

Charter School Equitable Access Fund: An Initiative of Nonprofit Finance Fund

Overview

Nonprofit Finance Fund (NFF) respectfully requests consideration of a [REDACTED] credit enhancement grant (the “Grant”) to assist more charter schools in meeting their facility financing needs. NFF is successfully deploying two credit enhancement grant awards (the “2015 Award” and the “2018 Award”) through a “Consortium” with BlueHub Capital (BlueHub). Through the proposed Charter School Equitable Access Fund (the “Fund”), NFF 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 is uniquely positioned to deploy and leverage this credit enhancement. NFF is a private, nonprofit, mission-driven Community Development Financial Institution (CDFI) with more than four decades of experience making loans that conventional lenders have been unwilling or unable to provide. Since 1980, NFF has provided over [REDACTED] in financing and technical assistance to nonprofits, improving their capacity to serve their communities. Its financing has supported 780 nonprofits in 25 states and Washington, DC.

NFF has been financing charter schools for almost 20 years. NFF has deployed [REDACTED] of debt and New Markets Tax Credits (NMTCs) to 100 charter schools since 2002. This financing has helped charter schools in 13 states and the District of Columbia, and spreads across the Northeast and Mid-Atlantic in addition to California, Tennessee, Alabama, and Texas. Through its 2015 and 2018 Awards, NFF partnered with BlueHub to deploy affordable and flexible capital to serve more charter schools. With the 2015 Award, received and administered by BlueHub, the Consortium expanded its lending activities into Tennessee, a market underserved by CDFIs and in need of an estimated [REDACTED] in financing between 2016 and 2020. Since early 2017, NFF has closed [REDACTED] in loans and [REDACTED] in NMTC allocation for 12 schools in Memphis and Nashville, TN. This activity leveraged [REDACTED] in total capital to charter schools in this

underserved state. NFF will build upon this expansion success by using the Fund to meet the financing needs of charter schools unmet by conventional sources in more under-resourced, high-need communities in NFF's core markets (Northeast, Mid-Atlantic, CA and TN) and in additional geographies and segments of the charter school market – including start-up schools – that could benefit from the flexible products the Fund will offer.

In 2021, NFF launched a new strategic plan to support community-centered organizations led by and serving people of color by providing them with access to financing. NFF believes that community-centered charter schools provide low-income families and communities with meaningful school choice and access to high-quality public education. Through the proposed Fund, NFF will provide flexible products and enhance the terms and availability of financing for a variety of charter schools, including start-up and early-stage schools, independent / single-site and community-centered charter schools and schools led by leaders of color and located in high-need communities. In addition to financing designed to meet the specific needs and challenges of a range of charter schools (i.e., flexible collateral requirements), NFF will provide expert technical assistance to bring projects to fruition and leverage additional capital.

Demand for NFF's loan products for charter schools is evidenced by the growing pipeline of 33 charter school transactions currently in need of facility financing, including 16 start-up schools (see *Appendix A*) and 13 letters of support from existing and prospective charter school borrowers (see *Appendix B*). This Grant will allow NFF to further expand the geographic reach of its lending into key markets of interest including AL, CO, TX and WA, deploy more capital with more favorable terms to support at least 30 charter schools, including a minimum of five start-up schools (0-2 years) and five early-stage schools (3-5 years), and leverage over ██████████ in private capital (14:1 leverage) over the next five years.

Section I: Quality of Project Design & Significance

Better Rates & Terms

The Grant will enable NFF to provide interest rates below market by an average of 34% for comparable financing, which, without credit enhancement, would more appropriately be filled by mezzanine debt or equity carrying rates starting at 8%. The Fund will also create access to financing that otherwise would not be available to schools. Most of the schools served by the Fund 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 of equity, low-valued collateral, have not received first charter renewal, etc.).

Products offered will include: leasehold improvement, predevelopment, acquisition / renovation, and construction / term loans as well as lease and bond guaranties and subordinate financing. NFF's financing is offered on a **fixed-rate basis** for the term of the loan, mitigating the risk of interest rate fluctuations. The Grant will enable NFF 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% and not require cash equity; 3) extend amortization periods up to 30 years; 4) provide favorable, fixed interest rates; 5) offer products not typically offered by NFF (lease and bond guaranties); and 6) provide financing to both "early-stage schools", those in their first three to five years of operation, and, importantly, to "start-up schools" that may be in their planning year or their first or second year of operation. Debt service coverage covenants will be more flexible than commercial standards (1.05 – 1.10x during enrollment ramp-up compared to 1.25x minimum (and often higher) for most commercial banks and the tax-exempt bond market), to avoid triggering events of default for schools running on tight cash flow budgets.

NFF often takes a subordinate position to leverage sources of senior debt and enable deals to attract complete capital. NFF 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 5.25% and have a maximum loan commitment fee of 1%. NFF will be able offer these **below-market rates for these high-risk lending products** with the support of the requested [REDACTED] Grant. By comparison, charter school credits deemed high-risk (including start-up and early-stage schools) by bond investors may pay as much as 8.5% in interest¹, a 3.25% difference that equates to annual interest savings of [REDACTED] loan, or not receive access to capital at all.

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

¹ Charter School Bond Sector: 2019 Year in Review. Wendy Berry, November 2020: <https://eqfund.org/wp-content/uploads/2020/11/Charter-School-Bond-Sector-2019-Year-in-Review.pdf>

Chart 1: Summary of Loan and Credit Enhancement Product Terms

NFF Typical Loan Terms						
Loan Terms	Leasehold Improvement	Lease Guaranty*	Pre-Development	Acquisition/Reno Loan	Construction / Term Loan	Bond Guaranty*
Borrower Equity	10%	N/A	25%	10%	10%	N/A
Max. Loan-to-Value (2nd lien)	80%	N/A	N/A	80%	80%	N/A
Max. Loan-to-Value (1st lien)	90%	N/A	N/A	90%	90%	N/A
Max. Term	7 years	N/A	24 months	24 months	7 years	N/A
Max. Amortization	20 years, not to exceed lease term	N/A	Interest Only	Interest Only	20 years	N/A
Interest Rates	6.25% - 8.0%	N/A	6.25% - 8.0%	6.25% - 8.0%	6.25% - 8.0%	N/A
Collateral	Leasehold Mortgage	N/A	N/A	Mortgage	Mortgage	N/A
Comparison to Market	•Generally not available •Minimum equity of 25% •Rates of 9-12%	Generally not available	•Generally not available; •Minimum equity of 30%; •Rates of 9-12%;		•Senior debt: 20-30% equity, rates of 4-8%; •Sub debt: 10% equity, rates of 8-10%	Guaranties for Bond financing generally not available
	Market lenders generally require that the school has successfully completed one charter renewal and / or reached full enrollment. Fund will not have a minimum operating track record.					

