## Program Narrative

***Local Initiatives Support Corporation (LISC)*** proposes to develop and demonstrate innovative credit enhancement initiatives to assist charter schools in accessing private sector and other non-Federal capital to address the cost of acquiring, constructing and renovating facilities in multiple regions across the nation. We are requesting **$15 million** from the U.S. Department of Education (ED) to support the development and expansion of charter schools through a variety of programs being created and expanded by our Educational Facilities Financing Center (EFFC). The $15 million requested will not be used for the direct purchase, lease, renovation or construction of charter school facilities, but rather will be used to facilitate financing by identifying potential lending sources, encouraging private lending and other activities that directly promote lending to/for the benefit of, charter schools.

## Competitive Priority

The historic reauthorization of the Elementary and Secondary Education Act of 1965 (ESEA) – the No Child Left Behind Act of 2001 (NCLB) – requires school districts to offer all students the opportunity to exit low-performing public schools; a mandate that can only be fulfilled if students have an adequate number of quality public schools from which to choose. This project will advance ED's commitment to increasing student choice by addressing the largest barriers to charter school growth: lack of appropriate facilities exacerbated by lack of access to adequate, affordable financing. LISC will help charter schools access the financing needed to: 1) build, construct or renovate facilities; 2) acquire land for facilities development; or 3) purchase or lease "portable" classrooms. To achieve these goals, we will leverage the ED Credit Enhancement for Charter School Facilities Program (Credit Enhancement Program or CEP) grant with private and other non-Federal public funds, and help charter schools access these and other financial resources (e.g., LISC's balance sheet, new investments, foundation program-related investments (PRI), New Markets Tax Credits (NMTC) and early-stage recoverable grants).

To ensure that the students most critically in need of school choice are served, we will continue to target charter schools in geographic regions with a high proportion of students offered/projected to be offered, choice under NCLB. The Eligibility Criteria Worksheet (ECW) we created for past ED Credit Enhancement Program grants ensures that we will continue to target these types of schools explicitly (see Attachment 7). At a minimum, the EFFC will use the following three ECW criteria, which specifically address the priorities of NCLB:

***Public Schools Identified for Improvement or Corrective Action***. Whether the local district(s) or individual schools within the district(s) from which the charter school draws or anticipates drawing its students are identified for improvement, corrective action or restructuring under Title I of NCLB.

***Students Who Perform Poorly on State Academic Assessments***. Whether charter schools recruit or plan to recruit students from a geographic region in which a large proportion of students do not meet proficiency on state academic assessments. Our staff can easily verify this data because the NCLB requires school districts to make it publicly available. Ultimately, we determine need by comparing this academic performance data with other public schools within the geographic region.

***Communities with Large Proportions of Low-Income Students***. Whether the anticipated or actual student population includes a majority of students qualified to receive free and reduced-priced lunch (FRL, a standard measure of low-income status). We have identified low-income families as our target demographic in our mission statement: “LISC helps resident-led, community-based organizations transform distressed communities and neighborhoods into healthy ones – good places to live, do business, work, and raise families.” Educational improvement and choice are critical components of revitalizing distressed communities and LISC is leveraging our real estate expertise to help charter schools in these communities finance appropriate facilities. Our mission implies that funding will go to charter schools that enroll or will enroll a large proportion of students from low-income areas.

As a result of setting these priorities, approximately 88% of the schools either financed to date or in our immediate pipeline are in communities with the greatest need for public school choice as mandated by

NCLB (see Attachment 8 for a list of these schools).

## POTENTIAL CONTRIBUTION OF THE PROPOSED GRANT PROJECT TO ACHIEVING THE PURPOSE OF THE CREDIT ENHANCEMENT FOR CHARTER SCHOOL FACILITIES PROGRAM

**A. QUALITY OF DESIGN AND POTENTIAL SIGNIFICANCE OF THE PROJECT.** LISC used a grant from the Walton Family Foundation (WFF) to establish the EFFC in 2003 and intensify our charter school facilities financing initiative. The EFFC used our first two ED grants to capitalize two funds that pool low-interest loans and credit enhancements and leverage them for investment in local educational facilities funds (Local Funds). Local Funds finance new or renovated facilities for multiple schools in a single geographic market or nonprofit charter management organization (CMO) across the country, creating vital new or renovated school facilities for underserved children, families, and communities. In 2004, the EFFC capitalized a $35 million National Educational Loan Fund (NELF or CEP I), consisting of a $20 million low-interest loan from Prudential Financial (Prudential), a $10 million zero-interest PRI from WFF and $5 million in LISC's own funds. The NELF provides loan and guaranty dollars for Local Funds and is secured by $10 million in grants received from ED's Credit Enhancement Program in 2003. In 2006, the EFFC received a second grant from ED, totaling $8.2 million, which was matched with $2.7 million from LISC via a PRI from WFF to support the creation of a $10.9 million National Credit Enhancement Fund (NCEF or CEP II). The NCEF directly credit enhances Local Funds. The EFFC is using our third, $8.3 million ED grant received in 2009 to capitalize two additional funds: 1) the National Charter Loan Fund (NCLF), a fund that provides direct lending to charter schools and is credit enhanced with ED grant funds, and 2) the Bond Credit Enhancement Fund (BCEF), a fund that combines ED grant funds with private resources to directly credit enhance tax-exempt municipal bonds for charter school facilities, collectively CEP III.

LISC has used our work in the sector over the past 13 years and our implementation of past ED grants to gain significant insight into the sector. Therefore, the proposed CEP IV features two strategies that complement the Local Fund model employed in CEP I and II and expand on CEP III: 1) National

Charter Loan Fund II (NCLF II or Plan A), similar to NCLF, a fund that provides direct lending to charter schools and is credit enhanced with ED grant funds, and 2) Charter School Guaranty Fund (CSGF or Plan B), a fund that provides direct credit enhancement for charter school facility projects seeking to leverage conventional loan capital or bond financing. These complementary models will give LISC the flexibility to efficiently address charter school facilities financing needs in the current market.

Several factors influenced our decision to propose the expansion of a direct lending model, similar to NCLF via CEP III. First, CEP I and II have enabled LISC to leverage capital at high levels, resulting in the financing of over 100 charter schools. However, Local Funds tend to be inflexible in terms of products offered and eligibility requirements, and are time-consuming to develop and structure. The NCLF model has proven more effective in quickly providing charter schools with customized financings that serve their needs as they move through the lifecycle of start-up to full enrollment to expansion.

Second, we shifted to the NCLF direct lending model in 2008 when charter schools began having difficulty accessing the commercial lending and tax-exempt bond markets even though they had gained greater access to capital and established themselves as viable investments over the 20 years leading up to that point. In 2008, charter schools experienced tightening credit markets forcing even banks familiar with charter school credit risk to re-evaluate their credit underwriting criteria, and this trend still continues. Whereas prior to 2008 banks may have been willing to accept 80% loan-to-values (LTVs) for projects, they now limit loans to projects with LTVs of between 65% and 75%. In addition, banks new to charter schools as an asset class are requiring credit enhancement as an incentive to enter the market. These stricter credit requirements translate into exceptional demand for financing across the country. Based on investor interest in the NCLF, the EFFC received ED's approval to structure the first two NCLF funds as part of CEP II to broaden its scope. The first fund, the $25 million Goldman Sachs Charter Loan Facility (GCLF), will finance predevelopment, acquisition, construction, renovation and leasehold improvement projects for charter schools in New York and northern New Jersey. The GCLF provides terms of up to nine years and amortizations of up to 35 years, making it attractive to charter schools in need of flexible terms. The second fund, the $25 million Chase NMTC LISC Charter School Investment Fund (Chase NMTC Fund), will provide up to five charter schools nationally with NMTC financing. In addition, JPMorgan Chase Bank (Chase) will provide LISC with significant operating grant funds for the administration of the Chase NMTC Fund. The GCLF closed in September 2010 and the Chase NMTC Fund is in the process of closing.

The bond market has faced a similar tightening in a different form. Unlike the commercial lending market, the bond market focuses on cash flow and debt service coverage rather than real estate values. The municipal bond market is primarily an investment grade market and many borrowers of tax-exempt debt, including charter schools, purchased insurance or another form of credit enhancement to obtain investment grade ratings. The collapse of the insurers in 2008, caused by their losses on collateralized debt obligations and other structured financial products, dampened investor appetite for the entire municipal market, not just insured issues, resulting in higher interest rates and widened spreads. In 2009, LISC structured the BCEF via CEP III to provide charter schools seeking bond financing with access to credit enhancement, ultimately looking for innovative ways to fill the gap left behind by the bond insurers. The first investment through the BCEF, the Gates Bond Credit Enhancement Fund (Gates BCEF), leveraged a $30 million PRI from the Bill & Melinda Gates Foundation (Gates) to provide bond credit enhancement for high-quality CMOs in Houston. KIPP Houston was the first to access the program and closed on a $67 million bond issuance in late 2009. In addition to opening up the municipal bond market for charter schools during a challenging credit environment, the Gates BCEF provided KIPP Houston with an estimated 50 basis point interest rate savings. With Gates funding, LISC is conducting extensive research on the charter school bond market, including both rated and unrated issues, and plans to publish the findings by June 2011 (see Attachment 37 for 2011 Gates Charter School Bond Research Summary).

Since 2009, the charter school bond market has seen a stilted revival with 2010 issuances rebounding to 2007 levels, but while Treasury rates remain low, spreads have widened significantly. This spike in municipal bond rates has prompted charter schools that are mature enough to access the bond market to seek financing elsewhere. These schools often turn to NMTCs as an affordable means of financing; however, there is limited availability of NMTCs for charter schools as a result of the recent overall decrease in allocation awards and increased demand.

