

ENDING Learning

Issue 4, 2008-2009 ANNUAL PROGRESS REPORT from the SELF-HELP CHARTER SCHOOL LOAN TEAM



Access to Capital for People of Color

Acquiring quality facilities is perhaps the biggest hurdle facing charter school leaders. In most states, charter schools spend an average of 12% of their budget on leasing or buying their facilities. While the struggle to find and pay for school buildings is shared among almost all charter schools, there are distinct differences in access to financing between schools led

by people of color and those led by Caucasians.

In 2006, Self-Help began to investigate the facts and reasons behind this observed disparity. Comparing the charter school portfolios of several community development financial institutions (including Self-Help) we confirmed what anecdotal evidence had already alluded to: the average loan size and average dollars lent per student are lower for minority-led schools than for white-led schools. This is in spite of the fact that minority-led schools that applied for loans from the five participating institutions were more likely to have met Adequate Yearly Progress under No Child Left Behind than white-led schools. Our research also revealed that while 100% of white-led charter school boards and staff had business expertise, only 43% of minority-led charter school boards included individuals with financial skill sets.

Though the facts are clear, the reasons behind the funding gap are more ambiguous. Interviews conducted with minority charter school leaders

	Met AYP Year of Approval	Board/Staff Business Experience	Outside Guarantees	EMO
White-Led Schools	55%	100%	19%	3%
Minority-Led Schools	81%	43%	38%	5%
Strong Minority-Led Schools	86%	30%	55%	5%
All Schools	70%	76%	30%	4%

revealed that there is frequently distrust of lenders in communities of color. Other possible explanations for financing disparities include racism, limited business connections among minorities, and a lack of experience in the financing process.

Self-Help is still in the preliminary stage of its research into this issue. While we share responsibility

for some of the disturbing trends revealed in our examination, we do strive to offer technical assistance and lending opportunities to all charter schools, particularly those led by people of color. If you have any questions about our research or financing opportunities, please do not hesitate to contact one of our staff members.



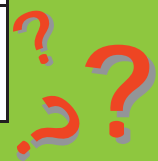
Self-Help is one of the nation's largest community development financial institutions. Our mission is to create ownership and economic opportunity for people of color, women, rural residents, and low-wealth families and communities. For over 25 years, Self-Help has provided \$5 billion in financing to over 60,000 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 \$100 million to 34 charter schools in 7 states serving over 21,000 students. To learn more visit us at www.self-help.org.

For inquiries regarding loans to schools, please contact:

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	# of Loans	Loan Size (in millions)	Enrollment at Loan Approval	\$ Lent per Student	Loan to Value	Debt Service Coverage Ratio	Years of Operation
White Led Schools	31	\$ 1.3	212	\$5,947	77%	1.12	3.2
Minority-Led Schools	39	\$1.1	233	\$4,841	88%	1.38	2.8
Strong Minority-Led Schools	27	\$1.0	264	\$3,909	84%	1.37	3.1
All Schools	70	\$1.2	224	\$5,298	83%	1.23	3.0



What does "Minority-led" Mean?

The United States Census Bureau defines "minorities" as Black/African Americans, American Indians, Alaska Natives, Asians, Native Hawaiians, Pacific Islanders, and Hispanics/Latinos. However, as a group, people of color are rapidly changing the identity of who is considered a minority; by the year 2050, more than half of the United State's will be non-Caucasian and no single ethnic group will represent a majority of the country's population.

Though we recognize this trend, Self-Help's portfolio examination relied on the term minority to assess charter schools' level of leadership by people of color. Adopting Dr. Abdin Noboa's definition of "minority-led charter school," our research considers a school as being "minority-led" if it has at least one of the following characteristics:

- A minority founder
- A majority of the board are minorities
- A minority board chair
- A minority school leader (defined as the financial and hiring decision-maker)

Schools that had a minority founder and/or had more than fifty percent minority representation on their board were considered to be "strong minority-led" schools. Though this designation is subjective, we believe that the schools' founders and boards have the most influence on a school's operations.



Dr. Abdin Noboa is the President of Innovative Consultants International and is widely recognized for his expertise in



Students from Memphis Academy of Health and Sciences celebrate graduation (above) and Science Fair day (left).

Put Your Best Foot Forward: THE DOS AND DON'TS OF SECURING FACILITY FINANCING

DO...

Assess your financial capacity to borrow before approaching a lender

In general, if you do not have a cash flow of \$1.20 or more for every \$1.00 that you plan to borrow, securing a loan may be difficult.

Start the loan process early

Begin researching different lenders' loan terms about 12-18 months prior to construction.

Have all of your documents prepared to give to the lender

The documents you give to your lender should paint a clear picture of your school's academics, finances, and leadership. Many lenders look for financial projections for the school, a business model, resumes of the borrowers and school board, locations and addresses of the prospective building sites, building plans, projected enrollment, 501(c)3 letter documentation, by-laws, audits, marketing plans, security measures, etc.