NFF Loan Terms Adjusted for Credit Enhancement						
Loan Terms	Leasehold Improvement	Lease Guaranty*	Pre-Development	Acquisition/Reno Loan	Construction / Term Loan	Bond Guaranty*
Borrower Equity	0%	0%	0-10%	0%	0%	0%
Max. Loan-to-Value (2nd lien)	>100%	N/A	N/A	>100%	>100%	N/A
Max. Loan-to-Value (1st lien)	>100%	N/A	N/A	>100%	>100%	N/A
Max. Term	7 years	12 months	24 months	24 months	7 years	30 years
Max. Amortization	30 years, not to exceed lease term	12 months, not to exceed lease term	Interest Only	Interest Only	30 years	N/A
Interest Rates	5.25%-6.5%	5.25%-6.5%	5.25%-6.5%	5.25%-6.5%	5.25%-6.5%	5.25%-6.5%
Collateral	Leasehold Mortgage	N/A	N/A	Mortgage	Mortgage	Mortgage
Fee for Credit Enhancement	0%	0%	0%	0%	0%	0%
Average Credit Enhancement	10-20%	One year's lease payment	20%	10-20%	10-20%	One year's debt service
Approximate Leverage	20x	10-100x	10x	8x	12x	10-200x
Comparison to Market	•Generally not available •Minimum equity of 25% •Rates of 9-12%	Generally not available	•Generally not available; •Minimum equity of 30%; •Rates of 9-12%;		•Senior debt: 20-30% equity, rates of 4-8%; •Sub debt: 10% equity, rates of 8-10%	Guaranties for Bond financing generally not available
	Market lenders generally require that the school has successfully completed one charter renewal and / or reached full enrollment. Fund will not have a minimum operating track record.					

*Product not typically offered by NFF but for credit enhancement grant

Project Goals, Objectives, & Timeline

NFF has developed a robust *Logic Model* (see *Attachment 5*) with ambitious yet achievable outcomes that focus on ensuring that all children – especially those from low-income families or communities – have access to a high-quality education. NFF has used the *Logic Model* to develop **clearly specified, measurable and appropriate Fund goals, objectives and outcomes** against which it will measure success. The following goals and objectives are aligned with the purposes of the Grant and can reasonably be achieved.

Goal 1: Expand Financing for Charter Schools in Underserved Communities (See Appendix I for data on NFF's target districts).

At least 75% of the charter schools served through the Fund will meet at least one of the following criteria:

- 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**; or
- Located in a district where **less than 40% of students demonstrate proficiency** on nationally-normed grade-level proficiency standards per the National Assessment of Educational Progress (NAEP) or on state assessments.

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

In deploying the Grant, NFF will:

- Charge affordable interest rates and fees. NFF will:
 - **Not charge a credit enhancement fee**, which typically ranges from 1% to 5%; and
 - Offer interest rates between 5% and 6.5%, well **below market rates** for comparable mezzanine-like debt of 8% to 12%;
- Have flexible terms.
 - **No required equity contribution** compared to standard requirements of conventional lenders, often as high as 30%, which most start-up and early-stage schools cannot meet;
 - Lend at **higher overall loan-to-value** ratios of up to or in excess of 100%, 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 30 years**, which are not tied to charter renewal, to **reduce monthly debt service burdens**;

- Offer **longer interest-only periods** to start-up and early-stage schools or those still ramping up enrollment and have not yet realized full revenue potential to service full debt payments; and
- **Lower-than-standard debt service coverage ratios (DSCR)**; NFF will lend at 1.05-1.10x DSCR for schools that are ramping up enrollment, compared to conventional lenders DSCR requirements of 1.25-2.50x.
- Leverage the Grant to a target ratio of 14:1.
 - NFF will deploy approximately [REDACTED] of its own loan capital into Fund projects; and
 - Attract approximately [REDACTED] of additional capital from existing, **new and diverse sources**, using NFF's expanding networks of lending relationships, which include banks, other CDFIs and foundations, to **leverage total financing of [REDACTED]**, a **leverage ratio of 14:1**.

Goal 3: Increase Start-Up and Early-Stage Charter Schools' Access to Capital

- Finance a minimum of **five start-up charter schools in their planning year or their first two years of operation**, a minimum of **five early-stage charter schools in their first five years of operation under their first charter**, and a minimum of 12 mature schools. In total, the Grant will support a minimum of 30 schools over a five-year period.

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

- Provide **customized technical assistance** to schools to support project planning, including sharing NFF's cost-comparison analysis tool (see *Appendix J*), helping them understand debt burden and facilities expense analysis, 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 (in-person or virtually) with a minimum of **five charter schools per year** each in the Northeast; Mid-Atlantic; and California; and combined in underserved markets, including but not limited to Alabama, Colorado, Texas and Washington.
- In the first five years of the Grant, share NFF’s financing expertise externally at **three or more charter school conferences or training events (city, state or national) or via webinars or blog posts** to support replication of effective elements of the Fund. (Beginning in May 2021, NFF started contributing to a four-part monthly blog series on the national Charter School Facilities Center’s blog. See “Will your Charter School get a Loan? How a Credit Committee Decides and What you can do to Support a ‘Yes’”.²)

NFF would implement the proposed Fund goals and activities on the following timeline:

Chart 2: Project Activities & Timeline

Activity	Timeframe	Cumulative by Year 5
Marketing and Outreach		
Ramp-up cultivation with local partners (harbormasters, authorizers)	Immediate, ongoing	N/A
Market the Fund directly to schools and through combination of external events and publications	Immediate, ongoing	3 events/publications
Financing*		
Dedicate ██████ credit enhancement to support six schools	Annually	█████, 30 schools
Deploy ██████ in loan capital or guaranties	Annually	█████
Leverage ██████ in total financing	Annually	█████
Finance 1-3 start-up and early-stage schools	Annually	10 total
Technical Assistance and Dissemination		
Provide customized technical assistance including debt burden and facilities expense analysis and cost-comparison analysis	Annually	10+ schools
Disseminate Fund best practices and case studies ia webinars, blogs, panels	Annually	3 events/publications

Project Implementation Plan & Activities

The primary focus of the Fund will be to open the market for different types of schools, such as start-up schools where financing options are limited and schools led by leaders of color that face barriers to accessing capital, and to provide flexible capital designed to meet a specific school’s

² Charter School Facility Center, National Alliance for Public Charter Schools: <https://facilitycenter.publiccharters.org/blog>

needs. NFF will undertake outreach activities to identify potential borrowers and projects; provide technical assistance; underwrite and close loans and guaranties; and perform portfolio monitoring.

NFF has conducted market research using publicly-available data (charter school laws, charter school operating history, per pupil funding formulas, state and local facility needs assessments such as the Charter School Facilities Initiative state reports, etc.) as well as interviews with high-quality authorizers and local funders and charter school support organizations (including “quarterback / harbormaster” groups) to determine communities and school cohorts that have unmet capital needs that could benefit from enhancement through the Fund. For example, in Alabama, NFF is working closely with New Schools for Alabama, the Charter School Growth Fund (CSGF), and the Alabama Public Charter School Commission to identify financing needs and a pipeline of newly-chartered schools in need of technical assistance and affordable financing. Similarly, to the same end in Texas, NFF is working with City Education Partners, EDreimagined (independent charter school consultant), the Texas Public Charter School Association, and nonprofit real estate developers and other CDFIs, including other credit enhancement program (CEP) grantees. NFF has an identified pipeline of [REDACTED] in these two markets plus Washington state, of which [REDACTED] is for start-up schools.

Fund Structure

NFF intends to use the [REDACTED] Grant to establish a credit enhancement “pool” to cover losses that may be suffered on certain charter school loans or guaranties originated by NFF. The pool will have a first-loss, cross-collateralized structure. NFF anticipates that the first round of **30 schools will receive total project financing of [REDACTED] in the first five years** of the Fund (see *Charts 3 & 4 on coming pages*). The detailed pipeline for the Fund is in *Appendix A*.