Overall, the charter school facility sector is still feeling the aftermath of the credit crunch. Flexible, affordable capital is difficult to find, and lenders are risk averse. Borrowers are approaching LISC in greater numbers as traditional financing sources are less flexible, harder to access and more expensive. Within the past two years, LISC has seen increasing numbers of financing and credit enhancement requests, primarily for leasehold improvement loans and mortgages that help bridge LTV gaps of senior lenders. Most recently, charter school requests for NMTCs have increased substantially as the bond market has become cost-prohibitive and investment grade ratings more difficult to obtain without credit enhancement.

The proposed CEP IV explicitly addresses these needs in the current market. The $15 million request from ED would create two independent, but not necessarily mutually exclusive, investment models. The NCLF II would be an $80 million fund, capitalized with debt raised from banks, insurance companies and potentially foundation PRIs, and enhanced with the ED grant, that would lend directly to charter schools and help leverage a total of $176 million in financing for 80 charter schools. The CSGF would be a $15 million enhancement fund capitalized with the ED grant funds that would provide direct credit enhancement for charter school municipal bond offerings, mortgages and leasehold improvement loans totaling $158 million for 57 charter schools.

*NCLF II (Plan A)*. LISC anticipates capitalizing the NCLF II with funding from traditional lenders and foundations active in the charter sector as well as those that are new to charter school lending, such as Webster Bank and the Rhode Island Foundation. The EFFC is in discussions with Webster Bank to invest $20 million with LISC for the creation of the Webster Charter School Fund. LISC would provide credit enhancement through the NCLF II and serve as underwriter and administrator of the fund. LISC would seek an additional $60 million from other sources to capitalize the NCLF II, which will provide approximately 80 schools with financing, focusing on the riskier projects currently in high demand, such as mortgages and leasehold improvements loans, and leveraging a projected total of $176 million in financing. The ED grant will help LISC raise capital from other lenders which we will relend to charter schools on more favorable terms than if the school sought financing directly from the bank. LISC will assume the lending risk on behalf of the banks and offer credit enhancement as a way to attract bank investments. LISC will then relend the proceeds to "riskier" charter school credits and projects, such as start-up schools and leasehold improvements, with more flexible terms, such as maximum LTVs of 80% or 90%. Credit enhancement structures will vary by lender, but are assumed to average 20% of capital provided and will be offered on a first-loss basis for all project loans originated with proceeds from that lender. Any PRI capital raised from foundations will be used as a credit enhancement match or as loan dollars to blend down interest rates.

Based on our lending experience, we assumed that 62.5% of loans originated by the NCLF II will represent mortgages for new construction and/or acquisition and renovation for facilities owned by charter schools. We assumed that these projects have an average mini-permanent financing need of $5 million and 15% credit enhancement level. Our model projects providing 20 mortgages (two or three financings annually for the first four years, the proceeds of which will recycle after repayment, beginning in Year 8). According to our model, the NCLF II will provide $50 million in direct lending for mortgages, which will leverage a total of $110 million in financing.

We further assumed that 37.5% of NCLF II originations will include leasehold improvement loans based on an average loan size of $1 million and credit enhancement level of 25%. Our model projects providing 60 loans (seven or eight financings annually for the first four years, the proceeds of which will recycle after repayment, beginning in Year 8) totaling $30 million, which is projected to leverage $66 million in financing. Total financing leveraged in our model averages 12:1 and varies by loan type. Financing for mortgages has higher leverage, 15:1, than financing for leasehold improvement loans at 9:1. Our ability to deploy capital under the NCLF II is expected to be efficient, timely and widespread. See Attachment 9a for a diagram of the NCLF II and its expected outcomes.

*CSGF (Plan B)*. LISC may execute Plan B and capitalize the CSGF as a complement to the NCLF II, or in the unlikely event that financing from Webster Bank or other investors is not available. The CSGF will provide a strong, reliable source of credit enhancement for charter school bond issuances, mortgages or leasehold improvement loans. The CSGF will provide approximately 57 schools with financing, leveraging a projected total of $158 million in financing at an average credit enhancement level of 21%.

Approximately 40% of the CSGF would be utilized to credit enhance tax-exempt bond issuances, the structure of which would be tailored to the needs of each charter school borrower. For example, we may fund a primary debt service reserve fund (DSRF) if a charter school has a need for lower debt service payments resulting in stronger cash flows. Similarly, we may fund a first-loss DSRF which would be in addition to the standard primary DSRF provided by each program borrower, the "CSGF DSRF". LISC has also been involved in conversations with public entities that are considering extending state credit and/or resources to charter schools for their facilities needs. In such cases, LISC would utilize the CSGF to fund limited first-loss reserves that could be tapped to prevent the need for appropriation of public monies. In such cases, the credit enhancement would serve to incentivize states and municipalities to use their stronger credits to reduce charter school borrowing costs for facilities.

For modeling purposes, we assumed the CSGF would provide a first-loss debt service reserve fund for charter school bond transactions, which investors would be able to access in the case of payment default. The CSGF DSRF would be in addition to the school-funded DSRF, both of which would be funded with each origination at an amount equal to one year's debt service. Assuming an average $10 million project size, 5% cost of issuance, fully amortizing 25-year term and 7% interest rate, the CSGF DSRF would total $986,055 for an $11,564,265 bond issue. LISC's model assumes that one bond issuance is originated annually in the program's first two years and two bonds are originated annually in the following two years. Assuming that half the bond issues serve two schools, these six bond issues would utilize $6 million in ED grant funds and leverage $70 million in tax-exempt municipal issuance for nine schools serving 3,651 students, leveraging the ED funds at a 12:1 ratio.

We assumed another 20% of the CSGF will credit enhance mortgages from conventional lenders. Similar to the NCLF II, we assumed that these projects have an average financing need of $5 million and that conventional lenders are willing to finance up to a 75% LTV. ED grant funds, totaling 15% of the bank loan, would be deposited with the lending institution as cash collateral, allowing the bank to lend up to a 90% LTV thereby reducing the school's upfront equity cost. Our model projects that we will assist eight charter schools over an 11-year period, one annually in the first four years and one annually for four years after the initial guarantees burn off beginning in Year 8, leveraging the ED funds at a 15:1 ratio.

The remaining 40% of the CSGF will assist charter school operators seeking credit enhancement for leasehold improvement loans. Based on our lending experience, these loans will average $1 million in size and conventional lenders will require 30% credit enhancement because of the higher risk profile of leasehold improvement loans, which offer limited or no security. ED grant funds in the amount of 30% of the leasehold improvement loan originated by a bank would be deposited with the lender as cash collateral. Our model projects that we will assist 40 schools, five annually in the first four years, and five annually beginning in Year 8 when the first round of guarantees burn off, leveraging the ED funds at a 7:1 ratio. See Attachment 9b for a diagram of the CSGF and its expected outcomes.

*1) Financing for Charter Schools at Better Rates and Terms.* LISC has typically provided financing to some of the "riskiest" charter school credits, including certain types of schools, such as start-ups or schools with small enrollments, or certain types of projects, such as leasehold improvements, modular classrooms or those with little or no collateral. In these cases, a credit enhancement typically does not translate into an interest rate reduction, but rather into a willingness from a traditional lender to provide loan monies at any price. These are the types of schools and projects that are most likely to be targeted by CEP IV with the exception of CSGF-enhanced bond issuances. Therefore, in some cases, we do not project that the NCLF II or CSGF credit enhanced financings will offer below-market rates, but rather that the primary role of the NCLF II and CSGF would be to provide access to schools which might otherwise not be able to obtain financing. In other cases, however, the credit enhancement offered by the NCLF II may result in better rates for the schools as would be the expectation for the CSGF. The credit enhancement provided by the CSGF will improve the credit rating of charter school bond issuances, thereby allowing schools to access financing through the bond market at rates that are more affordable, expanding the pool of charter school bond investors and attracting new buyers to the sector. The CSGF credit enhancement could also mean the difference between an investment grade and non-investment grade rating, which will largely impact a school's ability to afford bond financing.

*2) Project Goals, Objectives and Timeline.* CEP IV will be driven by five goals and related measurable objectives, which will provide a standard against which success can be measured.

**Goal #1:** Provide credit enhancements to charter schools that encourage flexibility in financing uses.

*Measurable Objectives:* 1) Provide credit enhancements to start-up and established schools and for a wide variety of facility needs (leasehold improvements, acquisition, renovation and construction). LISC is uniquely positioned to address the needs of a range of charter schools through our national structure which supports 27 local program offices (LPOs). See Attachment 10 for a list of LISC's LPOs. 2) Support ED grant funds with other resources, including NMTCs, technical assistance and the Educational Seed Grant Fund (Seed Fund), a $4.1 million grant fund that makes technical assistance and facilities-related grants and predevelopment recoverable grants. 3) NCLF II: Provide enough flexibility with loan terms to allow charter schools fiscal autonomy over their operating budgets. Closely evaluate the percentage of revenue dedicated to facilities costs as charter schools take on debt. Monitor charter school borrowers closely to ensure ability to repay debt and remain financially healthy. LISC is known to be a "patient" lender, oftentimes restructuring debt to ensure future financial viability. See Attachment 11 for a sample charter school loan underwriting package and amendment request. 4) CSGF: Establish charter schools as reliable credits in the market and show municipal investors and traditional lenders that charter schools are worthy of the capital markets by establishing a strong repayment history. *Documentation:* Commitment letters to schools; payment history; Seed Fund disbursements; use of NMTCs; Gates Bond Research Study.

