



## Investing in Charter School Facilities

March 28, 2012  
2012 National Interagency Community Reinvestment Conference



capital for healthy families & communities

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## Agenda

- Overview of LIIF and Education Program
- Underwriting Charter Schools
- Capital Deployment Strategies
- Industry's Experience
  - A Decade of Results: Charter School Loan & Operating Performance by Ernst & Young



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## LIIF's Mission

The Low Income Investment Fund creates pathways of opportunity for low income people and communities. LIIF serves the most vulnerable people and places.



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## Our Programs

POLICY  
GREEN  
Stories of Success

Housing   Child Care   Education   Health   TOD

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## LIIF Charter School Lending Program

- Deployed \$300mm in capital to support development and acquisition of over 100 charter school facilities
- Awarded \$210mm in New Market Tax Credit Allocation, of which \$99mm has been deployed in the charter school sector
- Recipient of \$8mm in Department of Education Demonstration Program Credit Enhancement
- Sponsored Ernst & Young Study on performance of \$1.2 billion in charter school loans over 10 years, published May 2011
- Member of Charter School Financing Partnership (CSFP); vehicle which offers credit enhancement to charter school bonds
- Lending activity in NY, CA, NJ, MD, DC
- Exploring RI, TX, CO, TN



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## Underwriting Charter Schools




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## Underwriting Early Stage Schools

- Strength of management and the Board
- Academic Results
- Project cash flow/financial capacity of school/CMO
- Collateral value
- Charter environment (state/local)



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## LIIF Lessons Learned

- Overall excellent portfolio performance
  - 60 day + delinquency, 5 year average 3.6%
  - 5 year average write off rate .66%
- Red Flags
  - Drop off in academic performance
  - Inability to produce timely and accurate financial reporting
  - Unexpected or rapid shifts in composition of Board
  - Downward trend in financial ratios
  - Key staff turnover at school or CMO



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## LIIF's Lessons Learned

- Factors driving defaults
  - Weak leadership
  - Rapid growth
- Factors driving loss given default
  - Demand for school facilities in local market (public or charter)
  - Debt per student



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## Capital Deployment Strategies




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## Capital Deployment Strategies

- Funds – Senior debt / Mezzanine debt
- New Market Tax Credits – Debt / Equity
- Direct lending



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## LIIF Fund for Schools & Communities

**Purpose:** To fund the acquisition, construction, renovation and mini-perm needs of high-performing charter schools in Los Angeles County

**\$35 million**

Category	Amount	Source(s)
Senior	\$28.9 million	Citi, Prudential, LISC, Bank of America
Mezzanine	\$6.1 million	LIIF, LISC, Annie E. Casey Foundation
Pooled Credit Enhancement	\$1.7 million	Department of Education Credit Enhancement
<b>Total</b>	<b>\$35 million</b>	



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## Data Collection

- Information collected on 430 loans totaling \$1.2 billion
- Also information collected on 336 schools
- Includes
  - Respondents who submitted between July 2010 and February 2011 via Microsoft Excel data collection tool
  - Loans financed between 2000 and 2009
  - FY2009 performance information
- Financial institutions including CDFI's and banks.
  - Members of the Charter School Lenders' Coalition
  - Known banks and other private lenders financing charter schools
  - Recipients of DOE Charter School Credit Enhancement awards
  - New Market Tax Credit allocatees focused on charter schools
  - Respondents to Charter School Facility Finance Landscape survey (LISC)



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## Loan Performance Metrics

	Outstanding Loans	Paid Off Loans
Number of Loans	265	154
Total Original Loan Amounts	\$950.4M	\$250.2M
Average Original Loan Amount	\$3.6M	\$1.6M
Median LTV at Underwriting	84%	82%
Median DSC at Underwriting	1.4	1.2



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## Operating Performance Metrics

	Average
Revenue per enrolled	\$14,127
Expenses per enrolled	\$12,787
Net income per enrolled	\$1,340
Assets to liabilities	1.53