Upon closing of a loan or guaranty that meets NFF’s credit enhancement requirements, a portion of the Grant shall be deployed and dedicated to cover losses on any loan or guaranty in the pool. The amount allocated to the pool to cover loan losses shall be 10% or 20% of the original

principal amount of each loan until the full [REDACTED] is allocated. The amount allocated to the pool to cover loan losses shall be 20% of the original principal amount of each loan that has one or more of the following characteristics: (i) loans to start-up schools; (ii) charter schools located outside of an established NFF lending geography; (iii) an LTV of 100% or higher; (iv) subordinate loans; or (v) predevelopment loans. For all other loans, the credit enhancement contribution to the pool shall be equal to 10% of the original principal amount of each loan. For guaranties, the amount allocated will be 10% of each guaranty amount.

Once the full [REDACTED] is allocated and as principal is repaid and the risk level of the underlying loans or guaranties is reduced with time/milestones (i.e., construction completion, hitting enrollment targets, charter renewed, etc.), in order to leverage the Grant to serve more schools, NFF will add more loans / guaranties to the pool. Based on NFF's successful track record deploying the 2015 and 2018 Awards with a low default rate and zero write-offs, NFF will add more loans to the pool such that the overall enhancement level of the pool (credit enhancement as percentage of outstanding debt) will at no time drop below 12%. NFF will continue to recycle the Grant funds in this manner.

Given NFF's successful track record deploying and administering the 2018 Award, NFF could seamlessly begin administering the Fund. It has the necessary team and systems in place and has identified a pipeline of 33 projects with a [REDACTED] million financing need, including [REDACTED] for 16 start-up schools. These are active charter school financing needs that this Grant could support. In addition to issuing term sheets for active pipeline deals and providing technical assistance to schools, within a month of receiving the award, NFF could establish a reserve account.

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

Through decades of community development lending, NFF has 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 cash equity; limited

collateral and / or low appraised values; limited or no 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. These obstacles are acutely experienced by schools led by people of color. NFF's products are specifically designed to address these issues, and NFF will use its 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 and that NFF would not be able to offer but for the credit enhancement Grant:

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 start-up and early-stage schools, have sufficient equity to invest in the predevelopment process. The Fund'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 no equity requirements.

Example: In early 2020, in its second year of operation, Washington Heights and Inwood Music Community Charter School (WHIN) needed to finance predevelopment costs for a project to redevelop a leased property and convert it from a parking garage into a K-5 elementary school. WHIN, led by a person of color, did not have funds to move the early-stage part of this project forward, and conventional lenders were unable to make a loan at this stage due to the start-up nature of the school, lack of sufficient real estate collateral, and uncommitted take-out sources. NFF analyzed WHIN's management team, academic track record, and project team and plan, and committed an unsecured [REDACTED]0 preconstruction loan that enabled WHIN to move forward with site work. The loan had an interest-only 12-month term with no prepayment penalty. Ultimately, WHIN was unable to secure a special use permit for the initial site and is in process of pursuing a

new location, highlighting the risky nature of predevelopment lending. NFF is committed to working with WHIN to secure appropriate space and has provided WHIN with a loan extension to facilitate the school's transition to an alternate project site. NFF's loan is credit enhanced with its 2018 Award, which enabled NFF to provide the loan and extension to the school.

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 limited operating history, while other lenders do not like to take construction risk, especially with borrowers new to real estate development. With the Grant, NFF 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, limited or no equity requirements, and amortizations up to 30 years depending on the needs of the school.

Example: When SEED Foundation, the nation's first and only network of public, college-preparatory boarding schools designed for students and families seeking a 24-hour learning environment, was looking to expand to Los Angeles, NFF joined a consortium of lenders to help. The 2018 Award made it possible for NFF to participate in this impactful project for a start-up school led by a person of color. SEED LA identified a project site in South Los Angeles that has been vacant since the 1992 Rodney King civil unrest, a site of significance for the local community. The project is part of a larger community development project, including affordable housing and a major public transit hub. NFF provided a [REDACTED] direct loan for this school, along with loans from other CDFIs (including CEP grantees), Weingart Foundation, and Chase Bank and more than [REDACTED] in private fundraising for this [REDACTED] project. The 2018 Award enabled NFF to provide an extended, 36-month interest-only period for the direct loan to accommodate the school's start-up phase and helped mitigate title-related risk due to two pending lawsuits.

3. Leasehold Improvement Loans

Start-up and 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. Start-up and 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, NFF will offer leasehold improvement loans, senior or subordinate, with **flexible terms** often tied to enrollment ramp-up that help schools build a sustainable revenue base to support loan repayment.

Example: NFF closed a [REDACTED] leasehold improvement loan to Sheila C. "Skip" Nowell Leadership Academy (Nowell) to support the consolidation of their two campuses into one location in Providence, RI. Nowell is a transfer charter school serving pregnant and parenting students and the only such school in the state. Given the school’s alternative program, it had difficulty attracting debt. NFF’s investment will assist the school in providing additional services to students and eliminate barriers to attendance, including lactation/health rooms, transportation services, and free on-site childcare services. NFF’s 2018 Award was critical to NFF providing this loan as it is not secured by real estate collateral and Nowell needed to close the loan in June 2020 when construction costs and completion and student enrollment (therefore, school revenue) were uncertain due to the COVID-19 pandemic. It also incentivized NFF to waive its payment and performance bond requirement to reduce costs for the school.

4. Acquisition / Renovation Loans

Similar to construction and leasehold improvement loan needs, charter schools often do not have the equity needed to acquire properties and, depending on the market, may be located in communities with low property values. NFF understands that low appraised values resulting in high LTVs does not necessarily translate to a weak financial condition or greater risk. NFF has more than three decades of experience working in communities that can struggle with property

values. Through the Fund, NFF will provide schools with acquisition / renovation loans up to or exceeding 100% LTV in a senior or subordinate position to address this common barrier to accessing financing.

Example: In April 2020, NFF closed a [REDACTED] for LIFE Academy, a start-up charter school in Montgomery, AL that is led by a person of color and set to open in summer 2020. The school, located in Montgomery's most low-income census tract, used loan proceeds to acquire and renovate its campus. The 2018 Award enabled NFF to provide this loan in a new market to NFF for a school that had not yet opened its doors. NFF's loan was funded with proceeds from its NMTC small loan fund, offering a 3.25% interest rate, reduced 0.5% origination fee and a four-year interest-only period on a seven-year loan term with a 30-year amortization in years five through seven. When appraised, the as-completed value was \$ [REDACTED], substantially below the [REDACTED] project costs and [REDACTED] in financing from NFF and other lenders, resulting in an LTV in excess of 100%. But for the attractive financing terms provided by NFF, the school would not have been able to move forward with this project.

5. Lease Guaranty

Commercial landlords are often unwilling to lease to start-up and early-stage or growing charter schools or those that have not yet reached renewal due to perceived risk of financial sustainability and operational viability. With the Grant, NFF 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: Williamsburg Charter High School 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 [REDACTED] term loan, which funded a [REDACTED] deposit required under the terms of the lease. The owner also required a guaranty for lease payments to secure the lease. America's Charter

School Finance Corp. provided a [REDACTED] of the lease payments for a five-year term with 1% annual guaranty fee. If the Fund had been in place, NFF would have provided this lease guaranty, making the financing more efficient and economical with fewer fees and parties.