**Goal #2:** Continue LISC's institutional commitment to the goals in NCLB by increasing the high-quality educational opportunities available to the students most in need of educational choices. *Measurable Objectives:* 1) At least 90% of the charter schools receiving assistance through CEP IV will be located in school districts in which a high proportion of students are offered or projected to be offered choice under NCLB. *Documentation*: Data on students qualifying for FRL; NCLB status of district schools.

**Goal #3:** Expand on the products that are most in demand, create innovative models for increasing charter school access to facilities financing, and document and disseminate these models to a wide variety of charter school stakeholders. *Measurable Objectives:* 1) NCLF II: Capitalize an $80 million fund over four years to provide direct financing to charter schools. Tailor each direct funding effort to address the needs of the charter school seeking financing. Generate a pipeline by leveraging new and existing relationships with a variety of partners, including private funders, public authorities, charter support organizations, authorizers, charter schools and CMOs. 2) CSGF: Provide $15 million in ED grant funds to directly credit enhance bond issues, mortgages and leasehold improvement loans. Help expand the capital markets for charter school borrowers by educating local and regional conventional lenders on charter school credits, and increase access to and affordability of traditional capital markets financing. 3) Monitor quality of charter schools by ensuring that the majority of charter schools financed will meet Adequate Yearly Progress (AYP) and not be deemed in need of improvement. 4) Document and disseminate findings regarding the process of developing, enhancing and leveraging CEP IV with established networks and at events (e.g., the National Association of Charter School Authorizers (NACSA), ED-sponsored events, National Charter Schools Conference, Charter School Lenders' Coalition). 5) Update *2010 Charter School*

*Facility Finance Landscape (Landscape)* (see Attachment 12). *Documentation*: Loan documents from funders; publication of updated *Landscape* and Gates bond research study; updates of conference and event participations.

**Goal #4:** Preserve ED grant funds by utilizing rigorous underwriting processes while leveraging the funds to address immediate credit needs for the maximum number of schools. *Measurable Objectives: 1)* NCLF II: Leverage $15 million in ED grant funds at a 12:1 ratio. At an average project size of $3 million and average credit enhancement of 20%, NCLF would finance approximately 80 schools. 2) NCLF II: Maintain a loan loss rate for charter schools of 2% or less. 3) CSGF: Leverage $15 million ED grant at a 11:1 ratio. At an average financing size of $5.8 million and average credit enhancement of 21%, the CSGF would finance a projected 57 schools. 4) Create a reserve account in accordance with ED guidelines. Grant funds received under CEP IV will be deposited in a reserve account established and maintained for this purpose. *Documentation:* Number of charter school write-offs; ED reserve account statements; leverage ratios.

**Goal #5:** Leverage ED funds with new and additional sources of private or non-Federal public capital with an emphasis on bringing lenders to the table who would not traditionally lend to charter schools. *Measurable Objectives:* 1) NCLF II: Raise $80 million in loan monies from new and potential funding partners. 2) CSGF: Leverage foundations to make PRIs to increase CSGF capacity. 3) NCLF II: Utilize NMTCs to incentivize traditional lending institutions to lend to charter schools. 4) CSGF: Measure long-term effect on charter school operators that pursue future financings without credit enhancements. *Documentation:* NMTC allocation report; loan and loan guaranty documents.

LISC is confident that implementation could begin immediately. Key personnel positions at the EFFC are staffed, demand is strong. LISC scanned the charter school community through our many relationships and identified 46 projects totaling $360 million that are in need of financing. The table below presents an 11-year timeline based upon the assumption that an ED award is made in October 2011.

| *NCLF II Activity/Task* | *Timeframe* |
|---|---|
| *Establish reserve account with ED award* | *December 2011* |
| *Capitalize $17 million of NCLF II; Begin financing 9 Schools* | *January 2012* |
| *Publish updated* Landscape | *June 2012* |
| *Capitalize additional $23 million of NCLF II; Begin financing 11 more schools* | *January 2013* |
| *Capitalize additional $23 million of NCLF II; Begin financing 11 more schools* | *January 2014* |
| *Capitalize additional $17 million of NCLF II; Begin financing 9 more schools* | *January 2015* |
| *Re-capitalize $17 million of NCLF II; Begin financing 9 more schools* | *January 2019* |
| *Re-capitalize $23 million of NCLF II; Begin financing 11 more schools* | *January 2020* |
| *Re-capitalize $23 million of NCLF II; Begin financing 11 more schools* | *January 2021* |
| *Re-capitalize $17 million of NCLF II; Begin financing 9 more schools* | *January 2022* |

| *CSGF Activity/Task* | *Timeframe* |
|---|---|
| *Establish reserve account with ED award* | *December 2011* |
| *Guaranty 7 schools* | *January 2012* |
| *Publish updated* Landscape | *June 2012* |
| *Guaranty 7 additional schools* | *January 2013* |
| *Guaranty 8 additional schools* | *January 2014* |
| *Guaranty 8 additional schools* | *January 2015* |
| *Guaranty 6 additional schools each year* | *January 2019 – January 2022* |

*3) Likelihood that CEP IV will Achieve Measurable Objectives that Further Program Purposes.* Based on LISC's 30-year history of leveraging private-sector and other non-Federal capital, the EFFC's experience in creating and participating in charter school credit enhancement funds, and preliminary conversations with lenders and other local partners, CEP IV has an extremely high likelihood of success. Discussions with potential NCLF II funders, such as Webster Bank, the Rhode Island Foundation, Citi Community Capital and WFF, have progressed, and LISC will continue to seek additional funders to capitalize the funds proposed in CEP IV. LISC continues to receive input from our charter school clients and CMOs, as well our LPOs nationwide to ensure that the NCLF II and CSGF are in demand.

LISC believes that it has set obtainable and measurable goals that will advance the goals of NCLB:

the NCLF II will leverage $176 million for charter school facilities financing and assist 80 schools, and the CSGF will leverage $158 million and assist 57 schools. LISC will track the number of schools assisted, the terms under which they receive financing, the socio-economic and student achievement data of the populations and geographic areas from which the charter schools pull, and compare it to existing public school options in each charter school's respective district. The EFFC will replicate the extensive monitoring and documentation procedures developed for past ED grants.

*4) Likelihood of Producing Replicable Results.* LISC's history in the sector and approach to project monitoring and documentation (as noted above) give CEP IV a very high likelihood of producing replicable results. Like past ED grants, LISC's CEP IV is based on customization and tailoring at the local level to reflect the diversity of environments in which charter schools operate. What works for one charter school may not work as well for another. We expect that the product offerings of the NCLF II will support the current needs of charter schools, attract new investors to the sector or make past investors comfortable with the charter school credit as underwriting criteria tighten. The credit enhancement will enable LISC to borrow at below-market rates and in turn provide financing for riskier charter school projects, providing a replicable model for investing in high-risk charter school facilities projects. The CSGF, in particular, will be designed to entice investors into the municipal and conventional debt market and specifically into the charter sector. As a result, more schools would be served and investors would gain greater experience through a broader, deeper performance profile. In particular, during the term of the CSGF bond guarantees, a significant number of existing issuances will pass their five-, 10- and 15-year anniversaries, important milestones for the investment market. CSGF would ultimately mobilize mainstream investors and help gain more institutionalized acceptance of the charter sector over the coming decade.

In 2004, the EFFC published *The Finance Gap: Charter Schools and their Facilities* (see Attachment 13), a study conducted by the Institute for Education and Social Policy of New York University's Steinhardt School of Education and funded by Gates. This comprehensive report analyzes the facilities-related challenges charter schools face and the methods they have used to overcome them. As a follow-up, in 2005 and again in 2007, LISC published *The Charter School Facility Finance Landscape, A National Mapping Survey of Private Nonprofit Providers and Public Initiatives*, the first comprehensive listing of private nonprofit providers and public programs in the facilities sector. In June 2010, LISC published the third edition of the *Landscape,* which for the first time included loan origination and performance data for 18 major private nonprofit providers of facilities financing to charter schools as well as detailed data and rating analysis for all rated charter school bond issuances through 2009.

*5) Criteria for Selecting Charter Schools to Receive Assistance.* Mirroring our current selection criteria, LISC will target CEP IV investments to high-quality charter schools in low-income areas or areas that have the greatest need for choice under NCLB. This will ensure financing of some of the riskiest charter school credits, including start-up schools or schools with small enrollments. We will continue to prioritize projects based on: 1) percent of students eligible for FRL; 2) whether a school is located in a district identified for improvement under NCLB, an area in which students perform poorly on state exams, or an economically distressed area; and 3) academic quality of school. A CEP IV charter school borrower must meet at least one of the following criteria: (i) the definition of a "charter school" as defined in ESEA, as amended by NCLB, as required by ED for participation in the Credit Enhancement Program; or (ii) a CMO that establishes and manages charter schools as defined in clause (i).

LISC continually looks for new and innovative ways to ensure that academic and school quality is an important factor in our underwriting and monitoring process. One of the goals of CEP IV is to monitor academic achievement during the term of the loan in order to assist schools to become or remain quality schools. To this end, LISC tracks and reports on the academic quality of our portfolio on an annual basis and disseminates the data to existing and potential funders.

*6) Leverage of Private and Public Sector Funding and Increased Assistance to Schools.* The NCLF II will leverage private and non-Federal funding at a ratio of 12:1. Based on this aggregate financing activity and an average 20% enhancement level, the NCLF II will help provide financing to 80 charter schools for the renovation, construction or acquisition of facilities. Much of this financing will be targeted to schools that face the most difficult obstacles accessing facilities financing due to their location in low-income communities, their newness or their enrollment size. We expect the total average project cost will be $3 million, leveraging a total of $176 million. The CSGF is modeled to leverage $158 million in financing, a leverage ratio of 11:1. Based on this aggregate activity and an average financing size of $5.8 million, the CSGF will provide financing for 57 schools.

