

Credit Enhancement for Charter School Facilities Program Application Narrative

Hope Enterprise Corporation

Executive Summary:

Hope Enterprise Corporation requests \$8 million from the Credit Enhancement for Charter School Facilities (CECSF) program to support and strengthen charter schools in the Mid-South region of Arkansas, Louisiana, Mississippi and western Tennessee by providing quality affordable facilities financing and technical assistance to ensure that children in some of the most distressed communities in the United States have access to quality education in a 21st Century school facility. HOPE's Charter School Facilities Fund will leverage \$73 million in private and other non-Federal financing for acquisition, rehabilitation and new construction of charter school facilities.

Hope Enterprise Corporation is a 20-year old nonprofit Community Development Financial Institution (CDFI) certified by the U.S. Treasury CDFI Fund, intermediary and policy center focused on strengthening communities, building assets and improving lives in Arkansas, Louisiana, Mississippi and western Tennessee. HOPE is also the sponsor of Hope Credit Union (HCU), a low-income designated credit union with 29,000 members and \$185 million in assets. Together, both organizations have generated \$1.8 billion in financing, impacting more than 425,000 individuals in our region. HOPE is a leader in developing innovative financing, revitalizing communities, and helping families build an economic foundation for their families.

Our charter school lending program is building on our successful track record of financing a wide range of community facilities including community health centers, rural hospitals, child care centers, community centers, and non-profit service organizations. Our program seeks to assist the children in areas with a high concentration of schools targeted for

improvement, communities with high poverty rates, and schools with a high percentage of students receiving free and reduced lunch.

Need for Charter School Facilities Financing in HOPE's Target Market

HOPE's Charter School Facilities Fund will serve one of the most highly distressed regions of the country, with some of our nation's lowest incomes, lowest academic performances, and most significant educational challenges and school needs.

Our market consists of Arkansas, Louisiana, Mississippi, and western Tennessee, an area that has long been one of the country's poorest. Based on 2010 Census data, Mississippi and Louisiana have the highest poverty rates of any state. Mississippi, Arkansas, Tennessee, and Louisiana respectively rank 50th, 49th, 48th, and 46th in the country in median household income. Our region also has some of the most significant education challenges in the country. According to Kids Count, the National Assessment for Educational Progress found that in 2013, 70% of 8th grade students in Arkansas, 76% in Louisiana, 80% in Mississippi, and 67% in Tennessee scored below proficient in Reading achievement (compared to 66% nationally); and 72% of 8th graders in AR, 79% in LA, 79% in MS, and 72% in TN scored below proficient in Mathematics achievement (compared to 66% nationally).ⁱ

The charter school movement has been sweeping the Mid-South over the last few years. There are 204 charter schools in HOPE's region, and the number of charter schools continues to grow at an exponential pace. Between the 2009-2010 school year and the 2013-14 school year, the total number of charter schools in AR, LA, MS and TN increased by 77%, and that growth is expected to continue.ⁱⁱ The state of Mississippi is currently in the process of implementing a new charter school law, with the first charters expected to be approved in 2014, with schools opening in 2015. Since the first charter schools opened in Arkansas in 2000, the state has seen steady

growth, with 39 schools as of the beginning of the 2013-2014 school year. Tennessee implemented its charter school law in 2002, but has seen exponential growth in the past few years. From 2009-10 to 2013-14, the number of charter schools has increased by 223%. The Tennessee Achievement School District, which has the goal of moving the bottom 5% of schools into the top 25% of schools in 5 years, was created in 2010 and is utilizing high quality charter schools as one of its key strategies for transformation. Louisiana's charter schools have quadrupled since Hurricane Katrina from 29 in 2005-06 to 117 in 2013-14. In the city of New Orleans, the percentage of school children educated in charter schools increased from 56% in 2007 to 84% in 2012.ⁱⁱⁱ And the Recovery School District, the largest school district in the city of New Orleans with 74 schools, will be 100% charter schools by 2015.

As the number of charter schools in the Mid-South expands, charter schools are in great need of school facilities. Finding adequate and affordable facilities to meet their needs is one of the biggest challenges. And funding is extremely scarce. None of the states that we serve provide a state grant or loan program or a mechanism to provide credit enhancement for public charter school facilities. None of our states except for Tennessee provide a per-pupil facilities allowance to charter schools, and in Tennessee the per-pupil allowance is severely insufficient because TN charter schools do not have access to bond financing. Thus, there is a huge gap between the demand for funding for charter school facilities in our region and the availability of financing.

Competitive Priority

The U.S. Department of Education (USDE) seeks to increase to the number of high performing charter schools in communities with a large proportion of underperforming schools, low student

test scores, and low-income families. HOPE’s Charter School Facilities Fund will advance this goal by prioritizing guarantees for:

1) **Schools in areas with a large proportion of schools identified for improvement,**

corrective action or restructuring under No Child Left Behind. All four states that

HOPE serves have received an ESEA waiver from USDE, and have transitioned their school accountability model to designate “Priority”, “Focus” and “Reward” schools. This system identifies low performing schools based on student achievement and provides those schools with technical assistance to help implement improvement plans. “Priority” schools are the lowest-performing 5 percent of schools in terms of academic achievement; “Focus” schools are the 10 percent of schools in the state with the largest achievement gaps between groups of students, such as racial and ethnic groups, students from economically disadvantaged backgrounds, students with disabilities, and English-language learners.

- Arkansas: In 2011-2012, 738 schools, or 68.7% were given a status of Needs Improvement.^{iv} In 2012, Arkansas designated 48 Priority Schools and 109 focus schools, 78% of which are Title I schools. These are located across the state with concentrations in urban areas including Little Rock, North Little Rock, and Jonesboro as well as rural areas including Dumas, Magnolia, and Mulberry.
- Louisiana: In 2012, Louisiana had 157 Academically Unacceptable Schools compared to 115 schools in 2011. The Louisiana Recovery School District (RSD), which was created to take over and transform chronically underperforming schools in Louisiana currently oversees 80 schools in 5 parishes, the majority of which are in New Orleans. Even after significant improvement (by 49.2% from 2008 to 2012), RSD still has a concentration of schools identified for improvement, ranking a D on the 2012 state accountability rating.^v

- Mississippi: In 2012, 48% of schools did not meet Annual Yearly Progress Goals. In 2012-2013, the state overall did not meet the annual measurable objectives (AMOs) in Reading and barely met AMOs in Mathematics. As of the 2012-2013 school year, 40 schools have been designated as Priority, 75 have been designated as Focus schools, and another 431 have missed AMO targets for the last 2 years.^{vi}
- Memphis, TN: Tennessee has designated 83 Priority schools and 167 Focus schools, with the largest concentration in Memphis.^{vii} Of the 83 Priority schools statewide in TN, 69 (or 83%) were located in Memphis while Memphis only has 11.8% of the schools in Tennessee and 10.7% of the K-12 student population.

2) **Schools in areas with a large proportion of students who perform below proficient on State academic assessments.** Arkansas, Louisiana, Mississippi and Tennessee all perform below the U.S. average on 4th grade Reading, Mathematics, and Science, with Mississippi and Louisiana consistently ranked in the bottom five states on national rankings. Eighth grade and 12th grade academic performance evaluations show a similar trend. The chart below shows the percentage of 8th grade students scoring Below Proficient on Reading and Mathematics achievement (the number in parenthesis is the state’s ranking).

