impact, and the market/sector in which they operate.

Finally, Members mitigate risk of the overall portfolio through diversification (geographic, sector, loan purpose and repayment structure) and use quarterly reports are used to examine concentration risk and portfolio trends.

Portfolio Quality

The best evidence of their ability to protect against unwarranted risk is NFF's and BCLF's average historical write-off rate of [redacted] of total cumulative lending and their zero percent 90 plus days' portfolio delinquency. The adherence to the credit, underwriting and portfolio management policies facilitates thorough underwriting and proactive loan monitoring, and has resulted in a history of strong portfolio quality. In the case of troubled loans, NFF and BCLF provide patient, creative strategies to support the financed project and borrower, while ensuring repayment to their investors. Furthermore, they conservatively reserve against losses: as of December 2017, their loan-loss reserves were [redacted] respectively.

Financial Management

Each organization has a set of written policies and practices to mitigate against financial management risk, including cash management and capital and operating liquidity. These policies include requirements for the separation of financial duties, regular preparation and review of financial reports and protection under a whistle-blower policy, in addition to thresholds for financial risk and financial practices.

Cash Management: Cash management is a critical concern and Members manage financial accounts at multiple financial institutions using investment policies to guide its options.

Maintaining Liquidity and Operating Reserves: Both organizations manage capital liquidity risk on a portfolio basis, rather than by matching maturities, and have access to lines of credit to provide additional liquidity, if needed. They also have policies to maintain sufficient operating liquidity to cover upcoming commitments and operating expenses.

Reporting: Each Member uses financial reporting systems to produce monthly internal financial statements. Management use these to review activity and compare performance against budget on an ongoing basis. On a quarterly basis, financial statements are reviewed at the board level, and distributed to investors and stakeholders. NFF and BCLF regularly report on the use of foundation and public agency funds.

Financial Staffing: NFF and BCLF have CFOs who manage 6-person and 3-person finance departments, respectively. These teams are responsible for compliance with policies.

Credit Rating: NFF and BCLF each AERIS ratings of AA- and AAA, respectively, (the ratings standard for the Community Development Financial Institutions sector), (see *Attachment 7*). The financial score associated with this rating is described as follows: “A CDFI in this group has very strong financial strength, performance, and risk management practices relative to its size, complexity, and risk profile. Challenges are well within the board of directors’ and management’s capabilities and willingness to strengthen. The CDFI is stable and is capable of withstanding fluctuations in its operating environment.”

Additionally, both institutions are in compliance with all applicable rules, regulations and covenants and perform audits and file Single Audit (formerly the A-133) annually with no significant deficiencies or material weaknesses cited.

Education Expertise

NFF and BCLF have a demonstrated track record in education finance, having provided a combined $248 million in debt and NMTC to 77 charter schools.

NFF's Education Expertise

NFF has been financing and providing advice to educational institutions for 35 years. Thirteen of their 91 staff have past or current education experience, including members with primary or secondary school teaching or administration experience; staff who serve on boards of charter schools, independent schools or public school committees; and staff who teach higher education or certificate level classes. Since 2002, NFF has deployed $144 million of loans and NMTCs to 60 charter schools, leveraging an additional $555 million in financing across the country. In the last five years, NFF has supported the building and expansion of over 1.3 million square feet of space for more than 18,000 students. Their education experience also includes consulting services to charter and other educational institutions including the [redacted] among many others.

BCLF's Education Expertise

Since 2005, BCLF and affiliates have provided $103 million in debt and NMTC allocation to 30 charter school projects in six states. BCLF's lending has been focused on facilities needs and has typically filled a **uniquely challenging role** that could not be met by other sources of capital. They are leading the implementation and deployment of the 2015 Award.

Outside Expertise Employed

Given the range of organizations that the Consortium finances, they have developed a cadre of industry experts who can supplement their experience and perspective, when needed. In the charter school field, they regularly gain additional information and insight from, and verify their assessments with other stakeholders: authorizers, management organizations, funders and education consultants. Working in partnership with these industry experts is critical to forming an accurate assessment of the academic quality, charter status, school leadership, level of community engagement, and the policy and political environments.

Conflicts of Interest

Each Member follows its own Conflict of Interest Policy, which outline how decisions are to be made if a Member is determined to have a conflict or appearance of a conflict. These policies are included in *Attachment 6* and the *Consortium Agreement (Attachment 3)*.