*7) Serving Charter Schools in States with Strong Charter Laws.* CEP IV will serve charter schools in states that: 1) ensure accountability of schools for reaching clear and measurable objectives; 2) have multiple authorizers or a strong appeals process; and 3) give schools a high degree of fiscal autonomy. These criteria will be evaluated in a number of ways. The first is to determine whether or not the state is a grant recipient of the Public Charter Schools Program (PCSP). Since this Federal program must give preference to states that fulfill these three criteria, these recipients have already been judged to be acceptable by ED (recognizing that not every state applies for PCSP funds). The second and third criteria listed above are annually rated by two national organizations: The Center for Education Reform (CER) and the National Alliance for Public Charter Schools (Alliance). CER and the Alliance rank states according to a scale, making it easy to check where states rank on the criteria.

Additionally, our experience indicates that in most, but not all cases, states with the strongest laws and most active charter associations tend to produce the most successful schools; therefore, our analysis of a potential charter school borrower will also include a market overview that details: number of charters granted and denied in a state as a whole and by authorizer, number of charters revoked, charter appeals process, monitoring process and oversight provided by authorizer, year law passed, political environment, growth obstacles, historical pace of charter growth, public funding, demographic comparison of charter school to district schools, performance of district schools and other education options in the region.

*8) Reasonableness of Grant Amount.* LISC's $15 million request for the CEP IV is reasonable because it will maximize the amount of money leveraged to directly assist charter schools across the country. In relation to LISC's size and reach (27 LPOs), we have the organizational capacity and experience to leverage this grant award at the projected 12:1 ratio for the NCLF II and 11:1 ratio for the CSGF. CEP IV's design is based on LISC's experience in financing both real estate development in low-income areas and charter school facilities. Program costs will be kept to a minimum because annual administration costs, totaling $850,000 for CEP IV, are currently funded by WFF and Gates. See Attachments 5a and 5b for Table 3 – Budget Form: Grant Funds Expenditure and Attachments 14a and 14b for the grant commitment letters from WFF and Gates. In addition to the submission of renewal requests to WFF and Gates in 2011, LISC is closing on the Chase NMTC Fund via CEP II, which includes a $740,000 per year grant for operating expenditures over five years. The Budget Form does not include the upcoming grant from Chase.

An 11-year financial projection has been developed for CEP IV (see Attachments 15 for the Cash Flow Pro Forma and Statement of Sources and Uses). Key assumptions are outlined below.

*<u>Timing of CEP IV</u>:* Our model assumes that NCLF II will make between nine and 11 loans per year in the first four years, with an estimated two or three mortgages and an estimated seven or eight leasehold improvement loans per year. Under the CSGF, our model assumes we will underwrite one bond guaranty annually in the first two years and two annually in the next two years; one mortgage guaranty annually for four years; and five leasehold guarantees annually in the first four years. As the NCLF II loans repay and the CSGF guarantees burn off, we will recycle the funds and underwrite the same number of loans and guarantees for each product type beginning again in Year 8.

*<u>Level of Credit Enhancement</u>:* For the NCLF II, our model assumes an average of 20% for credit enhancement. Based on our experience, LISC believes that the 20% average is reasonable for the NCLF II. The credit enhancement will allow LISC to attract capital so that the NCLF II can provide financing for charter schools deemed too risky for the lender to provide directly to the school, i.e., the enhancement will

allow schools to borrower at higher LTV thresholds. The credit enhancement, while securing NCLF II's investors, will enable LISC to meet a financing need that remains unmet in the market. The CSGF model assumes an average credit enhancement of 21% with actual guaranty levels varying depending on project type, providing mature schools with access to the bond market and filling a financing need for growing schools with smaller enrollments.

*<u>Size of Projects</u>:* For the NCLF II, the average size of a mortgage is $5 million, while leasehold improvement loans are expected to average $1 million. For the CSGF, we expect the average bond issue to total $11.6 million and mortgages and leasehold improvement loans to be the same size as those listed for the NCLF II. We assumed half of the bond issues will finance two schools.

*<u>Project Loan Interest Rates and Other Terms</u>:* Benchmark interest rates have dropped in the current environment, but spreads have increased due to the high-risk profiles of borrowers and lack of capital in the market. To reduce these spreads and provide financing to a broader cross-section of charter school borrowers for a wider range of project types, banks would lend low-cost capital to LISC for the NCLF II and LISC would relend to charter schools at a reduced rate. Our experience with these lenders, as well as lenders we anticipate partnering with for the CSGF, indicates that project-level interest rates will be in the 6% to 7% range, which is what we used for our assumptions – bond issuances (7%), mortgage interest rates (6.5%) and leasehold improvements (6.5%). We also assumed 15-year amortization periods and seven-year terms as a representative average based on past investments for mortgages and leasehold improvement loans and 25-year fully amortizing terms for bond financing. The results of a sensitivity analysis indicate that levels of credit enhancement required and terms on underlying loans may vary with interest rate fluctuations. As interest rates rise and debt service becomes more burdensome to the schools, lenders may require higher LTVs and thus higher levels of credit enhancement on their loans. They may also require shorter amortization periods and terms in order to reduce refinancing risk.

*<u>Fees</u>*: Our model assumes minimal fee expenses other than the 0.25% of the ED grant allowed for

administrative expenses, totaling $37,500. Legal fees charged to schools will total approximately $7,500 per transaction, collected at the time of closing. The NCLF II will charge an origination fee of 1% and the CSGF will charge a guaranty fee of 1%, both of which will also be collected at closing.

*Investment of Funds in the Reserve Account:* Grant funds from ED will be placed in a reserve account and invested in a blend of short- and medium-term U.S. government-backed securities at an assumed rate of 1%. All interest earned on the reserve account will be reinvested.

*Loan Loss*: For the NCLF II and CSGF, our model assumes a 1% annual loan loss for mortgages, 2% for leasehold improvement loans and 0.3% for bond financing. We believe this is reasonable given that the historical net loan loss rate for LISC's overall portfolio is less than 2% as is our loan loss rate for charter school financings. For bond financing, the estimated loan loss is based on past default rates in the municipal bond market as determined by data in the *2010 Landscape*.

*Number of Charter Schools Served*: LISC projects that the NCLF II will serve a minimum of 80 schools and the CSGF will serve a minimum of 57 schools in distressed communities as a result of this ED grant.

**B. QUALITY OF PROJECT SERVICES.**

*1) Proposed Services Reflect Identified Needs of Charter Schools*. Charter school facilities financing options have expanded significantly in the 20 years since the first charter law was passed, but they are still limited. The 2010 *Landscape* reveals that only 11 of the 41 jurisdictions with a charter law provide a per pupil funding stream specifically for facilities; only eight provide such funding at a level of $500 or more and three provide $1,000 or more. Also, there are 29 private nonprofit providers in the sector, but each has unique eligibility requirements, financing products and geographic markets.

The EFFC has gained significant insight into the financing needs of charter schools in the eight years since LISC was awarded ED funds for CEP I. The design and structure of CEP II was a direct result of this insight. CEP III was designed based on insight gained from CEP I and II, feedback from borrowers and lenders in the charter school facilities financing market, and an understanding of market conditions at the time. The NELF, supported by CEP I, was designed primarily to provide <u>loan</u> monies for Local Funds. However, we encountered heavy early demand for credit enhancement, and, in response, provided guarantees for two of our first four Local Fund investments. Due to limitations on our CEP I money, LISC was unable to continue meeting this demand and thus created the NCEF through CEP II. The creation of the NCLF and BCEF via CEP III responded to a call for more flexible financing terms, including, LTVs of 90%, longer amortization periods, lower interest rates and a variety of security structures. Schools also needed a variety of financing products, such as short-term loans for leasehold improvements and longer-term loans for larger acquisition, renovation and construction projects, as well as credit enhancement for bond investors after the collapse of the bond insurers.

NCLF II was also designed to provide more flexible financing options for charter school borrowers. The market is demanding more direct financing for charter schools in all stages of enrollment growth and different financing products, especially mortgages and leasehold improvement loans. CEP IV will allow LISC to use ED grant funds to secure private lenders and meet charter school needs in a highly flexible way. The combination of CEP I, II, III and IV will provide LISC with powerful and relevant structures through which to meet the diverse needs of charter schools and organizations.

The CSGF will facilitate widespread acceptance of the charter school credit within the tax-exempt bond market, the natural next step in the sector's development, as well as provide necessary credit enhancement to schools with earlier-stage financing needs. The bond market is generally the most economical method of financing charter school facilities, with the possible exception of NMTCs which have limited availability. Until recently, bond financing had been attractive to charter schools because interest rates were typically lower than traditional commercial loans due to their tax-exempt nature, and schools can fix these lower rates over longer, fully amortizing terms, typically between 20 and 35 years. These longer repayment terms allow charter schools to grow enrollment and staff to full capacity without assuming a heavy debt burden that can drain program resources in the vital early development stage. In addition, tax-exempt bond financing often allows schools to borrow an amount greater than the appraised value of the underlying assets. The CSGF will strengthen the credit of charter schools, thereby enabling schools to access bond financing at affordable rates that would otherwise not be available without the enhancement. The CSGF will also assist new conventional lenders not familiar with charter school credits in gaining comfort with the sector. In addition, the CSGF will serve as an important source for growing schools with smaller enrollments and budgets that need to establish themselves as successful academic programs before embarking on larger capital-intensive projects for their permanent facilities. As such, LISC believes that the CSGF would fill a glaring gap in the current market, unlock and potentially redirect significant capital toward the sector and continue development of its successful track record at a crucial juncture.