	AR	LA	MS	TN	US
8th grade Reading Achievement - Below Proficient (2013)	70% (39)	76% (48)	80% (50)	67% (31)	66%
8th grade Math Achievement - Below Proficient (2013)	72% (41)	79% (48)	79% (48)	72% (41)	66%

Source: Kids Count, Annie E. Casey Foundation, <http://datacenter.kidscount.org/>.

3) Schools in communities with large proportions of students from low-income families.

The Mid-South has been plagued by high poverty rates and low incomes for decades. More than half of the counties in Mississippi are in persistent poverty, and ¼ of all of the persistently impoverished counties in the U.S. are in HOPE’s region. MS, AR, and LA have the 1st, 3rd and 4th highest poverty rates in the country according to the Kids Count analysis of the American Community Survey. There is a large disparity between student academic performance based on family income. Nationally in 2013, 80% of 4th grade students who are eligible for free or reduced lunch scored below proficient, compared to 49% of students who are not eligible for free or reduced lunch.

	AR	LA	MS	Memphis, TN
% of Students Eligible for Free or Reduced Lunch	61%	66%	71%	84%
% of students who are minorities	32%	52%	54%	97%
% of students in Title I Schools	67%	85%	97%	81%
% of Children living in Poverty	29%	28%	35%	42%

Sources: Kids Count, Tennessee Charter School Resource Center, Tennessee Department of Education

A. CONTRIBUTION TOWARD PROGRAM PURPOSE

1. Project Design and Significance

HOPE has worked with charter schools, authorizers, associations and technical assistance providers in structuring the Charter School Facilities Fund. The need is great, but our region is severely under-capitalized with only a minor presence from the “mega” banks, few foundations, and only a handful of fortune 500 companies based in our region. Local banks still view charter school lending as extremely risky. Thus, the demand for a community lender such as HOPE to provide affordable charter school facility financing is strong.

As HOPE is expanding our facilities financing to include charter schools, we are receiving a strong volume of inquiries and referrals from charter schools, charter school associations, school districts, and charter authorizers across our region. The requests range from leasehold improvement loan requests for \$250,000 to U.S. Treasury CDFI Fund New Markets Tax Credit (NMTC) financing requests of up to \$25 million. Our proposal addresses this range of requests to provide affordable financing to schools serving communities with high needs.

Project Plan and Activities

Hope Enterprise Corporation will manage the HOPE Charter School Facilities Fund, which will provide direct credit enhancements to leverage private and other non-Federal loans for the renovation, new construction, and permanent financing of charter school facilities.

Our program will increase access and affordability of charter school facilities financing to high performing charter schools serving low-income, distressed and underserved communities. The guarantees will leverage financing including NMTC financing, leasehold improvement loans, senior loans, and subordinate loans. We have secured financing commitments from [REDACTED] and will be actively working with additional local, regional and national lenders to expand the availability of affordable financing for charter school facilities throughout the Mid-South.

This structure will allow for maximum flexibility in the types and amounts of financing to be provided to schools. Each loan will be structured to meet a school's individual financing needs, and HOPE will provide support and technical assistance directly and through our partner technical assistance providers to walk schools through the project development and financing process. HOPE is very experienced in structuring financing for projects with a focus on flexibility, high-touch due diligence and underwriting, and maximizing impact for the project

and the individuals being served. Thus, our loan officers, program officers, underwriting staff, and community development staff work closely with potential borrowers providing TA throughout the financing process, building the organization's capacity, and connecting them to other resources to strengthen organizational, governance or financial management.

Types of assistance to be provided:

HOPE projects that the Charter School Facilities Fund will provide guarantees for █ schools over 5 years, leverage \$73 million in financing, and provide customized technical assistance.

Services will include the following:

1) Financing

- **NMTC loans:** We project that \$ █ of the \$8 million in grant funds requested will be utilized to leverage NMTC financing for █ charter school facilities with an average project cost of \$20 million each. As shown in the cash flow projections (Attachment 6), HOPE plans to allocate NMTCs, attract additional NMTC allocations, and leverage debt and equity financing for larger facilities projects.

HOPE is a certified community development entity (CDE) through the U.S. Treasury CDFI Fund and has received 4 NMTC allocations totaling \$ █. In addition, HOPE has close working relationships with CDEs across the country and we regularly work with clients to structure financing with allocations from other CDEs, investors, and leverage lenders. We have applied for a NMTC allocation in the 2014 round and will continue to do so, placing a priority on financing high quality charter schools in our region. However, if HOPE is not awarded an allocation, we will still be able to utilize the guarantees to facilitate much needed NMTC financing for charter school facilities through our relationships with other CDEs, investors, and leverage lenders.

- **Leasehold improvement loans:** We anticipate using [REDACTED] of the grant to secure financing for leasehold improvement loans, averaging \$[REDACTED]. Hope Credit Union will be the largest source of this financing (see financing commitment letter in Attachment 8), and we will also work to attract financing from the local and regional banks that serve our region. The facilities surveys, phone interviews and feedback from the charter school associations show a significant need for leasehold improvement loans. Given the charter school laws and the relative newness of the charter school movement in our region, many charter schools are leasing space with plans to acquire their own facility once they are more established and have a longer financial track record.
- **Mortgage loans:** An estimated \$[REDACTED] of the grant will be used as direct credit enhancement for mortgage loans for charter school facilities. As with leasehold improvement loans, Hope Credit Union will be the largest source of this financing and we will work to attract financing from the local and regional banks that serve our region.

2) Technical Assistance: As a community development lender working in extremely distressed communities, technical assistance is integrated into all of our work. All of HOPE's departments are involved in providing time intensive assistance to our borrowers. Our mission and our work is focused on revitalizing and transforming low-income and distressed communities where property values are depressed, financing is difficult to obtain, and community development expertise is often scarce. Through the Charter School Facilities Fund, HOPE will work with each borrower to develop an individualized technical assistance plan, offering the following types of technical assistance (TA):

- **Project Development TA:** HOPE's program and lending staff have expertise in working with potential borrowers during pre-development to structure the best project and financing

for their needs. This TA consists of identifying borrowers with facility financing needs, assisting with evaluating their facility options, and structuring a financing package that maximizes benefit to the borrower.

- **Financing TA:** HOPE works closely with all of our borrowers through the loan application, due diligence, underwriting, closing, and post-closing processes, providing an average of 20 hours of TA with each loan. A critical part of this process is ensuring that the borrower is ready for the financing proposed. In addition, we work with the borrower to make sure that they are not taking on more debt than they can afford. Charter school financing is inherently more complex and larger than HOPE’s average small business financing. As such, the average amount of TA provided is also projected to be higher at 35 hours.
- **Organizational TA:** HOPE will provide targeted TA through several key partners with expertise in charter school management and operations. EdTec, Inc. is a corporation with experience working with charter schools across the country, providing comprehensive services from school launch and operations support, to board governance, strategic planning, student / school performance, and charter renewal (See organizational overview in Attachment 22 and support letter in Attachment 7). EdTec will provide TA in their areas of expertise. In addition, HOPE will connect schools with the resources being provided by the Arkansas Public School Resource Center, the Louisiana Association of Public Charter Schools, the Mississippi Charter School Association, and the Tennessee Charter School Resource Center. Each of these entities provides training and technical assistance to schools in their state. HOPE has a good working relationship with these organizations (see support letters in Attachment 7) and will work with them to connect schools with appropriate TA.