Consortium Members' Roles

Each organization is committing resources to make the program successful. NFF and BCLF have committed to providing approximately $83 million for senior and subordinate charter school financing through this partnership. Additionally, Members are committing to the following support:

- Identify new sources of funding and partners. Through their network of lenders, funders and others, they will help schools access the needed to complete projects.
- Provide development services and technical assistance. They will assist borrowers and prospective applicants to strengthen their proposed projects and help close identified financial, skill, or experience gaps at the project level.

Performance Under Prior Grant Awards

In October 2016, BCLF executed its performance agreement for the 2015 Award, in collaboration with NFF. They have deployed $4.9 million to eight schools leveraging [redacted] million in capital. With an active pipeline of $73 million of high-priority projects (out of a $125 million pipeline of charter school projects), this award will be fully deployed by December 2018.

The pipeline in this application includes the schools that the Consortium will lend to under the 2015 Award, in addition to schools that could benefit from the Program.

Quality of Project Personnel

NFF and BCLF have teams of qualified individuals to deploy the Grant. The organizational charts are included in *Appendix I*.

Qualifcations

The executed *Consortium Agreement* (*Attachment 3*) establishes governance around decision-making, roles and responsibilities of the Consortium. The project manager will be Kathy Olsen, NFF's Vice President, Lending. Kathy manages NFF's lending including business development and underwriting and brings 18 years of experience in the education and community finance fields, including eight years managing LISC's charter school lending program and experience as a consultant, providing advisory services for CDFIs, charter schools, and foundations in the areas of charter school credit analysis, underwriting, financial structuring, product marketing, and loan closing. She is a founding board member and Vice Chair of Coney Island Preparatory Public Charter School. Kathy led the Consortium's expansion work into Tennessee alongside Kathryn McHugh from BCLF (see resume attached in *Attachment 4*). She will work closely with Michelle Volpe, President of BCLF, who manages Kathryn, to coordinate business development and outreach, ensure appropriate underwriting, monitor the portfolio and perform grant reporting. Michelle brings 22 years of community finance experience and has responsibility for all aspects of BCLF's lending activities, including loan origination, portfolio monitoring, and impact reporting. Michelle serves on several advisory committees including the Federal Reserve Bank of Boston's Working Cities Challenge and Eastern Bank's Business Equity Initiative. Michelle and Kathy are members of the National Charter School Lenders'

Coalition, a CDFI working group helping to expand access to capital and advocate for policy changes that support charter schools' efforts.

Below they have described the experience of key staff and resumes are in *Attachment 4*.

Staffing Plan

Members will share responsibility for marketing and outreach to identify possible projects, borrowers and markets, and perform the credit analysis and underwriting. Kathy manages NFF's team of ten staff with five focused on business development and five focused on underwriting. Michelle manages a team of eight staff who are responsible for both identifying and underwriting transactions. The lending staff have a combined 100 years of lending experience including stints at commercial banks, CDFIs and small business lenders, and as consultants in real estate development and charter school financing. The NFF and BCLF teams have developed an efficient collaborative underwriting process and have financed 10 deals together since 2015.

[redacted]

Portfolio Monitoring

NFF and BCLF will conduct ongoing portfolio monitoring of Credit Enhancement portfolio. At NFF, Shawn Luther, Vice President and Chief Credit Officer, manages a team of three portfolio managers. Shawn is trained lawyer with 20-years' experience; the last six in portfolio management and credit experience. At BCLF, Mei See Law-Sandson, Portfolio Manager, oversees this work, bringing more than two decades of commercial banking experience to BCLF.

Grant Reporting and Data Collection

Natalie Fedors from Nonprofit Finance Fund will be responsible for the Consortium's compliance with the Performance Agreement and for collecting data as described in the Data Collection and Reporting section. As Associate Director, Strategy and Operations, she is responsible for compliance reporting federal grants and other investments.

Board of Directors

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

NFF's 14-member Board of Directors has 13 external members. The Board members' expertise includes real estate development and finance (including charter school financing), higher education, philanthropy and community development, among others. The External Credit Committee is also comprised of members with relevant experience in community development and charter school finance. Notably, Susan Harper (currently of Bank of America) financed charter schools when she previously worked at a national CDFI.

BCLF is governed by the Board of Directors of its affiliate, Boston Community Capital (BCC). BCC's 11-member Governing Board has eight outside members, five of whom are representatives of low-income communities. Two external Board members also serve on BCLF's nine-member Loan Committee, which provides additional external oversight and guidance for their lending activities. Two Loan Committee members – David Stolow and Jennifer Pinck – have deep experience in curriculum and development, and facility construction, respectively.