*2) Charter School and Chartering Agency Involvement in and Support for Grant Project.* The EFFC surveyed our contacts at charter schools, CMOs and member associations extensively to involve them in the design of CEP IV. In addition, LISC has also secured letters of support from our partners in CEP I, II and III, and EFFC Advisory Board members (see Attachment 16). Input regarding the specific needs of charter schools is continually collected as part of the EFFC's ongoing documentation and dissemination of best practices in charter school facility finance, our work in development of Local Funds and our work with LPOs as detailed in the following: 1) The 2004 LISC publication, *The Finance Gap: Charter Schools and Their Facilities*; 2) The 2005, 2007 and 2010 *Landscape* publications; and 3) Letters of support from CMOs, individual charter schools, charter support organizations and investors, indicating the extent of their relationship with LISC and their support for LISC and CEP IV.

*3) Strategies to Ensure that Financing Services and Technical Assistance are Cost Effective.* Due to the committed support of WFF and Gates, and an upcoming grant from Chase, LISC does not have to dedicate significant additional resources to establishing a "home" for CEP IV. The EFFC began operations in January 2003, and CEP IV will be integrated seamlessly into our ongoing work. Like past ED grants, CEP IV will take advantage of LISC's infrastructure, including LPO field staff (underwriters); credit committee;

loan servicing, legal and monitoring departments; and our NMTC-affiliate, the New Markets Support Corporation (NMSC), without having to build out a new staff. With this cost-effective approach, fewer resources will be required for additional administration and the dollars available to charter schools will be maximized via innovative and inexpensive facilities financing strategies. LISC's full range of services will also supplement fund activity. For example, the EFFC has worked with the NMSC on several CEP I and II investments as well as for NMTC financings for other individual schools. LISC will also continue to employ our established network of community-based LPOs to help assemble a pipeline for CEP IV.

Research has shown that charter schools frequently spend a disproportionate amount of their operating budget on their facilities and too large a proportion of their human capital on facilities development. The EFFC's $4.1 million Seed Fund provides grants and predevelopment recoverable grants to assist schools with their real estate projects. All these services are provided at no cost to the schools. Additionally, the EFFC will continue to provide extensive technical assistance to charter schools through the underwriting process as part of this program. In particular, through analysis of a school's pro formas, LISC will ensure that a school does not take on more debt than it can afford.

*4) Strategies to Target High-Quality and High-Need Charter Schools.* Rigorous yet flexible underwriting criteria, combined with neighborhood outreach, ensure that high-quality/high-need charter schools receive CEP IV assistance. LISC operates in 27 communities across the country on a daily basis, so LPOs are aware of the schools most in need of help. The EFFC will prioritize projects based on: 1) percent of students eligible for FRL; 2) whether a school is located in a district identified for improvement under NCLB, an area in which students perform poorly on state exams, or an economically distressed area; and 3) the academic quality of the school. LISC explicitly targets charter schools in low-income areas or areas that have the greatest need for choice under NCLB, which is in line with our mission. In particular, our participation ensures that newer schools are eligible or given priority for CEP IV.

CEP IV will support schools associated with high-quality CMOs as well as independent schools.

LISC will review individual school academic and financial performance, including the status of the school's charter, the quality of its educational program, together with the qualifications and experience of the school's leadership team. LISC will screen all potential project financings to ensure that each school's debt burden is acceptable and will not adversely affect its academic program or performance and that the credit enhancement will in fact strengthen the school's credit profile. LISC will require detailed information in the following areas: 1) basic background information; 2) academic program; 3) school leadership; 4) financial management; 5) CMO information, when applicable; and 6) project-related information.

The EFFC, through our Local Funds and independent underwriting, has developed proven, prudent guidelines for a variety of investment uses and structures. We will ensure that guidelines are established in a way to move the market forward with sufficient standardization for lenders, investors and rating agencies, but with realistic criteria for charter school needs.

**LISC'S CAPACITY TO CARRY OUT THE GRANT PROJECT**

**C. BUSINESS AND ORGANIZATIONAL CAPACITY.** LISC's capabilities in the following areas are articulated below: 1) amount and quality of experience; 2) financial stability; 3) ability to protect against unwarranted risk; 4) expertise in education evaluation of charter schools; 5) ability to prevent conflicts of interest; 6) external partnerships; and 7) performance in implementing previous grants.

*1) Amount and Quality of Experience.* Founded in 1979 by the Ford Foundation and six corporations, LISC is the nation's largest nonprofit community development support organization. LISC has tremendous experience developing urban and rural areas over the past 30 years, ranging from the revitalization of parts of Los Angeles that were devastated in 1992, to the rebirth of entire neighborhoods in the South Bronx, Boston, Chicago, Cleveland, Washington, Newark and other cities. LISC's model of connecting community groups to both public and private capital and then providing strong technical support has proven to be an incredibly effective way to rejuvenate areas that were once given up for dead. Since our inception, LISC has demonstrated expertise in real estate financing by partnering with affiliates to invest more than $11 billion in equity, loans and grants, which has leveraged $34 billion in total development. In over 300 communities nationwide, LISC has financed the construction or rehabilitation of over 277,000 affordable homes, 44 million square feet of retail and community space, and over 544 schools, child care facilities and playing fields, affecting over 517,800 children.

*Charter School Expertise.* Based on direct community feedback, LISC has increased our involvement in educational facilities development, with an emphasis on charter schools. Since financing our first charter school in 1997, LISC has closed over $107 million in grants, loans and loan guarantees for charter school facilities in 16 states and the District of Columbia, making LISC one of the largest providers of facility financing in the sector. Of that total, $93 million in commitments has been or is projected to be utilized by charter school borrowers, including $46 million for investments in Local Funds supported by CEP I, II and III (summarized in the table below). See Attachment 3 for LISC's Charter School Loan, Guaranty and Grant Portfolio and Pipeline and Attachments 2 for Table 2 – Applicant Activity Table for Most Recently Completed Fiscal Year.

| **Investment Type** | **Transactions** | **Schools** | **Financing** | **Credit Enhancement** |
|---|---|---|---|---|
| Grant | 4 | 4 | $232,500 | n/a |
| Recoverable Grant | 9 | 10 | $320,360 | n/a |
| Loan | 45 | 62* | $43,918,622 | n/a |
| Guaranty | 1 | 1 | $418,800 | $4,188,000 |
| CEP I Loan Fund | 8 | 36 (projected) | $32,732,909 | n/a |
| CEP I Guaranty Fund | 1 | 1 (projected) | $252,843 | $3,672,000** |
| CEP II Guaranty Fund | 5 | 66 (projected) | $9,258,600 | $170,000,000** |
| CEP III Guaranty Fund | 2 | 41 (projected) | $4,000,000 | $316,483,277** |
| Seed Fund Grants | 22 | 25 | $1,948,000 | n/a |
| **Total** | | **246** | **$93,082,634** | |

**Includes 22 schools for one transaction for the California Charter Schools Association. ** Total amount of financing projected to be credit enhanced by Local Funds. Each Local Fund includes multiple participants.*

*2) Financial Stability*. LISC is well positioned for 2011 after tough economic conditions in 2008 and 2009 and a solid 2010 financial performance. In 2010, LISC invested $1 billion in low-income communities nationwide, including $852 million in equity, $191 million in loans, $46 million in grants and $11 million in programmatic activity. LISC ended 2010 in a much stronger financial position than it began the year; net worth increased to $37 million from $27 million in 2009. LISC's total net assets declined to $140 million from $147 million over the same period, mainly due to the spend-down of multi-year commitments, including a $30 million grant from The John D. and Catherine T. MacArthur Foundation. The grant was received and recorded in 2007, but associated expenses are booked when incurred in subsequent years.

Corporate investors, lenders and donors are attracted by LISC's fiscal controls which mirror those found in for-profit organizations. This explains why our support network has expanded from 12 philanthropic and corporate institutions to thousands of corporations, foundations, individuals and government agencies nationwide. Because of our solid asset base and strong financial management, LISC has expanded our development efforts to include a comprehensive Sustainable Communities agenda with five objectives: 1) expanding capital investment in housing and other real estate; 2) increasing family income and wealth; 3) stimulating economic activity; 4) improving access to quality education; and 5) supporting healthy environments and lifestyles.

LISC has rigorous risk management policies and procedures which contribute to overall performance and financial stability. Our risk management strategy entails diligent underwriting, loan approval and portfolio management processes, and explicit financial covenants with key lenders and within our investment guidelines. LISC does not have a credit rating. See Attachment 17 for Audited Financial Statements for fiscal years 2008, 2009 and 2010, Attachment 18 for Articles of Incorporation and By-Laws, and Attachment 19 for IRS Form 990.

*Portfolio Quality*. LISC has an excellent track record of loan repayment because we are flexible and patient with borrowers. Our cumulative net loan loss is under 2%, which is notable because LISC makes high-risk loans that traditional lenders are reluctant to make. Currently, no charter school loans are delinquent.

LISC maintains an adequate allowance for loan losses. For fiscal year 2010, LISC's write-off rate totaled 1.6% of loans outstanding.  At December 31, 2010, LISC's allowance for uncollectible loans was $12.8 million, or approximately 8.3% of loans outstanding.  The $12.8 million provides almost full coverage for all loans that are closely monitored (rated "substandard" or "doubtful" and are on LISC's Loan Watch List ) and nine times coverage for loans considered most vulnerable (a subset of LISC's Loan Watch List). LISC uses rigorous, yet flexible, underwriting guidelines to provide capital to borrowers not adequately served by the market.  To date, LISC has experienced only two defaults in our charter school portfolio.  The first write-off, totaling $260,000, occurred in 2002, prior to the establishment of the EFFC, when a school lost its charter for political reasons.  LISC was a subordinate lender to PNC Bank in that transaction.  The second write-off occurred in 2007 and was due to a school's poor financial management and inability to obtain a charter in the district in which it had located.  LISC wrote off $1.46 million of our $3 million share of a $6 million participation loan for which the Low Income Investment Fund (LIIF) was the lead lender and NCB Capital Impact and Century Housing were co-lenders.  Charter Schools Development Corporation had provided a $595,000, or 10%, collection guaranty for the financing.