The Project Goals, Objectives and Timeline:

The project's goals and objectives are as follows:

1. Provide affordable and accessible financing for a wide range of charter school facility needs.
 - a. Close \$73 million in loans over the next five years to [REDACTED] charter schools in AR, LA, MS and western TN, providing an average credit enhancement of [REDACTED].
 - b. Finance schools with a range of ages and experiences, including new and early stage schools in addition to more mature charter schools, with a priority on schools that are unable to obtain financing from other sources.
 - c. Facilitate financing for facilities projects ranging from \$100,000 to \$25 million.
 - d. Facilitate a range of products to meet the diverse needs of charter schools, including leasehold improvement loans, subordinate loans, senior loans, and NMTC financing.

Documented with: Commitment letters, loan origination reports, loan documents.

2. Provide and facilitate financing to charter schools with better rates and terms.
 - a. Provide interest rate savings to charter schools of up to [REDACTED]
 - b. Provide higher loan to value ratios than are available in the conventional marketplace.

Documented with: Commitment letters, loan documents.

3. Maximize the impact of USDE funds by utilizing rigorous underwriting policies and procedures for the use of credit enhancement funds.
 - a. Use the requested grant of \$8 million to leverage \$73 million, or a ratio of 9:1.
 - b. Maintain a loan loss rate of less than 2%.
 - c. Utilize the reserve on an ongoing basis to continue to finance facilities for high quality charter schools.

Documented with: Reserve account statements, loan write-offs, loan origination reports.

4. Support the growth of high quality charter schools in disadvantaged communities including areas of high poverty, areas with failing schools, and areas with low test scores.
 - a. 100% of the schools that HOPE finances will have a majority of students who qualify for free or reduced lunch.
 - b. At least 85% of the schools that HOPE finances will be located in a distressed census tract as designated by the U.S. Treasury CDFI Fund.
 - c. 80% of schools will be located in areas identified for school improvement.

Documented with: Free and reduced lunch data, Ddata from State Depts of Education

5. Facilitate innovative financing available to charter schools and promote replicability.
 - a. Partner with other lenders, CDFIs, CDEs and investors to expand the partners who are financing charter schools in the Mid-South.
 - b. Build the expertise of more local and regional lenders including community banks regarding the needs of charter schools.
 - c. Attract new sources of capital to our region for charter school lending, including local banks, national banks, national and regional foundations, and other CDFIs.
 - d. Utilize HOPE’s relationships to increase the investment of NMTC in charter school facilities in our region.
 - e. Support the adoption of policies and programs in each of the Mid-South states which increase the availability of capital for charter school facilities.

Documented with: List of lenders providing financing, NMTCs allocated, funds committed to charter school facilities

6. Provide charter schools with technical assistance (TA) to support high quality facilities due diligence, real estate development, and financing.

- a. Provide TA including Project Development TA to evaluate facility options and structure the best project and financing for their needs and Financing TA, ensuring that the financing is affordable and the borrower is ready for the financing proposed.
- b. Partner with the state charter school associations and charter school development centers to coordinate effective TA for charter schools.

Documented with: List of TA provided, Referrals to TA providers, Survey Responses

- 7. Connect schools with the financial services to build the assets and improve the lives of the students, their families, teachers and school employees, and the surrounding communities.
 - a. Offer financial counseling to students, families, and school employees.
 - b. Connect students, families, and school employees with savings, checking, consumer and mortgage products.
 - c. Pursue opportunities to create a Child Savings Account program at all schools financed through the Charter School Facilities Fund.

Documented with: Financial counseling sessions, Accounts, Surveys

Project Timeline:

Program Activity	Target Date
Establish Reserve account	October 2014
Begin providing technical assistance	October 2014
Guarantee █ schools	December 2014
Guarantee █ additional schools	December 2015
Guarantee █ additional schools	December 2016
Guarantee █ additional schools	December 2017
Guarantee █ additional schools to complete the initial use of the reserve fund.	December 2018
Begin recycling the reserve fund - Guarantee an additional █ schools	December 2021

Description of Cash Flow Pro Forma

The Cash Flow Pro Forma (Attachment 6), provides detailed cash flows, balance sheet and income statement and uses the following assumptions:

- Reserve Account: The CECSF grant proceeds will be deposited in a reserve account in accordance with program requirements, to be used as direct credit enhancement for loans to charter schools for acquisition, renovation, or new construction of facilities.
- Timing: The projections assume that the Charter School Facilities Fund will guarantee [REDACTED] loans over the first five years: [REDACTED] in year 1, [REDACTED] in years 2-4 and [REDACTED] in year 5. The requested guarantee funds will be fully utilized during the first 5 years, and will be redeployed as the loans are repaid.
- Schools Served: The Fund will serve an estimated [REDACTED] schools in the first five years.
- Project Sizes: The model simplifies HOPEs charter school lending into three different project sizes and types: (1) [REDACTED] \$20 million projects financed with NMTC, (2) [REDACTED] mortgage loans to charter schools that own their facilities, averaging \$ [REDACTED], and (3) [REDACTED] leasehold improvement loans to charter schools that lease their facilities, averaging \$ [REDACTED].
- Guarantees: The average credit enhancement for the Fund will be [REDACTED]. For the NMTC financing proposed, the pro forma assumes an average credit enhancement of [REDACTED]. For the smaller leasehold improvement and mortgage loans, the pro forma assumes a credit enhancement averaging [REDACTED]. This level of credit enhancement is needed for the non-NMTC loans in our region given the current difficulty of securing private lenders to make loans for charter school facilities.

- Financing provided: The financial projections assume that the guarantees will be issued on three primary products: (1) NMTC transactions incorporating a minimum of 7-year terms (2) loans for charter schools that own their own facilities with loans averaging \$██████████, liens on the real estate, and a 10-year term and 20-year amortization, and (3) loans for charter schools that lease their facilities and will be for leasehold improvements - these loans are assumed to have a 10 year amortization and a five year term. We anticipate that approximately 70% (by number) of the non-NMTC loan guarantee will be leasehold improvement loans based on the needs of our region. 73.5% of charter schools in Arkansas, 95% in Louisiana, and 88% in Tennessee lease their facilities. And all of the charter schools in Mississippi currently in the planning process plan to lease their facility.
- Fees: The Charter School Facilities Fund will charge a 1% guarantee fee to all projects. In addition, it will earn a small portion of the CDE fees on NMTC projects for which it provides a guarantee, totaling 0.5% of the NMTC transaction.
- Loan Loss: The model projects allowance for loan and guarantee losses at a rate of 1% of the balance of its net outstanding loans and guarantees. It also projects that one of the leasehold improvement loans will default with the guarantee being called upon. The Charter School Facilities Fund will lose 100% of the guarantee on this loan.

Meeting Program Purpose

HOPE’s Charter School Facilities Fund will achieve the purpose of the Credit Enhancement for Charter School Facilities Program in several important ways:

1) Provide financing to charter schools at better rates and terms than otherwise available.

