

LENDING & Learning

Issue 1, 2004-05

**ANNUAL PROGRESS REPORT from the
SELF-HELP CHARTER SCHOOL LOAN FUND**



WELCOME TO OUR FIRST CHARTER LENDING PROGRESS REPORT!

Marc Hunt
Director, Charter School Loan Fund

For 25 years, Self-Help has worked to foster community economic development. One way we do this is through our charter school loan program, which provides financing to quality charter schools with the potential to improve their communities. As we continue to advance this program—especially to support schools and students most in need of positive change—we are pleased to launch this annual progress report on our efforts.

Self-Help celebrated 2004 as a year of great growth in our charter school lending program's capacity and community impact. An \$8 million U.S. Department of Education grant provided valuable fuel for this work. Last year was also one of learning for us. While Self-Help strives to deliver quality resources to our clients, we also acknowledge that we are still pupils in this field.

We stand in admiration of our borrower schools, their students and families, our partners and countless

others who work daily to strengthen lives through the support of quality education. With thanks to all who create great charter schools, we welcome this opportunity to share information about our lending and our learning.



Based in North Carolina, Self-Help is one of the nation's leading community development financial institutions. Our mission is to create ownership and economic opportunity, with a particular interest in serving minorities, women, rural residents and low-wealth families. Over the past 25 years, Self-Help has provided \$3.9 billion in financing to over 43,000 small businesses, nonprofits and homebuyers.

Self-Help supports high performing charter schools that serve the needs of low-wealth, rural and minority students. To date, we have loaned over \$40 million to 21 charter schools serving more than 12,000 students. To learn more, visit us at www.self-help.org.

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\$8M GRANT

Expands Our Reach, Improves Our Financing Tools

In 2003, the U.S. Department of Education awarded Self-Help \$8 million through its Federal Credit Enhancement Grant program to further our charter school facilities lending. At the most basic level, the grant allowed us to establish a pool of funds to help offset our lending risks, such as a borrower's limited collateral. The benefits resulting from Self-Help's improved credit "safety net" are more attractive loans for borrowers, the ability for us to serve more schools, and a reinforced ability to attract capital into our loan fund, thus expanding our lending resources for charter schools.

STEPS FORWARD:

PROGRAM HIGHLIGHTS FOR OCT. 1, 2003 - SEPT. 30, 2004

INCREASED THE NUMBER AND SIZE OF LOANS WE ARE ABLE TO PROVIDE

In this first 12-month grant period, we provided more charter school financing than in any prior year of our program - \$15.6 million.

EXPANDED BEYOND NC INTO FIVE MORE STATES (SC, TX, FL, GA AND TN)

Loans in this period went to eight schools in three states and the District of Columbia.

BROADENED THE POOL OF SCHOOLS TO WHICH WE CAN LEND

The grant allowed us to deepen our service for minority, at-risk, rural area and/or impoverished students as well serve younger schools, which typically have the most difficulty securing financing.

- * Seven of our eight loans were located in New Markets Tax Credit eligible neighborhoods;¹
- * At least 64% of students at those seven schools qualify for free or reduced lunch;
- * Over 80% of the students served are minorities;
- * 11% of the schools' students qualify as in need of special education;
- * The average age of schools that received loans in the grant period was 3½ years; and
- * 68% of the lending, or \$10.6 million, went to schools in their first or second year of operation.