6. Bond Guaranty

Charter school bond issuance has continued to increase with over 140-160 schools issuing [REDACTED] annually from 2016 to 2019 (latest available data)³. However, a small fraction of charter schools have accessed the bond market directly; about 10% of all charter schools have accessed the bond market⁴ and access remains concentrated in a few states (the top five states accounted for 63% of charter school bond issuance in 2019). **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 issuances⁵. This data shows a real need / market gap for this type of product. NFF will offer a bond guaranty product similar to a standby letter of credit to help schools obtain a (higher) credit rating and thus access better rates and terms than they otherwise could. NFF will also offer funded and unfunded debt service reserves to meet bond investor requirements, which will directly reduce schools' borrowing need, resulting in lower debt service over the life of the bond.

³ Charter School Bond Sector: 2019 Year in Review. Wendy Berry, November 2020: <https://eqfund.org/wp-content/uploads/2020/11/Charter-School-Bond-Sector-2019-Year-in-Review.pdf>

⁴ Charter School Facility Finance Landscape. LISC, September 2014.

⁵ Charter Lenders and Charter Authorizers: Can We Talk. NACSA and LISC, May 2015: https://www.qualitycharters.org/wp-content/uploads/2015/05/LendersAuthorizersReport_final.pdf

Chart 3: Credit Enhancement Transaction Forecast

Project Type	Year 1		Year 2		Year 3		Year 4		Year 5	
	\$ CE Activated	# of Deals	\$ CE Activated	# of Deals	\$ CE Activated	# of Deals	\$ CE Activated	# of Deals	\$ CE Activated**	# of Deals
Pooled Credit Enhancement - Loans										
Predevelopment Loans										
Acquisition / Reno Loan*										
Construction / Term Loans*										
Leasehold Improvements*										
Annual New CE Dedicated - Pooled Loans										
Total CE Dedicated - Pooled Loans										
Pooled Credit Enhancement - Guarantees										
Lease Guarantees										
Bond Guarantees										
Annual New CE Dedicated - Pooled Guaranties										
Total CE Dedicated - Pooled Guaranties										
Total Credit Enhancement Dedicated										
Annual New Credit Enhancement Dedicated										
Total Credit Enhancement Dedicated										

*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.

**\$ CE Activated will not exceed [redacted] even though sum total of \$ CE Activated is greater than [redacted]

Measurable Objectives

NFF has extensive evaluation expertise. Over its 40-year history, NFF has established and refined effective methods and tools to **collect, analyze and report high-quality data**. NFF’s organizational strength is evidenced by its four-star AERIS impact ratings, the highest (see *Attachment 7*). 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 project-specific performance measures requires both project-level and community-level data. Similar to NFF’s overall data collection, NFF’s education team (“ED Grant Team”) will collect both **community-level** data (location in low-income neighborhoods) and **school or project level** data (eligibility for free/reduced price lunch, the % of students outperforming state and districts academically, better rates and terms).

While some of the measures used are unique to the Fund, they will be collected in a manner

consistent with NFF's regular collecting and reporting of data. NFF first gathers data during the application and underwriting processes and continues until the loan is repaid and the credit enhancement no longer required. NFF sources this data from: 1) documents and materials submitted by the borrower (e.g. application materials, annual financial and academic reports, required annual surveys), 2) reliable public data sources (e.g. state department of education websites), 3) site visits and management calls, 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 Fund in the aggregate. Taken together, the community and project level data represents **reliable and meaningful performance data** for evaluation against the performance measures NFF has identified for this program.

Replicable Results

NFF believes that the results of the Fund are and can be easily replicated. NFF's approach to expanding access to flexible loan and guaranty products in markets and for school types (such as start-ups) that lack access to these resources. In fact, this proposal includes the replication of a strategy NFF has been implementing successfully since late 2015 to serve schools in new markets and deliver flexible products tailored to each school's and market's needs.

For example, NFF used its 2015 and 2018 Awards to successfully expand into Memphis and Nashville, TN, two growing charter school markets underserved by CDFIs and other lenders. NFF developed an effective outreach strategy in these cities, including meeting with schools with financing needs, local authorizers and funders, and charter support organizations. Through these relationships and regular site visits, NFF has [REDACTED] in loans and NMTCs to 12 charter schools in TN since early 2017, including [REDACTED] to four start-up schools and [REDACTED] in financing to seven schools with a leader of color.

NFF has already started to replicate and build upon this strategy of offering flexible products

in underserved markets; however, it will soon reach capacity with the 2018 Award (see Chart 5 and *Appendix M*) thus the Fund is critical to its ability to continue this work. NFF has already started building relationships and conducting outreach to identify high-quality operators and understand school needs and gaps in access to financing in three markets of interest – Alabama, Texas (San Antonio) and Washington State (see *Appendix K: Sample Market Development Approach* and *Appendix B: Letters of Support*) – and closed ██████████ for three schools in AL and TX with the 2018 Award. These markets have many of the characteristics ripe for NFF investment based on NFF's experience in TN: high-quality authorizers; strong local funding and advocacy community including local quarterback groups / harbormasters; high-quality charter operators including start-ups and early-stage schools; capital-constrained markets; and markets with low appraised real estate values. The Grant would help mitigate the risk of expansion into new geographies and serving start-up and early-stage schools, a significant factor for both NFF and many of the capital sources NFF will leverage with the Grant.

NFF will continue to offer flexible products and services to schools. NFF approaches each transaction with a willingness to craft terms for each individual financing. For instance, NFF and BlueHub were approached by an existing borrower to refinance a loan the school had from another lender who they felt was challenging and not supportive of the school's growth. The other lender's term was less than five years and amortization period was 25 years. Because of the 2018 Award, NFF and BlueHub were able to provide a five-year term and longer amortization (30 years), which resulted in a lower debt service burden to the school.

In addition to the viable replication of the proposed Fund in terms of market expansion and product development and delivery, NFF also provides technical assistance to charter schools, which it will continue to replicate. For the example noted above, NFF created a cost-comparison tool it shared with the school to demonstrate the financial implications of the school's existing loan and the proposed NFF / BlueHub refinancing, so that the school could make an educated decision

about whether to refinance (see *Appendix J*). NFF inputted the data into the tool and shared the results and talked through the two scenarios with the school. NFF has replicated this approach and now uses its cost-comparison tool with other charter schools so they can evaluate terms from multiple lenders. NFF also works with schools to identify the risk of commercial real estate development and the capacities needed by the schools to see these projects through to successful completion. NFF often encourages schools without in-house real estate expertise to hire consultants to perform capital needs assessments and market studies and to serve as development representatives on behalf of the school.

Selection Criteria

NFF's cumulative experience demonstrates its ability to select viable schools for growth and financing and convert ambitious goals into realized goals. NFF has a **cumulative write-off rate of 0.5%** for charter school financings. NFF will apply the same credit standards and processes for selecting qualified charter schools that it has developed and adapted successfully. **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, and (v) Population Served, including low-income students, minority students and students in underperforming school districts. The same selection criteria are applied to start-up schools in a forward-looking analysis with heightened emphasis on the founding leadership team and board's experience and track record to guide the school through a successful opening. All schools must meet the federal definition of "charter school" in Section 4310 of the ESEA, as amended by the ESSA, to be eligible for use of the Grant to enhance financing.