HOPE’s Charter School Facilities Fund will make facilities financing more accessible and ensure that it is available at better rates and terms than it would otherwise be. For most

schools in our region, the largest benefit will be making financing obtainable. Many lenders in our region view charter schools as high risk and do not currently provide financing to them. For these schools, the guarantee will allow them to obtain financing where they otherwise would not. For well-established or more financially stable schools, it will provide significant savings to the schools by providing a reduction in interest rate of █ percentage points and by facilitating financing with higher loan to value ratios than conventional ratios of 75-80%.

- 2) *Achieve measurable objectives.* The goals and objectives described on pages 11-14 are ambitious yet achievable based on the charter schools in our market and their facility needs. HOPE has 20 years of experience setting program goals, measuring program performance, documenting impact of programs on communities and families. Performance toward the goals and objectives will be measured and documented with several tools: reserve account statements, loan application and underwriting materials, commitment letters, loan documents, loan origination reports, borrower baseline survey and annual impact surveys, quarterly reports showing impact analysis, charter school and school district performance data, student demographic data, free and reduced lunch eligibility data, performance appraisals conducted by Public Impact (see organizational overview in Attachment 21) for each borrower, and annual portfolio academic performance reports.
- 3) *Produce results that are replicable.* HOPE strives to create innovative programs, financing programs, and products that facilitate the needs of the communities, low income families, and borrowers that we serve. HOPE will work to expand and replicate the results and impact of our program through several avenues: partnerships, education, and policy advocacy. In many sectors of community development in our region, HOPE has led the way with programs and

loan structures that have been replicated by other local and regional lenders. For example, HOPE worked with the Clinton and Bush Administrations in structuring the NMTC program, and was part of a team of advocates that successfully worked with the Mississippi legislature to authorize the Mississippi Equity Investment (NMTC) credit, which CDEs can utilize to make investments in charter school facilities in the state. HOPE frequently presents at regional and national conferences about our programs and ways to expand financing for communities in our region. We will strive to ensure that the Charter School Facilities Fund obtains the same level of success and interest from other lenders and partners.

- 4) *Select charter schools for assistance that provide high quality education to communities with the greatest needs.* HOPE will implement a rigorous application and selection process which maximizes assistance provided to disadvantaged communities including areas of high poverty, areas with failing schools, and areas with low test scores. The selection criteria will include: (1) project viability (2) management team experience and track record, (3) financial stability and strength, (4) school's academic performance, and (5) location and service to communities with a concentration of "Priority" and "Focus" schools and schools serving students from low-income families.
- 5) *Leverage private or public sector funding and increase number and variety of charter schools assisted.* HOPE's Charter School Facilities Fund will leverage private and other non-Federal financing at a ratio of 9:1, providing financing to ■ schools for acquisition, renovation, and/or new construction of school facilities. We estimate that the average project cost will be \$1.7 million per school, with a range of \$100,000 to \$25 million. Financing to be leveraged will include NMTC financing, leasehold improvement loans, senior loans, and subordinate loans. We have secured financing commitments from US Bank, Capital One,

Hope Credit Union, and Hope Enterprise Corporation, and will be actively working with additional local, regional and national lenders to expand the availability of affordable financing for charter school facilities throughout the Mid-South.

- 6) *Serve charter schools in States with strong charter laws.* Strong charter laws are defined by Section 5202(e)(3) of the Elementary and Secondary Education Act of 1965, as those with the below characteristics. Based on these criteria, the four states in HOPE’s region have strong charter school laws.

	AR	LA	MS	TN
Actively increasing the number of high-quality charter schools (rate of increase from 2008-09 to 2012-13)	23%	62%	To authorize first charters in 2014	194%
Allows for one authorized public chartering agency that is not a local educational agency, such as a state chartering board (according to National Assoc. of Charter School Authorizers)	Yes	Yes	Yes	Yes
Provide each charter school a high degree of autonomy over the school’s budgets and expenditures (ranking on a scale of 0-4 with 4 the greatest autonomy, by Nat. Alliance for Public Charter Schools)	2	4	4	4

Sources: National Assoc. of Charter School Authorizers, National Alliance for Public Charter Schools

- 7) *Provide cost effective services*

HOPE will utilize the full \$8 million to make guarantees for facility loans, in order to maximize the impact of the funds. The fees collected will primarily fund the technical assistance in order to benefit the school and the sustainability of the project. HOPE will be able to implement the Charter school Facilities Fund in a very cost effective manner, using its established infrastructure, 20 offices across its region, and its breadth of local, regional and national partners. We have a strong organizational infrastructure and relationships with the charter school authorizers, associations, and many charter management organizations. We

have received the majority of the interest in charter school facilities financing from referrals from our relationships. Additional information regarding the cost effective nature of the program fees is on page 21.

2. Quality of Services

Targeting Services to the Needs of Schools

HOPE's Charter School Facilities Fund's services are targeted toward the large need for facilities financing in our target market. There is such a significant need in our region for several reasons: (1) AR, LA, and MS do not provide per pupil facilities funding to charter schools and do not operate loan, grant or credit enhancement programs for charter school facilities; (2) The Mid-South region suffers from a severe lack of capital, with very few national banks or regional or national foundations located in our region; and (3) Because charter schools are relatively new to our region compared to other parts of the country, local banks are not yet comfortable with lending to charter schools without significant credit enhancement.

HOPE's proposal is to significantly expand the capital in our region focused on financing charter school facilities. The program and services are structured to be flexible in order to meet the diverse needs of our region's schools: schools in all four states; urban and rural schools; new charters and more mature schools; conversion and start-up schools; and a range of financing needs. For example, we have been talking to [REDACTED], the charter management organization for [REDACTED] Middle School and High School about their facility needs. They are planning to build a new campus to house both schools (and more than 700 students) in a 21st Century school building and have been seeking a NMTC allocation for their project. However, they have not been able to obtain the leverage loan needed because the local lenders are not comfortable with providing the leverage financing needed. Another

charter school in Memphis that is leasing its facility was able to obtain a loan from a local bank only after The Tennessee Charter School Resource Center provided a 100% credit enhancement for the loan.

Involving Charter schools, Associations and Authorizers in the Project Design

As HOPE has developed our strategy for growing our charter school lending program, we have conducted in depth interviews with charter school authorizers, charter school associations and charter management organizations so that we understand the facilities needs across our four states. All parties have expressed the great need for facilities financing, and emphasized the time sensitive nature of this issue in their states. In Arkansas, schools are currently rallying around the need for facilities financing, asking the state legislature for funding and working to raise private dollars. In Tennessee, the number of charter schools has doubled in the last 4 years and the demand for facilities financing far exceeds the availability of capital, so much so that the Tennessee Charter School Resource Center is unable to meet the demand. In Louisiana, the City of New Orleans has a city-wide school facilities master plan, but does not have the resources to complete the plan. In Mississippi, the first charter schools will be awarded charters in the summer of 2014 and schools in the planning process have already approached HOPE with financing inquiries.

As an indication of the needs in our region and support from charter school management organizations, authorizers, and associations, we have included support letters from all four states that we serve, demonstrating the need for this program and their support for our application. Included are letters from charter authorizers (Mississippi Charter Authorizer Board and the New Orleans Recovery School District), membership associations (Mississippi Charter School Association, Tennessee Charter School Resource Center, and the Arkansas Public Schools

Resource Center), and charter management organizations ([REDACTED]
[REDACTED]) explaining their facilities needs and partnerships with HOPE.