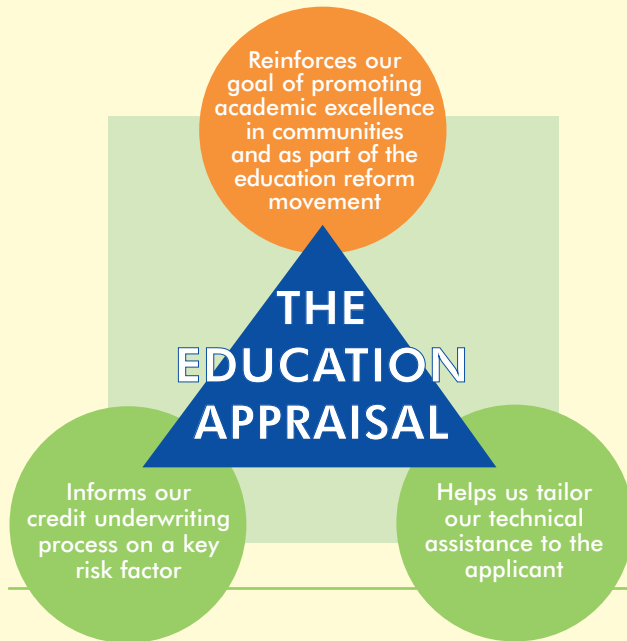
PROVIDED BORROWERS WITH MORE AFFORDABLE PRICING AND TERMS

In general, the grant allowed us to lengthen the terms and amortization rates of the loans we made, while lowering the interest rates. For example, the before-grant and after-grant details of a loan to a start-up school with strong management, but a loan-to-value ratio of 80%, could have looked like this:

PRICING & TERMS	BEFORE GRANT	AFTER GRANT
Interest Rate	Prime +2.5%	Prime +1.5%
Term	Up to 15 Years	Up to 20 Years
Amortization	Up to 15 Years	Up to 20 Years

¹ In NMTC neighborhoods, families generally earn less than 80% of area median income or have more than 20% of the families living below the poverty line.

GREAT EXPECTATIONS: Solid Academics Required of Our Borrower Schools



As part of our assessment of loan applicants, we require each borrower to demonstrate its school's capacity to provide an improved educational product in the community. Specifically, we conduct an "educational appraisal" of each loan applicant before awarding a loan. These appraisals take a number of factors into account, including testing, curriculum and teaching quality.

State and federal education laws, including the 2002 national "No Child Left Behind" act, require that students and schools meet certain educational performance benchmarks. Of the eight schools we made loans to last year, all but one met or exceeded required benchmarks. The one school that was found slightly deficient has continued to improve its academic record, with an almost 60% increase in the number of students performing at acceptable levels.

LESSONS WE HAVE LEARNED

Many charter schools constructing or acquiring buildings face an array of challenges, from planning to managing construction to securing financing. And the schools we target—with students and communities of need—often find the challenges greater. To best assist these schools, we have made it a point to deeply understand and anticipate such schools' special needs.

As part of the reporting requirements for our 2003 U.S. Department of Education grant, Self-Help assessed our service to schools in our markets between October 2003 and 2004. In the spirit of increasing awareness for all those who care about the success of charter schools, here are three lessons we learned based on the data we gathered.

Lesson 1



SCHOOLS NEED TECHNICAL ASSISTANCE

Charter school operators are generally educators first and foremost. They become construction managers, facility developers and financial managers out of necessity. As a result, business, financial and facility development skills are often a challenge to them.

Through personal visits, phone calls, e-mail, conference attendance and participation in associations, Self-Help provides technical assistance (TA) to borrowers, schools and other professionals in the field.

We estimate that in the first year of the grant we provided approximately:

- 650 hours of TA to borrowers;
- 350 hours of TA to school operators not yet prepared/able to apply for a loan; and
- 500 hours of TA and knowledge sharing with other professionals in the field

The most commonly covered topics in our direct TA to schools were:

- Operational and financial project planning;
- Facility planning and construction management;
- Fundraising and grant writing; and
- Marketing and community outreach.

Our support for other professionals in the charter school field included:

- Presentations at industry meetings;
- Direct interaction with public officials;
- Support of state-based resource centers for schools; and
- Advocacy for supportive public policy for charter schools.

Lesson 2



FLEXIBILITY CAN MAKE SOME LOANS POSSIBLE

Self-Help offers customized lending products to match the specific needs of its borrowers, including charter schools. This flexibility and individual attention can make a difference in the ability of a borrower to grow and succeed.

For example, two of the charter school loans we originated included initial “interest-only” periods to accommodate the cash-flow needs of the borrowers. The “interest-only” period allowed the schools to expand their enrollment and increase their cash resources in the start-up phase until full payments of principal and interest became affordable.

Flexibility and individual attention can make a difference in the ability of a borrower to grow and succeed.

For schools with daunting projects, access via a lender to tools, such as third-party guarantees, may be critical to their ability to secure financing that works.