*Additional Financial Resources*.  *LISC's Balance Sheet*: In addition to our extensive internal non-financial resources, LISC will provide NCLF II's lenders with recourse to our balance sheet for any payment default not covered by ED grant funds for all or a portion of their investment.

*Funds for Administration of CEP IV*: The EFFC is fully staffed and our operations are funded by grants from WFF, Gates and Chase (expected May 2011), covering administrative costs in excess of the ¼ of 1% allowed by the grant.  See Attachment  1 for Table 1– Non-Grant Funds Projected to be Generated.

*New Markets Tax Credits (NMTC)*: Of our $693 million in NMTC allocations, LISC has over $140 million remaining to invest.  LISC will continue to utilize these credits to encourage traditional lenders to participate in the financing of charter school facilities, which was one of the planned uses specified in our NMTC application.  LISC has significant experience in using NMTCs to finance charter schools and other community facilities through alternative financing structures, including a "Fund" model and a "Leverage" model. Through three EFFC Local Funds, LISC has provided $19 million in loan monies for 11 NMTC financings serving 13 charter schools; two of the financings utilized $15 million in LISC's NMTCs. In total, LISC has invested over $51 million of NMTC allocation for five charter school facilities transactions. Currently, there are four charter school projects in LISC's pipeline seeking $63 million in NMTCs.

_Educational Facilities Seed Fund_: This unique fund was capitalized with $4.1 million from WFF; it provides technical assistance and facilities-related grants as well as predevelopment recoverable grants for charter schools to help cover "soft" costs (site identification, feasibility studies and architectural fees) during the earliest, riskiest stages of facilities development. This has proven essential to helping charter schools reach the financing stage and to providing a "shovel-ready" pipeline of projects ready for development and financing. The Seed Fund is highlighted because it ensures that the schools LISC works with have the capacity to access and utilize the financing that the credit enhancement funds help leverage.

*3) Ability to Protect Against Unwarranted* Risk. LISC's financial management policies reflect our charitable mission, responsibilities to lenders and investors, and the needs of our borrowers. We have the underwriting expertise, understanding of the sometimes-idiosyncratic nature of loans made to community-based developers and loan management structure to effectively lend monies to these groups. LISC has an organizational infrastructure to rigorously review proposed loans and monitor them after closing. LISC's policies have been in place for nearly 30 years, are reviewed twice annually, and when necessary, revised and readopted by the Board of Directors. Our loan loss rate of less than 2% is an indicator of the effectiveness of LISC's policies (See Attachment 20 for LISC's Core Loan Monitoring Procedures).

*Loan Underwriting*. LISC's traditional underwriting standards are also used to assess the creditworthiness of charter schools. LISC is a relationship lender and our LPO staff originate and underwrite individual loan requests because they have intimate knowledge of and close working relationships with our borrowers. They provide technical assistance in formulating projects, broker other financing resources, and monitor and support project development and operations. Additionally, the EFFC reviews all charter school-related program actions, provides feedback to LPO staff throughout the underwriting process, and gives its informal approval before any charter school loan is considered.

LISC's underwriting standards and criteria have been refined over the course of 30 years and focus on five areas: Loan Structure, Pricing, Recourse, Collateral and Additional Considerations. These areas detail the basic considerations of underwriting and set appropriate ranges for projects that LISC will consider, including amortization schedules, interest rates, debt service coverage ratios and maximum and aggregate loan amounts. Additional criteria are analyzed that are specific to the credit required by the borrower (e.g., housing, charter school, small business, etc.), including analyses for: Predevelopment Expense, Development Budget, Project Pro Forma, Residential, Community Facilities and Business Loans. This flexible yet rigorous process insures that the merits and constraints of each project receive careful consideration so that LISC is responsive to the needs of individual borrowers while protecting our ability to repay our lenders. See Attachment 21 for Underwriting and Credit Analysis Guidelines.

For our past ED grants, LISC employed an extensive due diligence process involving additional criteria concerning the: 1) Environment for Charter Schools; 2) Local Fund Governance; 3) Local Fund Structure; and 4) Local Fund Criteria & Procedures. See Attachment 22 for the EFFC's Underwriting Criteria for Investment in Local Funds. This document includes criteria mandated by ED, via our CEP I performance agreement, and CEP I's investors – WFF and Prudential. LISC's due diligence process for Local Funds is similar for underwriting individual financings and includes analysis of the following areas: 1) State Statutory Framework; 2) Charter Authorizer; 3) Public Funding Mechanisms; 4) Student Demand; 5) School Leadership; 6) Financial Management; and 7) Academic Performance. See Attachment 23a for the EFFC Charter School Credit Analysis and Attachment 23b for a sample CMO underwriting package. LISC will employ the same credit analysis for CEP IV projects. LISC's comprehensive underwriting and monitoring processes are trusted and have been recognized by our peers in the charter school facility finance sector; LISC was elected to serve as underwriter and servicer for seven CEP I and II Local Funds.

Additionally, LISC is also serving as administrator for the Gates BCEF via CEP III. In this capacity, LISC is responsible for structuring Gates' $30 million PRI guaranty investment, structuring the guaranty investment from charter school borrowers, developing underwriting criteria, administering all fund guarantees (including that from Gates) and fund monitoring. These funds exemplify the process that LISC will employ as underwriter of CEP IV (see Attachment 24 for the fund's due diligence document).

CEP IV will follow LISC's credit approval process and utilize LISC's internal underwriting document, the Request for Program Action (RPA), which the EFFC will use to present to LISC's credit committee for approval (see Attachment 25). All investments over $1 million need approval from the Program Review and Evaluation Committee (PREC) of the LISC Board of Directors, and investments over $3 million need approval from the LISC Board of Directors. See Attachment 26 for the Program Action Approval Process.

*Portfolio Monitoring*. All closed and disbursed financings are closely monitored by LPOs in tandem with LISC's national office, and the same will be true for CEP IV investments. LISC's local presence is one of our greatest strengths. LPOs are in the best position to serve as the "eyes and ears" of the organization on the ground, assessing project health while providing technical assistance on an ongoing basis. LISC's national units, including the EFFC, inject subject-level expertise and broader perspective to each LISC transaction. This hands-on approach to lending is a major reason why our charter school and other community borrowers rarely default on their loans.

LISC's Portfolio Monitoring Committee (PMC) is charged with carrying out board-mandated policies, which require an annual review of all outstanding loans and a semi-annual review of loans greater than $500,000. In addition to the PMC, a Large Loan Review Committee (LLRC), consisting of staff from various departments (legal, loan administration, finance and accounting), meets quarterly to review outstanding loans of $1.5 million and above. All reviews are important features of LISC's loan portfolio monitoring activities and provide an opportunity for LISC to identify trouble that might be brewing with regard to a particular loan, or improvements that may have occurred, earlier rather than later. In turn, this can facilitate additional monitoring and/or intervention for troubled loans that ultimately could lead to an improved prospect of repayment. Details on LISC's loan portfolio monitoring procedures are included in Attachment 27. See Attachment 28 for LISC's Credit Risk Rating Summary.

*Financial Management/Risk Mitigation*. LISC employs a series of strategies to manage our assets and mitigate risk. LISC's Statement of Investment Policy and Guidelines (see Attachment 29) details the duties of the Investment Committee of the Board, which include approving the duties and responsibilities related to LISC's Investment Portfolio and the management of LISC's Chief Financial Officer (CFO), Treasurer, Investment Managers and Investment Consultants. The statement includes cash management policies, asset allocations to ensure portfolio diversification, allowable and prohibited investment types and duration strategies. These guidelines are designed to preserve LISC's asset base while ensuring that resources are actively used for program purposes. The CFO provides quarterly reports to the Executive and Finance Committee of the Board on the Investment Portfolio performance and asset allocation. These reports provide detailed information on the portfolio for the current period and year-to-date, including investment activity, investment income, income projections, realized gains/losses and the individual performance of investment managers. LISC also maintains a series of financial covenants with our key lenders.

LISC has diversified our program actions over several lines of business in nearly every state and the District of Columbia. LISC offers several different financial products (see Attachment 30 for Program Action Types) with varying durations, risk-profiles and client bases. As discussed earlier, this portfolio is constantly monitored and risk ratings are adjusted to ensure that a proper allowance for loss is maintained. As mentioned previously, LISC requires PREC approval for financings over $1 million and Board approval for investments over $3 million.

*4) Expertise in Education Evaluation of Charter Schools.* The EFFC's expertise in charter school underwriting enables LISC to support high-quality schools with the greatest chance of academic, financial and operational success. To date, the EFFC has underwritten and closed 19 Local Fund investments, 16 of which are projected to finance more than 140 schools and three of which are no longer active due to changing borrower needs. LISC has also provided technical assistance to LPO staff in underwriting approximately 45 individual charter school transactions. In certain instances, EFFC staff directly underwrote 16 individual charter school financings when a financing was outside of an LPO service area. The EFFC is well-versed in interpreting the extensive, growing body of data on charter school academic performance and the strengths of various charter authorizers nationwide. NCLB requires schools, districts and states to report on academic performance annually. The EFFC routinely examines School Report Cards, AYP data, the improvement status of schools it serves, and other results of state-mandated assessments. A number of indicators are used to evaluate school academic performance, including: absolute performance, improvement in performance over time, and performance in comparison to district and state averages. LISC generally recommends financing for schools that show positive results on at least two indicators. A recent survey of LISC's charter school portfolio by WFF shows that LISC-financed charter schools outperformed their respective district schools on state assessments in English language arts and math, in the aggregate, by seven percentile points for the 2009-2010 school year and nine percentile points during the 2008-2009 school year.