Employing Cost-Effective Strategies

HOPE will maximize the value of the CECSF grant for expanding access to charter school facility financing and technical assistance and delivering affordable financing. We are able to achieve this by utilizing our existing infrastructure, our partnership and joint operations with Hope Credit Union, our community presence across our region (20 offices), and our expertise in community facilities financing. As shown in the cash flow pro forma, HOPE will utilize the full grant as reserves for loan guarantees and fund all technical assistance and program operations from the guarantee fee and NMTC fees. The fees shown on the cash flow pro forma are extremely reasonable compared to other state guarantee programs with fees of up to 5%, and will be used to provide targeted technical assistance and to ensure the program is sustainable. This program will significantly increase the availability of financing, will decrease the interest rate by up to 4 percentage points compared to financing that they may otherwise obtain, and will provide loan to value ratios higher than provided in the conventional market.

Targeting High-Need and High-Performing Schools

HOPE will target financing to high performing schools in communities with high need by prioritizing: (1) charter management organizations or schools with a track record for high academic performance; (2) schools located in neighborhoods of high distress; (3) schools with a high percentage of students eligible for free or reduced lunch; and (4) schools located in communities with a concentration of schools identified for improvement under NCLB. Public Impact (see organizational overview and experience in Attachment 21) will conduct a thorough

academic appraisal of each school during the due diligence process. HOPE’s policy and evaluation team will verify the location of the school in a high-need area based on the high-need metrics. And as described in the “Business and Organizational” capacity section below, HOPE has an experienced lending and underwriting team which will conduct extensive due diligence regarding the borrower’s financial and management strength.

B. CAPACITY TO CARRY OUT PROPOSED PROJECT

1. Business & Organization Capacity

Amount and Quality of Experience

Established in 1994, HOPE is a U.S. Treasury Community Development Financial Institutions Fund certified CDFI that promotes economic revitalization in the Mid-South region by providing affordable, flexible and responsible financing products and technical assistance services to business, community facilities, and families in low-income and distressed communities. We have generated over \$1.8 billion in commercial, non-profit, hospital, and small business loans and other financing, impacting more than 425,000 individuals.

We have financed community facilities since our inception, and we have a wealth of experience financing community health centers, hospitals, child care centers, and non-profit organizations both through Hope Enterprise Corporation and Hope Credit Union. HOPE has originated more than 800 loans for more than \$253 million, ranging from small dollar loans for a few hundred dollars to loans for over \$10 million. This includes 139 community facility loans for over \$78 million, 101 loans for affordable housing development totaling over \$70 million, and more than 600 loans to small businesses and non-profits totaling over \$115 million.

Using this expertise, we started financing charter school facilities in 2013. The first school facility that we financed was [REDACTED] Elementary School, a school in New Orleans’

Treme neighborhood. Built in 1928, the historic school building, had not been fully rehabilitated since the 1950s, and experienced significant damage during Hurricane Katrina. The school's \$23 million renovation will provide a high quality learning environment for 550 elementary school students, including state of the art classrooms, science labs, libraries, and much more. As the lead CDE, HOPE allocated \$6 million in NMTC, worked to attract an additional \$4 million in NMTC allocation, and secured a NMTC investor willing to maximize the financial benefit to the project, which made the project possible. [REDACTED], the charter management organization, is a local CMO with a track record for providing exceptional management and academic performance, with a focus on turning around underperforming schools.

We have extensive experience with credit enhancement and guarantee programs including SBA's 7(a) and Community Advantage Programs, USDA's Business and Industry Program and its Community Facilities Program, and state guarantee programs including the Small Business Loan Guarantee Program and Minority Business Enterprise programs. Based on our expertise with guarantee programs and track record of work in our region, the U.S. Department of Treasury contracted with HOPE in 2013 to re-structure and redesign Mississippi's Small Business Loan Guarantee Program. We have closed 178 community facility, small business and commercial loans through a guarantee program, with loan sizes of up to \$2 million. These loans have totaled \$32.2 million.

HOPE's lending is focused on borrowers and projects that struggle to obtain conventional financing. There are few conventional banks or other lenders actively lending in low-income areas. The cost of construction and/or rehabilitation frequently exceeds the as-completed value of any property by as much as 30%. The low real estate values limit the rents that can be charged to

tenants, often making it impossible for the property owner to meet conventional debt service requirements.

New charter schools – as do many of our business borrowers – lack the financial history to obtain the capital they need for future growth. Charter schools in our region operate on very thin margins and are heavily reliant on increasingly uncertain national public and philanthropic funding. That ongoing revenue uncertainty, coupled with the “special purpose” nature of their facilities (and the negative effects on potential re-sale), limits their ability to attract conventional debt at affordable rates and terms.

Our region also suffers from a comparatively conservative and less competitive banking environment. Our region has a very minor presence from the “mega” banks. The smaller local and regional lenders are reluctant to finance charter schools, and this reluctance is reinforced by the emphasis of the regulators on maintaining high levels of safety and soundness in underwriting commercial loans

We close an average of 50-60 loans in commercial real estate, community facility and small business loans each year, with a focus on borrowers and projects that struggle to obtain conventional capital. Most of our loans are made in distressed communities. In 2013, 86% of HOPE’s commercial loans were in distressed communities as defined by the U.S. Treasury CDFI Fund as communities with poverty rates in excess of 20% or median family incomes below 80% of the area’s median income.

HOPE has received multiple national awards for its work including the McNulty Prize from the Aspen Institute, Wachovia Excellence Award for Community Impact presented by the Opportunity Finance Network, the Ernst & Young National Supporter of Entrepreneurship Award, the Co-op America Building Economic Alternatives Award, the Annie E. Casey

Foundation Families Count Award, the Episcopal Network for Economic Justice Gloria Brown Award, and the National Community Reinvestment Coalition National Achievement Award.

A Credit Enhancement for Charter School Facilities grant is critical for us to be able to finance more and a broader range of charter school facilities in high need areas of our region. The requested \$8 million grant will enable us to support these facilities and projects which will provide high quality education to children, construction jobs, and investment capital to our underserved region.

Financial Stability

HOPE boasts a track record of growing assets, strong financial management, and solid leadership. Hope Enterprise Corporation is (i) a CDFI with \$124 million in assets and total net assets of \$87 million, and (ii) the sponsor of Hope Credit Union, a CDFI with \$185 million in assets. Over the last 5 years, the organizations have grown by 67%, and projections for the next 5 years anticipate a continued but moderated growth of between 5% and 15%. HOPE's funders include a diverse group of foundations, financial institutions, investors and government agencies. Hope Enterprise Corporation shares rigorous policies and procedures for financial management, lending, portfolio management, and risk management with Hope Credit Union, a federally regulated financial institution. Thus, these policies are extremely comprehensive and robust and lead to strong financial performance and stability.

HOPE does not have a credit rating. Unaudited financial statements for 2013 are contained in attachment 11, audited financial statements for 2010, 2011, and 2012 are in Attachment 12; HOPE's Articles of Incorporation and by-laws are in Attachment 9; and HOPE's IRS Form 990 is in Attachment 10.