WHEN FINANCING SCHOOLS, TAP INTO A RANGE OF TOOLS

For lenders who deal frequently with challenging charter school projects, having multiple financing “tools” available is important. Likewise, for schools with daunting projects, access via a lender to tools, such as third-party guarantees, may be critical to their ability to secure financing that works. In addition to the Federal Credit Enhancement Grant, Self-Help utilized a variety of tools to make its eight charter school loans last year. These resources included:

TOOL: USDA COMMUNITY FACILITIES GUARANTEES

USE: 80-90% guarantees used for two borrowers in qualifying rural areas on loans totaling \$1.9 million

TOOL: SUBORDINATE/SELLER FINANCING

USE: \$4.0 million in subordinate/seller financing

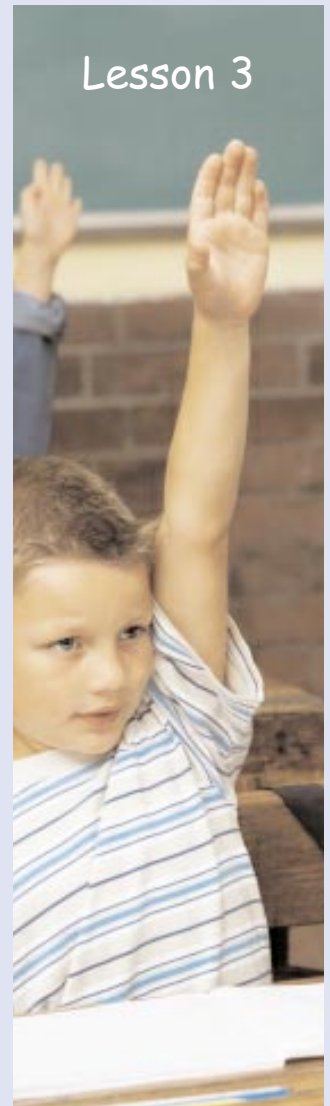
TOOL: THIRD PARTY PRIVATE GUARANTEES

USE: \$1.6 million in private guarantee enhancements for two loans

TOOL: NEW MARKET TAX CREDITS

USE: 7 of the 8 schools Self-Help loaned to were eligible for New Markets Tax Credit sourced funding

Lesson 3



“This school is tremendously active in the Fort Worth community, offering a range of supplementary services to the families of children enrolled.

Self-Help is delighted to help this school move into a permanent facility and grow its programs.”

Brenna Copeland,
Self-Help loan officer who
worked with East Fort Worth
Montessori School

BORROWER PROFILES

East Fort Worth Montessori School

In 2004, Self-Help loaned funds to East Fort Worth Montessori School (EFWMS) to purchase a permanent facility. The school offers a pre-kindergarten to third grade program and has been in operation since 1997. In the 2003-04 academic year, EFWMS served 216 students and had 81 children on its waiting list. A large percentage of its students are economically disadvantaged.

EFWMS has consistently enjoyed the support of its surrounding Texas community as a result of its rigorous curriculum and engaging community programming. However, the school had limited success in obtaining financing for its proposed building acquisition because local lenders did not view the property as sufficient collateral to support

the loan. But thanks to the Federal Credit Enhancement Grant, Self-Help had the extra security necessary to make a loan and get EFWMS into its building.

Prior to purchasing its own facility, East Fort Worth Montessori was leasing two properties. Consolidating the school’s enrollment in one larger property will enhance the educational programs and provide the school a sound base upon which to strengthen its financial health in the future.

Gaston College Preparatory School

Self-Help has made four loans to Gaston College Preparatory School (GCP), a charter middle school located in rural northeastern North Carolina. Under a flexible arrangement between the school and Self-Help, the four loans were staged over several years to allow for affordable campus expansion with enrollment growth.

GCP is part of the KIPP network of charter schools, a cutting-edge leader in modeling public school reform. Seventy percent of GCP’s students qualify for the federal free and reduced lunch program. Over 95% of students are minorities.

Since its launch in fall of 2002, GCP has qualified as a North Carolina School of Excellence for three years in a row. In the 2002-03 school year, it ranked as the sixth top performing middle school in the state. As a testament to its strong performance, when Gaston’s first class of fifth-grade students entered the school, only 49% were performing at grade level. After three years, 100% of those students were at or above grade level in both reading and math.

Self-Help’s most recent loan to GCP allowed the school to construct a gymnasium – a rare feature at charter school facilities in this state. We utilized both a USDA Community Facilities Guarantee and a Federal Credit Enhancement Grant Guarantee as security.