The EFFC has recommended disapproval of school loan applications in several instances. The EFFC has turned down investments due to the poor academic and financial performance of charter schools seeking financing as well as operational and programmatic concerns indicated by a school's authorizer.

*5) Ability to Prevent Conflicts of Interest.* LISC's personnel and Board of Directors abide by explicit standards of conduct that are codified in LISC's Conflict of Interest Policies for Personnel and Board of Directors. These policies require the disclosure of direct and indirect financial or other interests, mandate disinterested decision-making and indicate corrective actions to be taken in the event of violation. See Attachments 31a and 31b for LISC's Conflict of Interest Policies for Personnel and Board of Directors, respectively, and Attachments 31c and 31d for our Conflict of Interest Questionnaire for Personnel and

Board of Directors, respectively.

*6) External Partnerships - Resources to Be Contributed.* LISC will continue to establish partnerships with a variety of organizations that contribute unique resources and expertise to charter school facilities financing.

*Financial Partners*. CEP IV will provide LISC with the resources to focus on serving charter school needs and involving private lenders that have not yet embraced or are newly engaged in the sector, or have scaled back their investments over the past few years due to market conditions. Our work with various financial partners has highlighted that even when partners have participated in charter school facility financing, they still look for an intermediary that has LISC's charter expertise combined with a local knowledge and delivery system. This national/local combination is unique among institutions that are financing charter schools, just as it was unique in the low-income housing sector 30 years ago. LISC has had success in translating this model to the charter school sector in CEP I, II and III and will build upon these successes as we implement CEP IV.

Based on our past success, we are uniquely positioned to continue to create large-scale financial partnerships that bring additional private and non-Federal capital to the charter school sector. The EFFC has cultivated new and existing relationships to capitalize CEP IV. In addition to LISC's conversations with Webster Bank and the Rhode Island Foundation regarding the creation of a $20 million Webster Charter Loan Fund, the Calvert Foundation, Citi Community Capital and TD Bank have also expressed interest in the NCLF II model. Additionally, we are in discussions with several foundations, including the Michael & Susan Dell Foundation and Boston Foundation, as they explore ways to utilize PRI capital for charter school facilities. These foundations work in the charter school sector and are contemplating funding facilities-related initiatives as they are well aware of the facilities challenges faced by school operators. These foundations have indicated that PRI capital would serve as the riskiest portion of a financing.

During CEP I, II and III, LISC collaborated with numerous financial partners on individual charter school transactions as well as Local Fund investments. These successful relationships will facilitate implementation of CEP IV because confidence has solidified between organizations and we are familiar with each other's constraints and priorities, and the proposed direct lending and credit enhancement model will allow us greater flexibility in expanding these relationships. To date, the EFFC has co-invested with more than 35 traditional lending, nonprofit institutions and philanthropic organizations, including Bank of America, the Annie E. Casey Foundation, Chase, Citigroup, Gates, Goldman Sachs, U.S. Bank and Wells Fargo. LISC partners with other community development financial intermediaries (CDFIs) active in the charter sector, including NCB Capital Impact, LIIF and Raza Development Fund. We will continue to collaborate with these CDFIs to use our resources most efficiently to reach the greatest number of schools.

*Non-Financial Partners*. During the administration of CEP IV, we will focus on leveraging existing relationships and developing equally strong partnerships with charter support organizations familiar with schools and their needs. The EFFC has an extensive network of contacts in the charter arena, including nonprofit charter school developers and philanthropic organizations which support schools in their communities. As we deploy CEP I, II and III, we are collaborating more proactively and formalizing these relationships in order to reach different segments of the charter school market. More generally, we are capitalizing on new and existing relationships with state charter associations who act as referral agencies. By leveraging the capacity and knowledge of these partners, such as the KIPP Foundation (KIPP), Pacific Charter Schools Development (PCSD), Tennessee Charter School Incubator and Brighter Choice Foundation, we can better identify a pipeline of high-quality charter schools seeking facilities financing and target our resources accordingly.

For example, through our relationship with KIPP, we have established a partnership with a high-quality CMO that is growing across the country. As KIPP expands operations, CEP IV would provide LISC with the resources to support the facilities development needs of KIPP schools. The EFFC will also build upon our relationships with organizations like Excellent Education Development (ExED), a nonprofit that provides business, management and development services to independent charter schools in Southern

California.  The EFFC has been a long-time partner of ExED's and the EFFC could use CEP IV to invest in additional ExED-supported schools.  The EFFC has invested CEP I resources in ExED's Los Angeles Charter School New Markets Fund, and the fund has been fully originated and is serving seven schools.  See Attachment 16 for letters of support from these organizations as well as others.

<u>*Local Program Offices*</u>: As the established delivery network for LISC's program activity, LPOs are critical to the implementation and execution of CEP IV.  Their knowledge of the local charter school public policy environment coupled with their relationships with community-based organizations and local financial institutions positions them to develop a pipeline of charter schools, provide on-the-ground technical assistance to these schools and help evaluate their credit worthiness.

*7) Performance in Implementing Previous Grants*.  LISC has received a total of $26.5 million in grant awards from ED: $10 million in 2003 and 2004 for CEP I; $8.2 million in 2006 for CEP II; and $8.3 million in 2009 for CEP III.  LISC has met or surpassed the leveraging and fundraising goals included in all of our Performance Agreements, as outlined in our most recent performance reports from September 30, 2010 (see Attachments  32a, 32b, and 32c).  LISC has fully capitalized the $35 million NELF and, to date, has $33 million in outstanding commitments for nine Local Funds projected to generate $154 million in financing, a leverage ratio of approximately 15:1 compared to our goal of 9:1 for CEP I.  Similarly, LISC has fully capitalized the NCEF at $10.9 million, matching $8.2 million in federal grant funds with $2.7 million in LISC funds via a PRI from WFF.  To date, the NCEF has made $9.3 million in commitments to five Local Funds projected to generate $170 million in financing, leveraging the ED funds at a 21:1 ratio compared to our goal of 9:1 for CEP II.  For CEP III, LISC has committed $4 million for the BCEF, which is projected to generate $324.6 million in financing, leveraging the ED grant funds dedicated to the BCEF at an 81:1 ratio, surpassing the goal of 26:1.  To date, 13 of the NELF, NCEF and BCEF investments have closed on $179 million in loans and guarantees that have leveraged $409 million for 70 charter schools.  LISC's loan loss ratio for CEP I, II and III is 0.  Local Fund Investment activity follows:

| **Local Fund Investments** *($ in millions)* | **LISC Investment** | **Total Fund** | **Projected # Schools** |
|---|---|---|---|
| **NELF Investments (CEP I)** | | | |
| Indianapolis Charter Schools Facilities Fund | $0.3 | $3.7 | 1 |
| Los Angeles Charter School New Markets Loan Fund | $4.0 | $36.0 | 7 |
| KIPP Early Stage Facility Revolving Loan Fund | $0.3 | $0.3 | 1 |
| Brighter Choice Charter School Loan Fund | $10.9 | $31.4 | 4 |
| Propel Schools Loan Fund | $2.7 | $9.2 | 3 |
| Fund for Schools & Communities | $2.0 | $14.0 | 4 |
| Lighthouse Academies Charter School Loan Fund | $3.9 | $19.3 | 3 |
| PCSD Revolving Loan Fund | $5.0 | $18.9 | 10 |
| ExED NMTC Loan Fund | $4.0 | $21.3 | 4 |
| **Total*** | **$33.1** | **$154.1** | **37** |
| **NCEF Investments (CEP II)** | | | |
| Massachusetts Charter School Loan Guarantee Fund | $1.0 | $100.0 | 30 |
| LISC National Charter School Loan Fund | $1.0 | $10.0 | 10 |
| Arkansas Facilities Credit Enhanced Loan Fund | $1.0 | $10.0 | 5 |
| Goldman Sachs Charter Loan Facility | $5.0 | $25.0 | 16 |
| Chase NMTC LISC Charter School Investment Fund | $1.3 | $25.0 | 5 |
| **Total** | **$9.3** | **$170.0** | **66** |
| **BCEF Investments (CEP III)** | | | |
| Gates Bond Credit Enhancement Fund | $3.0 | $300.0 | 40 |
| Uncommon Schools Credit Enhancement | $1.0 | $24.6 | 1 |
| **Total** | **$4.0** | **$324.6** | **41** |
| **Grand Total** | **$46.4** | **$648.7** | **144** |

*NELF total does not match LISC's 9/30/10 performance report because, in April 2011, the $3 million KCEP Mortgage Revolving Loan Fund was deobligated.

## D. QUALITY OF PROJECT PERSONNEL: THE GRANT PROJECT TEAM

*1) Project Team Qualifications.* The CEP IV project team will be comprised of highly skilled professionals who have the relevant education, training and experience in finance and charter school underwriting required to successfully fulfill the project's goals and objectives. Through our due diligence work in underwriting individual charter school transactions and 19 Local Fund investments to date, the team has developed an expertise in evaluating the educational and authorizing components of these unique credits. The team will be managed by Reena Bhatia, Vice President for Education Programs, who reports to the President and CEO of LISC, Michael Rubinger, and by Kathy Olsen, director of the EFFC. Three additional EFFC staff members, Ariel Behr, Charlie Wolfson and Melody Mulrain, Program Assistant, round out the project team. Following are brief summaries of their qualifications. See Attachment 33 for their résumés.