Hope Enterprise Corporation (HOPE) supports its operations through a combination of interest earnings from its loan and investment portfolios, fees earned from its consulting activities and from financial transactions it participates in, and grants and awards from private regional and national foundations and government agencies. HOPE typically capitalizes its loan funds through a combination of grants and awards from private regional and national foundations and government agencies, loans and program related investments from lenders and private foundations, and equity from a range of institutions typically through the use of federal tax credits.

Earned revenue, which incorporates interest earnings and fees, is considered by HOPE to be vitally important in sustaining operations long-term. As HOPE's loan portfolio grows, HOPE will look for continued growth in interest earnings, although as a mission driven organization, HOPE will always devote the bulk of its portfolio to below market rate loans, and as a consequence it will never maximize earnings from its portfolio. The same is true with regard to fees. Fee earnings are a vital source of revenues. However, HOPE clients typically need fees subsidized and consequently HOPE's fees are significantly below market rates.

The result of this is that HOPE's operations have been and will continue to need to be subsidized by outside philanthropic support. HOPE has been particularly successful in raising long-term grant funding for the first 20 years of its existence. We continue to raise grants for 2014 and the coming years from regional and national funders. Funding commitments in hand for 2014 include grants from [REDACTED]

[REDACTED]. In 2013 HOPE began a campaign to raise philanthropic funding from individuals for the first time. By the end of 2013 HOPE had raised almost \$ [REDACTED] from individuals.

HOPE has received four allocations of New Markets Tax Credits (NMTC) and has successfully used all of its allocations on a range of projects. Its first allocation was innovatively used to capitalize Hope Credit Union, which at the time only had \$4 million in total assets but has now grown to \$185 million. HOPE has a current application in for additional NMTCs and has included charter school lending as one of the activities it intends to pursue with an award of an allocation in 2014. With the success that HOPE has had in the past, the likelihood of future NMTC allocations is good. HOPE's use of these allocations will be to further its mission in terms of financing projects in its region that would otherwise not be feasible, including charter school facilities, and generating fee revenue to support HOPE's operations.

In addition to grants and NMTCs as sources of capital, HOPE has been successful in raising long-term low-interest loans to fund its commercial loan fund in conjunction with capital grants. We anticipate that this will continue, enabling the loan fund to maintain its position and grow steadily.

Portfolio Quality

Hope Enterprise Corporation (HOPE) has a relatively consistent history of portfolio performance over the last several years. As a non-profit CDFI lending primarily in low-income communities to businesses that banks and other main-stream financial institutions would not lend to, HOPE expects that both its level of delinquencies and charge-offs will be higher than these main-stream institutions. Since the financial crisis, this has not always been the case, as many financial institutions have struggled with large portfolios of troubled business loans. At the end of 2011 HOPE's over 90 day delinquent portfolio stood at 2.08%. By the end of 2012, the number was marginally higher at 2.15%. Charge-offs in 2011 had been at a rate of 3.29%. In 2012, they were at 0.31%.

At December 2013 HOPE's over 90 day delinquent portfolio stood at 1.95%. This is a slightly lower, but largely consistent, level with the prior two years. Charge-offs, however, were much increased, standing at 6.68% at the end of 2013. This large increase was the result of a single charge off in October 2013 for \$1,134,112. This charge-off was related to a \$2.2 million construction loan, where close to the end of construction, the owners/developers decided that they no longer wanted to be involved in the business and effectively handed over the keys to HOPE. HOPE has since foreclosed on the real estate and sold the facility at auction. This charge-off is an extremely unusual event and HOPE does not anticipate future losses in any way similar to this level. The charge-off may be reduced by future recoveries from the owners' guarantees.

At the end of 2013, on total assets of approximately \$124 million, HOPE, on a consolidated basis, had loans outstanding totaling approximately \$79 million. The allowance for loan losses stood at \$2 million. At the end of 2012 loans outstanding totaled \$58 million and the allowance for loan losses totaled \$1.7 million.

Ability to Protect Against Unwarranted Risk

HOPE protects against risk with comprehensive policies and procedures, experienced staff located in and intimately knowledgeable about the communities we serve, in depth due diligence and underwriting, high-touch portfolio monitoring, and strong partnerships. HOPE has a management team of professionals who collectively have more than 250 years of experience deploying capital to low-income communities, and in the aggregate have deployed \$253 MM.

HOPE has rigorous policies and procedures and a strong compliance infrastructure which will be used for underwriting, servicing, and monitoring the guarantees for loans to charter schools. All policies are approved by the Board of Directors and reviewed annually by

Department heads, our Compliance team, and our internal auditors. Our procedures and processes have been refined over our twenty year history, with a focus on serving distressed communities and working with borrowers who need a lot of assistance throughout the application, due diligence, underwriting, and closing process.

To ensure a high level of compliance, HOPE contracts with Orth, Chakler, Murnane & Company (OCM), an accounting firm that specializes in internal and external audits of CDFIs and credit unions. OCM conducts quarterly internal audits of HOPE's operations, portfolios and procedures to ensure that HOPE has proper systems and documentation and that it meets policy requirements.

- *Underwriting and Approval:*

HOPE's rigorous underwriting standards and processes are used for underwriting applications for a loan and/or guarantee from a charter school.

One of the critical pieces of our lending process is our connection with communities through our 20 offices located throughout the Mid-South region. Our loan officers, program officers, and VPs of Community & Economic Development are deeply involved in their communities, ensuring that we are connected to the low-income and distressed communities that we serve, that our products meet the community's needs, and that we are able to connect our products with individuals, communities, and projects that need affordable, flexible capital. The personal relationships and support from the schools, charter management organizations, charter school associations, and charter authorizers throughout our region (see support letters in attachment 7) assist us in connecting with schools in need, completing thorough underwriting, and providing technical assistance if the borrower is needs help at any point.

HOPE's Due Diligence and Analysis includes the following components on each loan: Financial Condition/Performance, Management Team, Development Team, Industry Analysis, Competition, Potential Exposure, and Community Impact. The underwriting framework outlines the Purpose, Structure, Terms (Amortization, Pricing, Repayment), Community Impact, and Strengths/Weaknesses. HOPE's team has significant experience underwriting community facilities, and is working with EdTec to further enhance our charter school lending underwriting and due diligence process. HOPE completed our first charter school loan closing in 2013, and EdTec is assisting our lending team in ensuring our underwriting and due diligence process is prepared for a significant increase in our charter school lending over the next four years. Ed Capital is an organization with extensive experience with charter school's financial, operational, and academic performance (see description in Attachment 22).

HOPE's underwriting for charter school facility loans and guarantees includes a comprehensive understanding of each of the state's charter school laws and authorizing process, the charter management organization's management and governance, school leadership, funding (per pupil, other public funds, and foundation or other private funding), academic track record and performance, and financial stability, history, and projections.

HOPE's credit committee will review and approve each loan prior to closing. The credit committee members, appointed by the Board of Directors, have considerable experience in lending and community development finance. Bill Bynum, HOPE's CEO, chairs the committee. The other members are Bonnie Bolton, the Fort Myers and Naples, Florida Area Manager for JPMorgan Chase; Alan Branson, HOPE's COO; Michael Jones, the President and CEO of Merchants & Farmers Bank, a community bank in Dumas, AR; Billy Percy, the President and CEO of Greenville Compress Company, a commercial warehouse and real estate company;

Andy Saavedra, a Senior Program Officer with Rural LISC; and Brian Scoggins, the Director of Business Finance for the Arkansas Economic Development Commission. Bios for all members of the board and the Credit Committee are contained in Attachment 19.