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## Foreclosures

Year of Origination	\$M Loans Made	\$M Foreclosed Loans	\$M Written Off	% Foreclosed	% Written Off
2000 and earlier	\$35.5	\$0.3	\$0.3	0.8%	0.7%
2001	\$32.8	\$0.0	\$0.0	0.0%	0.0%
2002	\$12.9	\$0.0	\$0.0	0.0%	0.0%
2003	\$71.1	\$0.0	\$0.0	0.0%	0.0%
2004	\$78.0	\$0.0	\$0.0	0.0%	0.0%
2005	\$166.7	\$3.0	\$1.0	1.8%	0.6%
2006	\$155.8	\$8.6	\$1.0	5.5%	0.6%
2007	\$152.2	\$0.0	\$0.0	0.0%	0.0%
2008	\$259.4	\$0.0	\$0.0	0.0%	0.0%
2009	\$193.7	\$0.0	\$0.0	0.0%	0.0%
2010	\$38.3	\$0.0	\$0.0	0.0%	0.0%
<b>Total</b>	<b>\$1,196.2</b>	<b>\$11.9</b>	<b>\$2.2</b>	<b>1.0%</b>	<b>0.2%</b>

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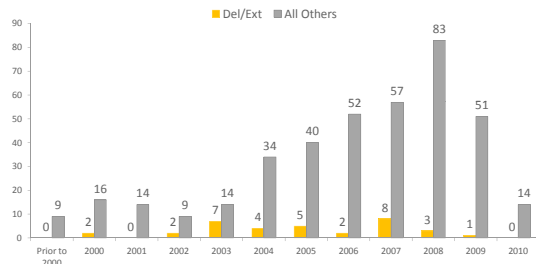
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## Delinquencies and Extensions




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## Academic Performance

Of the schools in dataset for which information was reported,  
67% met AYP requirements




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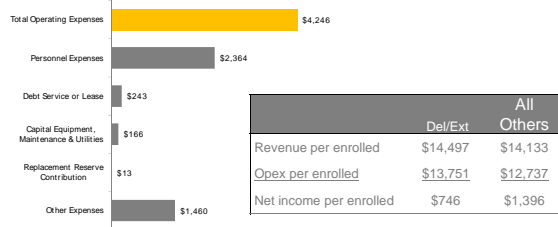
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## Operating Expenses



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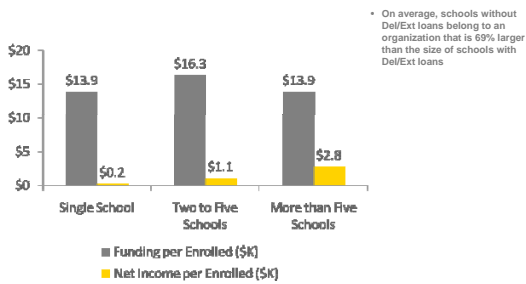
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## Size of Organization



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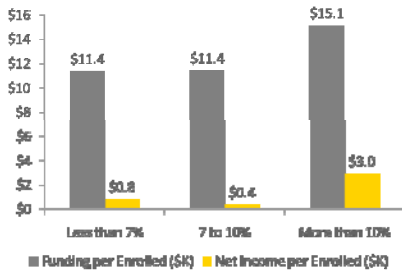
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## School District



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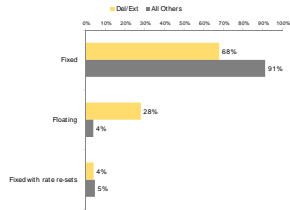
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## Loan Terms

	Del/Ext Loans	All Others
Median Loan to Value (LTV) Ratio	84.0%	85.0%
Median DSC at Underwriting	1.5	1.4
Weighted Average Interest Rate	5.0%	5.3%
Average Loan Term in Years	7.7	8.8



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## Contact

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