Educational Quality and Demand

Educational quality is at the core of NFF's assessment. NFF has adopted a set of criteria and indicators, based on industry standards, that it uses to select schools with a high degree of likelihood will be effective in achieving strong academic results. Criteria include internal and

public state longitudinal assessment data, college acceptance and persistence rates, and student and teacher retention rates, among others. NFF assesses 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, NFF conducts school visits/video conferences as part of its due diligence and observes classrooms (virtually if needed and when possible) to get a sense of instructional quality and school culture. NFF supplements this with feedback and assessments from outside experts, including charter school authorizers and local quarterback/harbormaster groups such as New Schools for Alabama, CSGF, City Education Partners, WCSD.

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. NFF 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. NFF also works with schools to determine the appropriate project financing, including debt amounts and terms (interest rate, amortization and maturity, interest-only period, etc.) and take-out strategies. NFF can provide guidance on critical real estate planning components and will use its established network to 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, NFF might also obtain a plan and cost review to ensure the project budget is reasonable.

Financial Strength and Capacity

NFF investment professionals and school experts from the ED Grant Team perform assessments of each school's financial strength. Since reasonable financial health is an essential foundation for all schools, NFF assesses historical financials and multi-year 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-specific ratios to have confidence that the school can manage through changing conditions. For start-up schools, NFF will analyze projected budgets against industry standard ratios such as instructional expenses as a percent of total revenue, student:teacher ratios, and facilities burden. NFF 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. It will also look for the school's ability to access start-up funds, both from private sources as well as through the federal Charter School Program (CSP) grant. The CSP grant was integral to the growth and opening of new charter schools in Alabama, providing critical start-up and implementation grant funding over the first three years of a school's life, including the pre-opening phase.

School Leadership and Governance

As part of underwriting, NFF 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. NFF 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, NFF will assess board capacity and engagement as those individuals can help fill or address any organizational gaps or weaknesses, particularly for start-up and early-stage schools. NFF will 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, NFF will determine whether its financing is appropriate for the school. In cases where NFF determines that it is not prudent to lend to a school, it will give the school feedback as to what is needed to make their organization and/or their project 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, NFF will explain why the scale of the project might put the organization in a financially precarious situation, provide recommendations for value-engineering, phasing and other strategies and encourage the school to come back once the projected facilities costs are more affordable. If NFF decides to make a loan through the Fund, the ED Grant Team will work with schools to determine their preferred terms and try to meet those needs to the extent possible.

Leverage & Schools Served

The Grant will be **leveraged 14 times to attract a total of [REDACTED] in private and non-Federal capital**, prior to recycling, for more than 30 charter school projects (see *Chart 3* for deployment schedule and *Chart 4* for leverage assumptions and calculation). These leverage projections are **specific to the first five years of the Fund**; as loans become more seasoned and repay, credit enhancement proceeds will be redeployed to support financing for more schools, further leveraging the original Grant award.

The average leverage ratio of 14:1 includes both NFF capital and other third-party sources of capital that are enhanced and/or leveraged for charter school facilities projects. In the first five years of the Fund, NFF will deploy approximately [REDACTED] of its own capital in loans to charter schools. Currently, NFF has [REDACTED] in available loan capital to deploy and an additional [REDACTED] in loan commitments to support future lending. 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 25 institutions have provided this capital to NFF, including Bank of America, HSBC, Charles Schwab Bank, Ford Foundation and the Mellon Foundation.

Sources of borrowers’ third-party capital include conventional bank debt, NMTC equity, foundation grants / PRIs, and local and state grants and loans. NFF has a proven track record of leveraging other private non-federal capital to complete the capital stack for charter school projects through co-lending with partner CDFIs, providing subordinate debt and guaranty products that leverage senior loans from banks and other conventional financing sources, and providing early-stage predevelopment or acquisition / construction financing that attracts senior capital after the riskiest stage of projects has been completed. NFF’s 2018 Award has leveraged more than [REDACTED] [REDACTED] development costs for charter schools in the first 2.5 years of the grant.

Chart 4: Credit Enhancement, Financing & Leverage Summary

Project Type	Assumptions			Deployment & Leverage				
	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				[REDACTED]				
Predevelopment Loans								
Acquisition / Reno Loan*								
Construction / Term Loans*								
Leasehold Improvements*								
Total Credit Enhancement Dedicated - Pooled								
Direct / Non-Pooled Credit Enhancement								
Lease Guarantees								
Bond Guarantees								
Total Credit Enhancement Dedicated - Direct / Non-Pooled								
Total Credit Enhancement Dedicated								
Total Credit Enhancement Dedicated								

*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.

**\$ CE Activated will not exceed [REDACTED] even though sum total of \$ CE Activated is greater than [REDACTED].

NFF has many partners who are interested in providing capital to support NFF’s charter school financing. NFF has received four letters of support from banks and finance institutions, including Prudential, PNC Bank, US Bancorp and HSBC Bank. NFF’s financial partners are excited and confident that the Grant will increase interest among banks to expand lending activity in the charter school arena. NFF’s track record and the support letters demonstrate its ability to use the credit

enhancement as a catalytic tool to attract significant amounts of capital to undertake projects.

The products the Fund will offer are intentionally designed to meet market needs and serve the maximum number and type of charter schools. NFF has a low minimum loan size of [REDACTED] and makes exceptions for high-impact, mission-aligned projects. On the whole for its charter lending, NFF is willing to provide relatively small loans (i.e. [REDACTED] compared to typical minimum loan sizes for NMTC leveraged loans or tax-exempt bonds of [REDACTED] more. NFF's average loan size for the Fund is estimated to be under [REDACTED] a result of this low average loan size, NFF will be able to serve **30 schools** with financing leveraged by the Grant, including **start-up schools** and **single-site / independent community-centered schools** which often have smaller capital needs associated with temporary facilities and tied to affordability constraints.

Reserve Account Investments

The Grant will be maintained in a 5-year Treasury investment vehicle, with a budgeted interest rate of 0.85% per annum.

Serving Charter Schools in States with Strong Charter School Laws

The proposed Fund will allow NFF to deepen and expand its presence in key charter school markets across the country in need of affordable financing options. Currently, 45 states and the District of Columbia have charter school laws, and there are more than 7,500 charter schools serving more than 3.3 million children across the country. Based on the most recent data obtained from the National Alliance for Public Charter Schools (NAPCS), the geographic areas served by NFF includes 3,630, or 48%, of the nation's charter schools, representing over 1.7 million students, or 52% of charter school enrollment nationwide.

Consistent with **Section 4303(g)(2) of the ESEA (as amended by ESSA)**, **all nine states meet multiple criteria for strong charter school laws**. Specifically, all nine states NFF will target with the Grant: a) allow at least one entity that is not a local educational agency to be an authorized public chartering agency and b) provide charter schools with access to and/or funding for facilities.

In addition, **five states ranked within the top 10** on either the NAPCS or Center for Education Reform (CER) rankings for states with strong charter laws (Washington D.C., Colorado, Texas, Alabama and Washington). Two other states (New York and Massachusetts) are ranked in the top quartile, and **all nine states rank in the top half**. Three of the four states in NFF's target market that were included in NAPCS's 2016 Health of the Movement study ranked in the top ten: Washington, D.C., Massachusetts and Colorado. Please see *Appendix E* for alignment of NFF target markets with **Section 4303(g)(2)** as well as NAPCS and CER state rankings.