- Loan Servicing and Monitoring

HOPE has created an effective and sophisticated commercial loan servicing and monitoring system for its commercial loan portfolio. HOPE services all of its loans using LA Pro, which facilitates all standard loan servicing functions as well as loan impact and other data for reporting to funders and investors. HOPE's monitoring systems are rigorous and staff are very experienced at working borrowers who are experiencing trouble to stabilize their operations, restructure their financing and ultimately repay their principal.

Our internal commercial loan review committee consists of Richard Campbell, HOPE's Chief Financial Officer, Greg Wineland, HOPE's SVP for Commercial Lending, Charles Quebedeau, HOPE's VP for Special Assets, Jeremy Lewis, HOPE's AVP for Special Assets, Chief Operating Officer Alan Branson, and Controller Mike Wilbanks. The committee meets monthly to assess the condition of our commercial loan portfolios including the Charter School Facilities Fund, develop strategies for dealing with problem loans, and adjust our asset management policies and practices as necessary. The committee advises our Special Assets department on strategies for addressing individual delinquencies and approves significant actions on any troubled loans. It also reviews all portfolio trends to identify and mitigate any systemic portfolio risk.

HOPE's loan monitoring team currently manages \$120 million of outstanding commercial real estate, community facility, charter school, grocery store, and other small businesses loans including all loans originated by Hope Credit Union, Hope Enterprise

Corporation, and HOPE's NMTC and other affiliates. HOPE has detailed asset management policies, which are more comprehensive than those of most CDFIs because Hope Enterprise Corporation's policies mirror Hope Credit Union's policies, which are regulated by the National Credit Union Administration. HOPE's Commercial Loan Policies are in Attachment 13 and Portfolio Monitoring and Collections Procedures are in Attachment 14.

- Financial Management

HOPE's Accounting Policies (Attachment 15) and Investment Policies (Attachment 16) outline the organization's policies and procedures for protecting the organization's financial position, assets and mitigating risk. Our Chief Financial Officer and Controller have daily oversight over the organization's finances, and report quarterly to the Hope Enterprise Corporation Board of Directors. The Investment Committee and the Audit Committee are appointed by the board, meet quarterly and are comprised of board members. The Investment Committee reviews the performance of HOPE's investments managers and investment portfolio, ensures that all investments are made in accordance with policy and recommend the appointment of the investment manager to the full Board of Directors. The Audit Committee appoints the financial and internal auditors, reviews all reports from the financial and internal auditors, discusses any issues of internal control with the auditors and meets quarterly with HOPE's Compliance Officer.

Mike Wilbanks, the controller and his team of three accountants and three assistant controllers maintain HOPE's multiple bank accounts, record and review all transactions, and reconcile our commercial loan transactions and balances daily. Mike is responsible for monitoring both our capital and operating liquidity. He and his team generate a rolling 2- to 4-week cash management statement as well as our annual cash flow plan. Mike also coordinates

the preparation of our financial statements and other financial reports requested by our lenders and investors, and he regularly updates our internal control systems. A certified public accountant, Mike has more than 30 years of accounting and financial management experience in both the nonprofit and corporate sectors.

Expertise in Education

HOPE partners with Public Impact to complete an academic appraisal for schools applying for charter school facility loans in order to ensure rigorous evaluation of the likelihood of success of a charter school. Public Impact is a national education policy and management consulting firm based in Chapel Hill, N.C. For 14 years, Public Impact has provided advice and conducted research and analysis for leading foundations, nonprofits, states, districts, and other organizations engaged in the reform of public education. The academic appraisal will evaluate the school's performance and will include an analysis of the following: school performance indicators (including Proficiency rates; Student growth metrics, if available; subgroup performance; postsecondary readiness; and other relevant factors), comparison to district and state school performance, description of students and community served, and description of instruction approach.

In addition, we have good relationships with the charter school associations and resource centers in each of the states that we serve, which have in depth knowledge of the charter schools in their states, their strengths, weaknesses, and provide valuable recommendations and information about the technical assistance needs of each of the schools applying for facilities financing.

Partnerships

HOPE works with public, private and nonprofit partners at multiple levels to enhance its impact in the communities that we serve. Our partners are part of our Core Values and part of our bridge building to leverage our resources, provide comprehensive services, and attract increased capital to our impoverished region.

Over 80% of our clients hear about HOPE by word of mouth from other clients or partners. Thus, our relationships with the charter school associations and charter authorizers in each state that we serve, as well as with numerous charter schools and charter management organizations is key to successfully deploying capital, to ensuring informed due diligence, and providing infrastructure for supporting charter schools to be successful. The Arkansas Public School Resource Center, Tennessee Charter School Resource Center, Mississippi Charter School Association, and the Louisiana Association of Public Charter Schools are all partners who refer schools to us, provide us ongoing updates on changing charter school needs, and provide technical assistance to the charter schools in their states.

Local, regional and national financial institutions serve as partners in originating and participating in loans, including local banks such as Merchants and Farmers Bank in Dumas, AR and Bank of Anguilla in Anguilla, MS; regional banks such as BankPlus and Trustmark Bank; and national and regional CDFIs such as LISC, Enterprise, Partners for a Common Good, and The Reinvestment Fund. As we grow our charter school lending, we will grow our partnerships with financial institutions at all levels to increase the flow of capital to high quality schools with the greatest needs.

Measuring Impact

All of the performance measurement metrics described in Section A will be tracked using HOPE's impact monitoring systems that have been in place and continually enhanced since 1999. HOPE administers a baseline survey of all of its borrowers when each of its commercial loans close. The baseline survey captures information on whether or not the borrower applied for financing from a bank and the outcome of that action. It captures the number and quality of jobs created/retained and the race/gender of the small business owner. It also captures industry specific data depending on the loan type: children served by child care centers, patients served by hospitals. The survey for charter school borrowers captures data on number of students, student demographics, academic performance, and graduation rate (if a high school).

During the loan closing process, HOPE requires that all loan officers gather information on the total square footage developed and rehabbed. The information is reported on each loan request summary. HOPE also conducts an annual employment survey to capture changes in employment and benefit levels over time. HOPE synthesizes the information collected from the surveys and the loan request summaries and drafts a report for the HOPE board of directors to review annually.

For nearly a decade, HOPE has provided loan level information on up to 98 variables on every commercial and mortgage transaction to remain in compliance with the federal reporting requirements for the CDFI Fund. The reporting is conducted annually and submitted electronically through the Community Investment Impact System.

The annual collection of all the above described data allows HOPE to examine trends in outcomes—particularly around job creation and retention—among different industry sectors. From the trend analysis, HOPE has developed “high impact” lending targets that are incorporated into

its annual work plan. High impact loans are those that support investments in high poverty communities, that expand ownership opportunities among historically underserved populations and sectors and that create or retain high quality jobs.