*Reena Bhatia*, Vice President, Education Programs – Ms. Bhatia spent the majority of her finance career with Prudential, structuring non-traditional social investments, including those for charter schools, and serving as a researcher in Prudential Securities Equity Research Department. She also worked for the KIPP Foundation, first as part of its national Real Estate Group and then as Financial Manager for TEAM Academy Charter School. Ms. Bhatia was selected to be a Broad Resident in Urban Education, serving as a summer resident with the San Francisco Unified School District. She holds an M.B.A. from NYU.

*Kathy Olsen*, Director – Ms. Olsen has been with the EFFC for five years and has a decade of experience working in the educational nonprofit field. Before LISC, she worked on fund development and public policy at The After-School Corporation in New York City and public policy at the Philadelphia Education Fund. Ms. Olsen serves on the board of Coney Island Preparatory Public Charter School in Brooklyn, NY. Ms. Olsen holds an M.P.A. from the University of Pennsylvania and a B.S. from Villanova University.

*Ariel Golden Behr*, Senior Program Officer – Ms. Behr has been with LISC for five years and joined the EFFC in October 2010. Previously, she worked as a Program Officer at New York City LISC, underwriting predevelopment and construction loans and providing technical support to nonprofit developers. Prior to LISC, she was the Director of the NYC Department of Parks & Recreation's Computer Resource Centers Program. She holds a B.A. from Swarthmore College and an M.B.A. from Columbia Business School.

*Charlie Wolfson*, Program Officer – Mr. Wolfson joined the EFFC in May 2010. Before LISC, he worked as an analyst in the portfolio management department of Seedco Financial, a CDFI in New York City. Mr. Wolfson also worked in the lending operations department at ACCION New York where he conducted impact assessment. He sits on the Board of Directors of Top Honors, a nonprofit math tutoring organization in New York City. Mr. Wolfson holds a B.A. from Duke University.

LISC will also involve other experts in implementing CEP IV, including members of LISC management with substantial depth and breadth of experience in providing capital, financial expertise and other services to low-income community developers. Following are brief summaries of their qualifications (complete biographies are included in Attachment 34):

*Michael Rubinger*, President and CEO – Mr. Rubinger has worked for more than 30 years in community development, including as COO of LISC and Executive Vice President of the Pew Charitable Trusts. He has been President and CEO of LISC since 1997 and served in the same capacity during LISC's first 10 years of operation. He has planned and implemented housing and employment-related national demonstration projects and administered early community development initiatives for the Ford Foundation.

*Michael Tierney,* Executive Vice President and COO – Mr. Tierney oversees the 27 LISC LPOs across the country. Prior to joining LISC, he served for 10 years as the founding Executive Director of a Massachusetts community development corporation (CDC) that developed and rehabilitated more than 2,000 homes and provided financing and technical assistance to 900 local small businesses.

*Tobin V. Levy,* Executive Vice President and CFO – Mr. Levy oversees the Treasury, Budget, Compliance and Accounting functions at LISC. Prior to joining LISC, Mr. Levy was the CFO for the Hedge Fund Strategies Group at Goldman Sachs, and the Chairman and CEO of Goldman Sachs Bank. Mr. Levy has more than 30 years experience in finance. He is a graduate of the University of Pennsylvania and has an M.B.A. from the Wharton Graduate School.

*Janet Ozarchuk,* Treasurer – Ms. Ozarchuk is responsible for daily cash flow management, management of LISC's investment portfolio, maintaining relations with lenders and assuring funds are available when needed and used for permitted purposes, and facilitating bridge financing of affiliates. Prior to joining LISC, she spent over 20 years working on Wall Street, primarily in the area of public finance.

In addition to these senior staff, many of the LISC LPOs are dedicating significant resources to charter schools. This staff is skilled in evaluating the education component of charter schools, as they now do so for all charter school financings in which LISC participates. Biographies for select Program Directors are also included in Attachment 34.

*2) Staffing Plan*. The staffing plan for CEP IV very closely mirrors the team's current job responsibilities, with Ms. Bhatia managing fundraising and capital commitments for CEP IV, Ms. Olsen managing the daily activities and staff of CEP IV, including the underwriting of loan and bond credit enhancement packages, Ms. Behr underwriting loans and Mr. Wolfson collecting and monitoring data on loan performance as well as underwriting. Ms. Mulrain will continue to provide administrative support. Various LISC personnel will assume critical roles in originating, structuring, underwriting, approving and monitoring CEP IV investments and in providing financial counseling and other services to the schools. A complete staffing plan follows:

Ms. Bhatia will have primary responsibility for fundraising, assembling the local coalitions that will contribute financial and other resources to the program, maintaining current and developing new partnerships to establish pipeline, and managing the overall CEP IV project. Ms. Bhatia has extensive contacts and experience within the charter school sector and, since 2008, has raised $33 million from public and private sources. She is currently in the process of closing another $23 million for the EFFC’s work. Ms. Bhatia is also the key contact person with ED and all partners and funders on CEP I, II and III.

Ms. Olsen will have primary responsibility for managing the underwriting of loans through CEP IV. As with CEP I, II and III, she will coordinate these efforts with LPO program directors when relevant. Ms. Olsen’s responsibilities will include: identifying financing opportunities; structuring and negotiating the terms; and underwriting LISC’s investment. In fulfilling these responsibilities, Ms. Olsen will draw upon her extensive experience in structuring and underwriting financing transactions as detailed in her resume and as further evidenced by the similar role she has played in investments supported by past ED grants.

Ms. Behr’s responsibilities will entail working directly with Ms. Olsen in underwriting charter school transactions through CEP IV. Specifically, she will focus on the analysis of school academic performance, leadership, enrollment data and charter market, as well as financial due diligence, credit analyses and financial modeling of each transaction. Ms. Behr will have primary responsibility for CEP IV transaction management, working closely with LISC’s legal department to close financings.

Mr. Wolfson’s responsibilities for CEP IV will encompass assisting in the underwriting of charter school transactions with specific emphasis on market research for all prospective investments. He will have primary responsibility for collecting all data, including school and district report cards, and for monitoring and reporting transactions on an ongoing basis. Mr. Wolfson will have primary responsibility for CEP IV fund management, working closely with LISC's Treasurer and the accounting and finance staff on disbursements and payments for all of LISC's CEP IV investments. He currently serves in the same capacity for LISC investments under CEP I, II and III.

The efforts of the primary CEP IV project team will be complemented and furthered by the decades of experience of LISC management and staff nationwide. As President and CEO, Michael Rubinger is directly involved in overseeing all capital raising efforts for LISC and actively promoting LISC's charter school activities. The fundraising efforts for CEP IV will also be supported by Steve Sagner, LISC's Senior Vice President of Development, and his staff. Toby Levy, LISC's CFO, and the accounting and finance department will oversee the investment of the ED award, disbursements of funds, and overall administration of these monies. The legal department will assist the EFFC in structuring, negotiating and closing charter school investments.

The EFFC will draw upon LPO staff, experts in their local communities, to help source, underwrite and monitor CEP IV investments. LISC's credit committee will review these program actions for approval. When applicable, LPO program directors will be responsible for project administration of those supported by CEP IV. LISC's national personnel will provide support through the PMC, LLRC and Loan Watch Committee, which are responsible for ongoing monitoring.

*EFFC National Advisory Board*. To establish an effective project management process and solicit ongoing input from funders and other stakeholders, the EFFC looks to our National Advisory Board, which has representatives from the community development and education sectors, as well as corporate and foundation supporters, including: Margaret Anadu, Urban Investment Group, Goldman Sachs; Jim Griffin, Colorado League of Charter Schools; Kathleen deLaski, WFF; John Kinghorn, Prudential; Carmen

Maldonado, KIPP; Samir Patel, Tremblant Capital Group; Michael Rubinger, LISC; and Todd Ziebarth, the Alliance (see Attachment 35). The Advisory Board provides oversight and leadership of the EFFC's strategic mission, resource development and business development. The Board meets quarterly to advise the EFFC staff on issues such as: identifying regional opportunities for school facilities development; recommending potential donors, lenders and regional coalition members; defining and implementing a more fully developed EFFC evaluation agenda; disseminating best practices, resources and recommendations for the successful creation of innovative charter school facilities financing strategies to a diverse array of stakeholders; and defining our role with state and national public policy.

*LISC Board of Directors*. The members of LISC's Board of Directors have a wealth of hands-on and senior supervisory experience that enables them to provide guidance in setting the development goals that meet the needs of targeted communities and to exercise financial oversight (see Attachment 36 for a list of the Board of Directors and their affiliations). The highly visible members of this group are engaged by the charter school sector and LISC's charter school facilities financing activity.

Three members of the Board are particularly qualified to provide guidance and support on educational issues: Lisa Cashin, the former Director of Underwriting at LISC; Kevin Johnson, Mayor of Sacramento and founder of St. HOPE, a charter school network; and Colvin Grannum, President & CEO of Bedford Stuyvesant Restoration Corporation, the nation's first CDC. In addition, as the leaders or senior executives of some of the largest financial institutions in the world, including Bank of America, Chase, Citigroup, Deutsche Bank and U.S. Bank, numerous members of the LISC Board are highly qualified to provide guidance on finance matters for the CEP IV. These members, including the Board's Chair, Robert Rubin, former Secretary of the Treasury and former Chair of Citigroup, who have access and influence over formidable financial resources, may also provide assistance in assembling the local coalitions that will contribute financial resources to CEP IV.

Michael Rubinger, LISC's President and CEO, is the only Board member who will work on CEP IV.