NFF will use the Fund to increase its lending in states with strong charter laws. NFF is already engaged in outreach to expand its charter school lending in Alabama, Texas (starting with San Antonio) and Washington state, all three of which are ranked in the top 10 states with strong charter laws including WA (#3) and AL (#5). In the past year, NFF expanded its lending program to Colorado and is in the early stages of exploring the charter school market, which is an appealing prospect given the strength of the state's charter law. Despite strong laws, these markets are also underserved – they have limited access to CDFI capital and a large percentage of schools that serve low-income students and students from low-performing school districts.

Reasonableness of Proposal

NFF projects that a [REDACTED] Grant will leverage [REDACTED] in financing for 30 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 / renovation costs, predevelopment costs, and lease and bond guaranties. NFF will invest the Grant proceeds in accordance with Department of Education guidance, and monitor them according to the same standards as NFF's other funds. The budget for the Fund assumes NFF will receive the 2.5% administrative fee. NFF will not charge a credit enhancement fee to schools.

Any cost to administer the program above the 2.5% administrative fee will be borne by NFF 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 has developed and refined standardized template documents, which include guaranty, participation and loan agreements inclusive of the eligibility, use and reporting requirements of the Credit Enhancement Program.

Section II: Quality of Project Services

Services Reflect Charter School Needs & Input into Design

NFF recognizes the importance of providing charter schools with flexible capital to make their facilities projects realized. Through its research and outreach to design the Fund, NFF 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 depressed commercial real estate markets, (ii) insufficient equity to contribute to a project, which is common among start-up and early-stage charter schools as well as single site 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, resulting in loan payments the school cannot afford; and (v) lenders' reluctance to lend to schools that have not gone through a charter renewal cycle.

NFF regularly monitors the needs of the charter school market through daily interactions with charter schools and regular outreach to key stakeholders such as authorizers and state departments of education. NFF understands that the key to making successful, impactful loans is to ensure it responds to true market demand. NFF received input from a variety of stakeholders, including charter schools and authorizers, and has used that to inform this proposal. Between June and July 2021, NFF surveyed 11 charters operating 66 schools to ensure Fund products fit their needs. NFF incorporated the needs articulated by schools into the Fund design and has tailored products to

meet those needs; key among them were access to financing for start-up and early-stage schools⁶, no equity requirements, low interest rates, longer amortization periods, and high LTVs.

NFF continues to talk to many in the field about the financing needs and challenges. NFF has established a network of authorizers, state departments of education and charter support organizations, including the Charter Schools Institute of the State University of New York; Washington Charter Schools Association; California Charter Schools Association; Tennessee State Board of Education; WCSD and Alabama Public Charter School Commission. NFF also has close relationships with many CDFI partners with which it co-lends, like LISC and BlueHub, and actively participates on the Charter School Lenders' Coalition and the CDFI Racial Equity Collaborative on Education, a coalition of CDFIs committed to learning about and implementing policies and practices that support equitable educational environments in the schools they serve. NFF obtained letters of support from 13 charter schools or charter management organizations (CMOs); four banks; and 17 charter school authorizers, funders, back office providers, associations, developers and financial consultants supporting this application (see *Appendix B*).

Through its involvement in the CDFI Racial Equity Collaborative, NFF's organization-wide commitment to shift capital to organizations led by people of color, and its conversations with charter schools, support organizations, and the authorizing community, NFF is working to address the specific financing needs and challenges facing school leaders of color and schools located in communities of color (see "How do Schools Find Facility Money? Stories from School Leaders of Color", www.publiccharters.org/webinars). NFF's products are designed with these schools in mind: offering financing without cash equity requirements, providing financing with LTVs up to and above 100% LTV to address low appraisal values, longer-than-standard interest-only periods to give schools time to build revenue as their enrollment grows, and lease guaranties to support

⁶ One survey respondent shared: "Assessing risk is difficult for early stage schools--without state academic results, it's difficult to communicate to a lender how you are doing."

small schools in accessing facilities.⁷ NFF has designed its products with input from the range of types of schools it will serve with the Grant.

Cost-Effective Access to Financing

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

- **Reasonable portion of third-party fees** incurred by NFF, such as legal costs. NFF has standard loan and lease guaranty documents to reduce legal costs paid by schools.
- **Origination fee** of up to 1% calculated on the loan or lease guaranty amount (note: this is not a fee for the credit enhancement but rather an origination fee for the loan or lease guaranty product NFF is providing to the school). 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 for similar types of unenhanced financing. The credit enhancement will reduce lender risk and this will be reflected in loan pricing and terms (*See Chart 1*). NFF periodically adjusts its interest rate, but all loans under the Fund will carry a fixed interest rate which provides schools with predictable debt service requirements in the event of interest rate fluctuations.

These cost-effective fees make financing from NFF accessible to charter schools. The up to 1% origination fee and interest collected on loans covers NFF's cost of funds, staff costs and

⁷ Quote from start-up charter school borrower led by person of color: "Your support for this dream gave life to an entire community. You all made sure my entire team was aware of your expectations. I can't thank NFF enough for the information, for your guidance, for your mentorship, and I'm so grateful to have connected with NFF."

overhead associated with underwriting, closing and monitoring for each loan. NFF is a self-sufficient organization and there is no material revenue earned in excess of its direct costs to operate the Fund. NFF's fees are commercially reasonable and consistent with, or more advantageous than, their peers. NFF will not charge schools for **technical assistance**.

Assisting Schools with Likelihood of Success and Greatest Demonstrated Need

NFF's discussions with stakeholders, including charter authorizers, identified that barriers to accessing affordable financing are particularly acute for start-up and early-stage schools and schools located in economically challenged communities or led by leaders of color. Start-up and 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 they are located in districts that have long struggled to improve academic performance, they have little spare capital to put towards facility projects, and they often lack extensive fundraising capacity. 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. Many start-up and early-stage schools open in facilities not originally designed as schools and have difficulty accessing leasehold improvement financing because most banks and conventional lenders do not accept a leasehold mortgage as collateral. Our recent conversation with the Alabama Charter School Commission revealed that these challenges can cause schools to turn to expensive sources of capital (>10% interest rate) or projects led by real estate developers, which can harm a school's financial health, because they have no other options.

NFF has designed the Fund to specifically address these obstacles. For example, NFF's leasehold improvement, subordinate loan, no equity requirement, and high LTV products are designed to address the challenge of insufficient collateral and equity. The leasehold improvement loan and lease guaranty products are targeted to meet the needs of start-up and early-stage schools often overlooked by lenders and landlords. 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.

NFF's experience underwriting and monitoring charter school financings speaks to its ability to work with schools that have a high likelihood of success. NFF understands the various factors that make for a successful school and how to analyze these characteristics during underwriting: academic, financial and operating quality and capacity. NFF's collective write-off rate on charter school lending is 0.5%, proving NFF makes informed decisions about schools, including start-up schools (approximately 39% of NFF's charter school loans made since 2015 have been to start-ups). NFF will apply the same credit standards and processes for selecting qualified charter schools that it has developed and adapted successfully over its two decades lending to charter schools.