Conflict of Interest

HOPE's conflict of interest policies are detailed in our Code of Business Conduct and Ethics Policy, our Conflict of Interest Statement signed by all employees, as well as in our Loan Policy. These policies ensure fairness in decision making, lending, and all business and require disclosure of any interests, documentation of such interests, and detail a process for any violations. Attachment 17 contains the Standards of Conduct, Attachment 18 is our Conflict of Interest Statement, and Attachment 13 contains the Loan Policy.

2. Grant Project Team

Management

CEO Bill Bynum is ultimately responsible for the success of our Charter School Facilities Fund. He has more than 30 years of experience in community development and development finance, including the past 20 at HOPE. Prior to joining HOPE, Bynum helped establish Self-Help, a pioneer in the development finance industry, and built nationally recognized programs at the North Carolina Rural Economic Development Center. He has been integrally involved in the design and implementation of all of our financing programs and has overseen the deployment of more than \$253MM in capital to commercial real estate, community facilities, health clinics, and small businesses in low-income communities.

COO Alan Branson oversees the day-to-day implementation of the Charter School Facilities Fund, including the underwriting, closing, and servicing of loans. He has more than 25 years of experience in small business lending and community development finance. Alan has

overseen a \$253MM increase in HOPE's and HOPE CU's collective commercial real estate and business loan portfolios since joining HOPE in 1994.

CFO Richard Campbell assists in the sourcing and structuring of transactions. He has more than 20 years of experience in community development and development finance and was instrumental in the design of our Charter School Facilities Fund strategy. He has overseen the successful deployment of \$75MM in NMTC allocation as well as \$135MM in commercial and community facility transactions through HOPE CU.

Lending Team

Greg Wineland, our Senior Vice President of Commercial Finance, takes the lead in identifying and underwriting prospective charter school facilities projects. He joined HOPE in 1995 and has since sourced and closed \$140MM of small business, community facility, and commercial real estate transactions. Greg oversees 3 lending vice presidents, each of whom is charged with sourcing potential charter school facilities projects in their respective markets.

Lending Vice Presidents and Loan Officers: Gary Webb (Arkansas and greater Memphis), Scott Simonson (MS Gulf Coast and South Louisiana), and Ray Williams (Mississippi and North Louisiana) each have extensive backgrounds in small business lending, having previously worked in the commercial banking and economic development industries. Ray is also particularly well versed in the issues affecting nonprofit and community facilities.

Underwriting: Credit Analyst Jim Whitehead is the primary underwriter of all charter school facility transactions. He has more than 40 years of experience in banking and commercial finance, including the past 13 with HOPE. He is especially adept at understanding and assessing the characteristics of commercial real estate and community facility projects. Jim works closely with Vickie Jones, our Vice President of Credit Analysis. She has worked in HOPE's

commercial loan department for 16 years and has more than 25 years of commercial underwriting experience. Jim and Vickie, with the support of 2 additional credit analysts, examine the prospective transactions in depth, structure our loan products, and prepare detailed credit write-ups and financing recommendations to our credit committee.

Vice Presidents of Community & Economic Development: Phil Eide and Gary Williams, our Senior Vice Presidents and Mary Elizabeth Evans, Vice President of Community and Economic Development also help identify and vet prospective charter school facilities. Through their combined 70 years of experience in affordable housing and community development and finance, they have developed excellent working relationships with state and local economic development agencies, charter school authorizers and charter management organizations. They coordinate much of our outreach and marketing to these and other local partners.

Servicing and Monitoring

Greg Wineland, the Senior Vice President of Commercial Finance – Greg oversees the commercial lending department which includes servicing and monitoring.

Faye Garrett, VP Commercial Loan Operations – HOPE’s Loan Operations Department will process all loan payments, collect financial statements, insurance verifications, tax payment verifications, and other loan documentation updates throughout the loan term.

Commercial Loan Officers – Each of the loan officers are responsible for managing the relationship with the borrower. As such, they will work with the customer long-term to ensure compliance with all Loan Agreement terms and conditions, collect any information needed by the Loan Operations team, be in regular contact with the borrower to understand the project status, and work with the borrower should any problems arise.

Charles Quebedeau, VP Special Assets – Charles manages the Special Assets and Internal Audit areas of HOPE. He, along with his commercial portfolio staff, will be conducting Field Audits of the projects and the borrowers. Formal reports will be produced detailing findings, concerns, and any recommendations for risk mitigation or account management.

Vickie Jones, VP Lending – Vickie manages HOPE’s Credit Analysis Department, which will produce quarterly analytical reports on the business and its finances.

Reporting and Performance Measurement

HOPE has a very strong reporting infrastructure to measure performance and evaluate impact. Our team of business analysts works together with our monitoring and evaluation team to produce thorough data reporting and analysis for all of our funding sources, our board of directors, and other partners.

Ed Sivak, Chief Policy and Communications Officer, is responsible for assessing the economic, social and community impact of HOPE’s activities. Ed is the founding director of the Mississippi Economic Policy Center, a HOPE division that collects and disseminates data and corresponding reports on issues that impact low-wealth people in the Mid-South.

Carter Pevey heads up our team of business analysts. The team members conduct monthly reviews of HOPE’s loan production and overall portfolio quality, both within and outside of our NMTC program. They assess the data on a variety of levels – including by geography, loan type, borrower type, and loan officer – to identify any important trends to be addressed. On a quarterly basis, they generate reports for the senior management team and the board of directors to review.

Board of Directors

HOPE’s board of directors has been integrally involved in the design, refinement, and implementation of all HOPE’s lending programs. It sets the criteria for the types of projects we finance and our goals for achieving community benefits. The board meets twice a year, and each Board meeting includes a report from our senior management team on the status of our programs, including pipeline and capitalization strategy.

Each director has a wealth of knowledge in different aspects of lending and community and economic development. The directors with specific education and financing expertise are HOPE has three board members with experience and qualifications to provide support on education and academic performance: Governor William Winter, Bill Bynum, and Claiborne Barksdale. Mr. Barksdale is CEO of the Barksdale Reading Institute, Bill Bynum serves on the board of multiple schools and educational non-profit organizations, Gov. Winter led the charge for publicly-funded kindergarten in Mississippi while Governor from 1980-1984. The following board members have expertise in finance: Bill Bynum, Edwin Lupberger, Lisa Mensah, and Fred Miller. Mr. Bynum has worked in community development finance his entire career and is CEO of HOPE, Mr. Lupberger is former CEO of Entergy, Ms. Mensah is Executive Director of the Aspen Institute’s Initiative on Financial Security, and Fred Miller is President and CEO of Bank of Anguilla.

HOPE’s CEO, Bill Bynum, is the only Board member who will work on the Charter School Facilities Fund.

ⁱ Kids Count, Annie E. Casey Foundation, <http://datacenter.kidscount.org>.

ⁱⁱ National Alliance for Public Charter Schools, <http://dashboard.publiccharters.org>

ⁱⁱⁱ The State of Public Education in New Orleans, Cowen Institute for Public Education, www.coweninstitute.com.

^{iv} Arkansas Department of Education, www.arkansased.org.

^v Louisiana Department of Education, www.louisianabelieves.com/accountability.

^{vi} Mississippi Report Card, 2012-2013, available at: <http://reports.mde.k12.ms.us>.

^{vii} Tennessee Department of Education, <http://www.tn.gov/education/accountability/>.