Communicate frequently with your lender

Give your lender all of your contact information and respond quickly and thoroughly to his or her requests. A major delay in the loan process is simply waiting on the borrower to submit the appropriate information.



DON'T...

Start out too fast and overbuild

While the most luxurious school building may be tempting, keep your construction plans simple and practical. Make sure you have realistic enrollment projections. After all, long waiting lists may help you get an additional loan in the future.

Encourage nepotism

Families and friends often join together to start a charter school. While this may help unify the mission and vision for the school, it can be a red flag for lenders. Diversify your school board and management staff with people of various backgrounds and skill sets.

Withhold any information from your lender

Even if you believe that a piece of information is not relevant to the loan process, give full disclosure before, during, or after the loan process.

End the relationship with your lender after the loan closes

A loan is a long-term relationship. It will benefit both you and your lender to continue communication.

Sign your contract without reviewing it first

Make sure you understand all of the fees associated with your contract.

Beware of Exclusive Contracts

When you start the facility development process for your school, it is recommended that you find experienced professionals who are well-versed in real estate. However, some real estate brokers, financial advisors, or other consultants ask that their clients sign exclusive contracts. Signing an exclusive contract may reduce your upfront costs, but may lead to legal headaches down the road. Before you sign anything, consider the following tips:

- **Find your own attorney.**
Do not use the broker's attorney or an attorney that the financial advisor brings to the table. You need a lawyer looking out for your charter school's interests.
- **In addition to your attorney, you should also read your contract BEFORE you sign it.**
Make sure that you understand all terms and conditions before signing.
- **If you decide to sign an exclusive contract, have your lawyer clearly define the terms and conditions of your contract.**
Make sure your lawyer reviews with you the timeframe, deadlines, fees, deliverables, and exit strategy if things don't work out.



Focus Academy: The Bumpy Road to Success

Like many charter schools, Focus Learning Academy in Dallas, TX has seen its share of obstacles. Chartered in 1998, Focus opened its doors with a mission to teach low-income students with ADD, dyslexia, and other learning differences. Before opening Focus, founder Leroy McClure worked at a private school with a similar mission. However, as McClure's former employer noted, "a lot of kids can't afford the types of services we offer. There's a very definite need for what [Focus] is doing, particularly in the African-American community."

Once it opened, Focus saw a large demand for its services. In its first years of operation, the school's enrollment grew from 105 students in 1999 to 525 students in 2004. Currently the K-8 elementary school boasts an enrollment of 380 students, a majority of whom are at-risk.

With its success, the school wanted to expand its reach and leased space for two other campuses, one in Arkansas and another Dallas campus. In addition to the expansion, the school decided to purchase a vacant retail location and renovate the property for its central campus in Dallas. The school had commitments for two loans from two institutions—one written contract to pay for the mortgage and another verbal commitment to pay for construction. FOCUS soon made what McClure called the "single biggest mistake"—the school began construction without receiving a written commitment from its bank. Two days before Christmas and with renovations well underway, the bank withdrew its verbal commitment from the school without any explanation. Back payments and late fees for the construction quickly piled up, making it difficult for the school to pay its mortgage and other leases.

Focus sought the aid of several banks for technical assistance and to seek an emergency loan. The school already had sound academics, a charismatic and very capable leader, and solid enrollment—all elements that lenders look favorably on when evaluating charter schools. After meeting with the school's leadership, Self-Help made suggestions on how to remedy their situation. The school closed its two satellite campuses, hired a full-time CPA, and had professional development opportunities for faculty and staff members. With these improvements, the school was able to receive a loan and currently has met Adequate Yearly Progress.

Focus Learning Academy is not alone in the missteps it took on the journey to building a facility. Many charter school leaders, in their zeal for teaching, overlook the financial aspects of running a school. With a controlled growth plan, written commitments from a bank, and sound guidance from construction and financial experts, charter school leaders will have increased time to focus on what matters most—teaching students.

"Learning differences are hereditary and children with them must LEARN to READ from 1st to 3rd grade, then they are enabled to READ to LEARN. Thanks to Self-Help, we now have a permanent home where our students and their families can experience life-long learning."

-Leroy McClure

CALL FOR SUGGESTIONS

Self-Help is in the initial stages of its research about access to capital for schools led by people of color.

We welcome any feedback or questions you may have about this initiative.

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SUGGESTED READINGS

- [Leading Diverse Schools](#) by James Ryan
- [Race, Gender, and Educational Leadership Perspectives from African American Principals](#) by Diane S. Pollard published in the *Educational Policy* journal , v11 n3 p353-74 (1997)
- [African-American Principals: School Leadership and Success](#) by Kofi Lomotey