Section III: Capacity

Proposed Activity & Experience

NFF's 40-year track record demonstrates proven expertise financing projects in communities underserved by traditional investors, and the capacity necessary to implement the Fund.

Experience Enhancing Credit and Facilitating Financing

NFF is known in the market for its flexible underwriting, expert technical assistance and willingness to consider creative financing structures.⁸ NFF has a successful financing track record balancing the safeguarding of its investors' funds with its mission to maximize access to capital for the borrowers and low-income communities it serves. NFF has a seasoned team and established written systems and processes to underwrite and close loans, and to monitor complex projects with elevated risk profiles. NFF has direct experience enhancing charter school credit and facilitating financing through the 2015 and 2018 Awards, through which it is providing subordinate debt; acquisition / renovation, construction and leasehold improvement loans; lease and bond guaranties;

⁸ A 2021 NFF borrower, a start-up school in California, said: "NFF's willingness to partner and pool its resources with other CDFI lenders was helpful for the school being able to assemble the required amount of capital needed."

risk mitigation for new market expansion; and serving start-up and early-stage schools.

Age and Quality of NFF Experience

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 **██████████ financing (including ██████████ in NMTC allocation) to over 780 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. In addition to the 2018 Award, it has also received and deployed **██████████** of CDFI Fund-sourced credit enhancement to support the expansion of childcare facilities. NFF's advisory offerings include webinars, workshops, financial clinics, blog posts and in-depth consulting engagements to strengthen nonprofits' financial sustainability, identify and address financial challenges, and sustain operations over time.

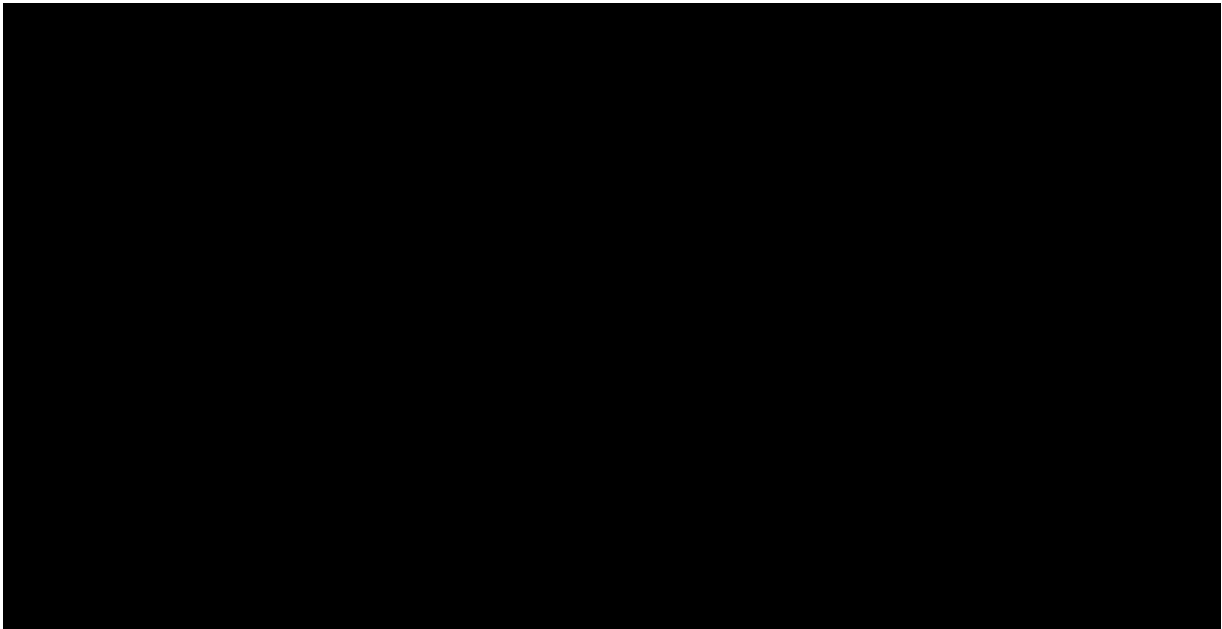
When market dynamics shift, NFF adds new products to meet evolving needs. For example, in response to the COVID-19 pandemic, NFF partnered with several foundations in New York City to launch and manage **██████████**, zero-interest loan program as part of the \$**██████████** New York COVID-19 Response and Impact Fund (NYCRIF). The NYCRIF loan fund provided a critical working capital product enabling 45 New York City-based nonprofit organizations to sustain operations between June and December 2020. Also, NFF's Resilient Communities Small Loan Fund was created to provide the benefit of NMTCs in the form of lower interest rates to borrowers (see *Appendix L*). Two charter schools have received financing through this fund.

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 "on-the-ground" presence to implement this Fund.

NFF has **19 years of experience lending to charter schools** and has provided [REDACTED] **in financing to 100 charter schools**. Charter schools currently make up **38% of NFF's 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.

Financial Stability

NFF has a **strong and stable 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:



NFF's financial strength comes from its diversified 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 NFF**. The remaining half is comprised of public and private grants and contracts for providing advisory services or carrying out specific programs. NFF generates consistent unrestricted operating surpluses. NFF's capital structure is stable with nets assets (including EQ2) at [REDACTED] liabilities are predominantly financing-related loans from banks and socially-oriented lenders and PRIs.

Risk Mitigation

NFF uses a series of written policies to manage risk, including credit policies and underwriting and portfolio management manuals. In addition, NFF has policies that cover key financial management risk areas including cash management, liquidity and asset-liability matching policies.

Underwriting

NFF's lending is governed by formal, written, board-approved credit policy guidelines that are reviewed annually by NFF's Board of Directors. NFF's loan underwriting, monitoring and financial management policies and procedures, most recently updated in September 2019, are included as *Appendix F*. In addition, NFF has more detailed asset class-specific underwriting manuals, including a charter school underwriting supplement that provides specific guidance on issues related to charter school lending. These documents and policies 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. NFF 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 potential borrowers, NFF will require potential credit enhancement recipients to submit a **comprehensive application** with supporting materials including: audited financial statements, cash flow projections, project budgets, board and management lists with bios and demographics, corporate documents, and funding sources. NFF conducts a site visit (virtual as needed) and in-depth conversations with senior management and other relevant stakeholders such as board members and the authorizers. Staff evaluate the recommended 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; (5) School Academic Performance and Demand; and (6) Organizational Capacity and Sustainability.

The approval processes and credit authorities for NFF are determined by the aggregate

exposure to the borrower and related entities. Further described in *Appendix F*, this outlines specific approval authority for varying loan sizes. NFF uses an external credit committee to approve loans of a certain size and risk profile; members of the committee bring expertise and backgrounds in education, community development and commercial lending. For example, Susan Harper is a longstanding credit committee member with decades of experience implementing innovative financing programs for charter school facilities at CDFIs and banks.

Portfolio Monitoring and Servicing

NFF uses a tiered Loan Risk Rating System to facilitate the assessment of the individual transaction risk and cumulative portfolio risk, help shape the loan monitoring cycle and 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. NFF holds 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 (or virtual as needed) meetings and calls with borrowers to assess their overall organizational and financial health and identify potential risks. NFF conducts annual surveys to collect information on borrowers' activities, social impact, and financial results and trends.

Finally, NFF mitigates risk of the overall portfolio through diversification (geographic, sector, loan purpose, etc.) and uses quarterly reports to examine concentration risk and portfolio trends.

Portfolio Quality

The best evidence of its ability to protect against unwarranted risk is NFF's average historical write-off rate of 2.02% of total cumulative lending and a <1% 90 plus days' portfolio delinquency rate currently and on average over the past several years. The adherence to the credit, underwriting

and portfolio management policies facilitate thorough underwriting and proactive loan monitoring, and has resulted in a history of strong portfolio quality. In the case of troubled loans, NFF provides patient, creative strategies to support the financed project and borrower, while ensuring repayment to its investors.

Financial Management

NFF 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 NFF manages financial accounts at multiple financial institutions using investment policies to guide its options.

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

Reporting: NFF uses financial reporting systems to produce monthly internal financial statements. Management uses these to review monthly 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 regularly reports on the use of foundation and public agency funds.

Financial Staffing: NFF has an experienced interim CFO who manages a 12-person finance department (the CFO position is expected to be filled by September 2021). This team is responsible for compliance with policies and has experience managing government and private grants and loans including prior credit enhancement the 2018 Award.

Credit Rating: NFF has an AERIS rating of AA- including an Impact Management Rating of four out of four stars, the highest available (AERIS is 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.**” The rating report further states: “This CDFI has **exceptional alignment of its impact mission, strategies, activities, and data** that guide its lending, programs and planning. Its processes and systems accurately track comprehensive data on an ongoing basis, including both output and longer term outcome metrics. Board and management consistently **use the data to adjust strategies and activities to improve its effectiveness.**”

NFF is in compliance with all applicable rules, regulations and covenants and files audits and Single Audits (formerly the A-133) annually with no significant deficiencies or material weaknesses cited.

Education Expertise

NFF has been financing and providing advice to various educational institutions for 40 years. NFF’s ED Grant Team has past or current education experience. NFF’s Director, Charter School Program was the co-founder of a charter school in Washington, D.C. where, most recently, she played a key role in determining and overseeing the school’s operations and strategy, including plans to expand to additional campuses and to expand to middle and high school operations. She also went through the debt process as a borrower. NFF’s Vice President of Lending was the founding and decade-serving board member of a charter school in Brooklyn, NY. NFF has a demonstrated track record in education finance, having provided ██████████ in debt and NMTC to 100 charter schools and leveraged more than ██████████ in financing since 2002. NFF’s education

experience also includes consulting services to charter and other educational institutions, including the Boston Plan for Excellence, and the Russell Byers Charter Schools, among many others. The education expertise of NFF’s ED Grant Team is further detailed in Section IV, below.

Conflicts of Interest

NFF follows a strict written Conflict of Interest Policy. All staff are trained on what to do if a staff member is determined to have a conflict or appearance of a conflict. NFF’s Conflict of Interest policy is included in *Attachment 6*.

Performance Under Prior Grant Awards

NFF has received and successfully deployed \$ [REDACTED] in credit enhancement grants across two awards through its partnership with BlueHub. NFF has met or exceeded its goals for number of schools served, capital deployment and leverage under the 2018 Award. Please see *Appendix M: NFF 2020 Annual Performance Report*.

As of July 2021, the 2018 Award has provided [REDACTED] in credit enhancement for 27 schools, leveraging [REDACTED] and BlueHub have a pipeline of [REDACTED] in credit enhancement need with only [REDACTED] enhancement capacity (see below). (NFF has a separate pipeline for the subject Fund totaling \$ [REDACTED] for 33 schools.)

Chart 5: 2018 Award Deployment & Pipeline

NFF 2018 Award	
Total as of July 23, 2021	[REDACTED]
Balance CE Remaining	[REDACTED]
Pipeline	[REDACTED]
WHIN Charter School	[REDACTED]
RISE Prep	[REDACTED]
IDEA Public Schools Ohio*	[REDACTED]
Promesa Academy	[REDACTED]
Marion P Thomas Charter School	[REDACTED]
Legacy Prep	[REDACTED]
Total Pipeline	[REDACTED]
*Estimated amounts based on past	

Section IV: Quality of Project Personnel

NFF has a team of qualified individuals to deploy the Grant. An organizational chart listing the ED Grant Team roles and responsibilities is included in *Appendix G*.

Qualifications

The project manager will be Kathy Olsen, NFF's Vice President, Lending. Kathy manages NFF's lending including business development and underwriting and brings 20 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 was a founding and decade-long serving board member of Coney Island Preparatory Public Charter School, a then start-up school that grew to a network of three schools serving over 1,000 students in South Brooklyn. Kathy is a member 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, and the CDFI Racial Equity Collaborative on Education. Kathy led the implementation of NFF's prior awards alongside Kathryn McHugh from BlueHub.

Kathy will work closely with Norah McVeigh, NFF's Managing Director, Financial Services, to coordinate business development and outreach, ensure appropriate underwriting, monitor the portfolio and perform grant reporting. Norah has been with NFF for 27 years, overseeing the launch and growth of its charter school loan portfolio.

NFF expanded its in-house education expertise with the recent hire of Dominique Fortune, who will play a key role in implementing the Fund alongside Kathy. Dominique co-founded Lee Montessori Public Charter School in Washington, D.C. and has remained involved with the school since its founding in 2013, including recently serving as its Chief of Staff, overseeing two campuses focused on strategy and growth, external relations, anti-bias and anti-racist policy and

practice implementation across the organization. Dominique also worked for a large nonprofit charter school developer as Director for the Mid-Atlantic region including key markets where this Grant will be deployed. Resumes for key staff are in *Attachment 4*.

Staffing Plan

NFF will conduct marketing and outreach to identify possible projects and perform the credit analysis and underwriting of all transactions under the Fund. Kathy manages NFF's lending team of 14 staff with six focused on business development and six focused on underwriting and NFF's three-person NMTC team. The lending team is hiring for three new positions currently. NFF's lending staff have decades of combined lending experience including stints at commercial banks, CDFIs and small business lenders, and as consultants in real estate development and charter school financing. NFF has developed an efficient underwriting process to carefully vet projects and borrowers and move viable transactions quickly through approval and closing to meet school timelines for financing, project completion and opening on time for the upcoming school year.

Portfolio Monitoring

NFF will conduct ongoing portfolio monitoring of the Fund portfolio. Kristine Teaño, NFF's Director of Portfolio Management, manages a team of five portfolio managers, a construction manager and a Loan Administrator, and is responsible for monitoring and maintaining the quality of NFF's national loan portfolio. Kristine has been with NFF for more than eight years and has an additional eight years of experience as an analyst and underwriter in JP Morgan Chase & Co.'s commercial real estate banking practice.

Grant Reporting and Data Collection

Dominique will be responsible for NFF's compliance with the Performance Agreement and for collecting data as described in the Data Collection and Reporting section. She will be supported by NFF's Associate Director of Operations, Rashi Desai, to ensure compliance and timely reporting under all federal grants and other investments.

Board of Directors

NFF's Board of Directors has been directly involved in the design, implementation, and monitoring of its business strategy, including involvement in charter school finance and the strategy for the Fund. The Board plays a key role in the administration and oversight of all federal awards. Please refer to *Appendix H* for more detail.

NFF's 14-member Board of Directors has 13 external members. The Board members' expertise includes real estate development and finance, 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 and Michelle Volpe from BlueHub.