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Executive Summary

The Reinvestment Fund (TRF) is a national leader in rebuilding America's distressed towns and cities through the innovative use of capital and information. With $700 million under management, TRF has invested more than $1 billion in low-wealth and low-income communities in Pennsylvania, New Jersey, Delaware, Maryland and the District of Columbia since 1985. As with all of TRF's community investing, our work with charter schools is characterized by high-touch underwriting assistance, a connection to energy-efficiency expertise and the strongest data and impact analysis capacity in our field. TRF has consistently received the highest rating from CARS, the comprehensive third-party CDFI rating system.

Supporting the creation and expansion of high quality charter schools that improve educational opportunity for low-income communities is core to TRF's mission, accounting for a full 20% of TRF's investments. TRF has financed 66 charter schools since 1998, totaling more than $195 million in direct lending, without ever a loss on this portfolio. These loans have leveraged more than $190 million in additional project financing but most importantly, our loans are resulting in successful schools that then replicate and even become one of the nation's most successful charter networks, Mastery Charter Schools. Schools TRF has financed educate more than 30,000 students.

TRF is a catalyst for charter schools that are innovating public education in our market. Early stage schools typically struggle to find financing, given a lack of credit history and higher-risk profile. Conventional banks often insist on several years track record, an impossible requirement for a startup. When banks do offer financing, they often limit loan-to-value, making large amounts of equity or subordinate debt necessary for most projects to move forward. Even amongst our peer CDFIs, TRF is unique for our ability to target and finance startup schools; a TRF commitment built on a successful business model that has helped such schools thrive in our region.

TRF's last USED credit enhancement in 2005 allowed us to provide higher than standard (often up to 100%) loan-to-value and leverage $58.7 million to date in private capital necessary to support quality charter schools for low-income students and those in low-performing districts. As of September 2011, TRF will have completely deployed that USED award. A new award is critical for TRF to continue financing charter schools across the mid-Atlantic, particularly the promising, new start-up schools that will go on to seed the next successful charter networks.

TRF will use this new $10 million grant to create a charter school loan pool to fund subordinated debt and leasehold improvements, as well as to support loans originated through our NMTC program. TRF will leverage the award with $75 million from private sector investors, including banks that were previous charter school investors and remain strong supporters of TRF, as well as [redacted] This award will provide necessary first loss funds to continue our role as the patient capital for charter schools in distressed markets.

TRF will use all of our financial resources as well as non-USED credit enhancement financial resources and TRF's technical expertise to increase the value of the credit enhancement to the borrower. TRF will commit the resources to cover real estate feasibility and energy conservation reviews and organizational assessments which mitigate risk, helping schools improve operations and prepare for charter renewal. TRF will absorb all costs for the loan pool, as this program is fully integrated within TRF's product offerings and community investment infrastructure.

Over the next five years, TRF will use this award to finance charter schools across the mid-Atlantic, particularly focusing on Baltimore, NJ and Philadelphia. Our service area also includes three "Race to the Top" winners, where TRF is well-positioned to meet emerging charter school financing needs.

While demand for TRF's charter school finance has been strong for years, it has dramatically increased due to current market conditions. TRF projections for the next five years include 23 new loan transactions to 23 schools, to serve over 8,000 students with further capacity for impact in later years as funds revolve. TRF will prioritize early stage schools that demonstrate strong organizational and financial capacity, including charter schools ready to replicate their successful programs to benefit more students. We will also prioritize work in jurisdictions with strong charter school laws.

Competitive Priority

The new TRF charter school loan pool created through USED's credit enhancement award will target $75 million to benefit students that most need school choice by financing the following :

(1)**Schools in locations where a majority of traditional public schools have been identified for improvement, corrective action or restructuring, under Title 1:** TRF is a patient capital source for charter schools in struggling school districts, particularly districts where elementary and secondary schools do not consistently meet Annual Yearly Progress. TRF's target market includes school districts where less than one-quarter of schools have met AYP and more than half have been flagged for corrective action or restructuring.

- In NJ, TRF has financed charter schools in three districts where at least 33% of schools were designated for corrective action or restructuring in 2010. Only 27.3% of Camden Public Schools made AYP; 18.2% need improvement and more than 50% require corrective action. In both Newark and Jersey City Public School Districts, approximately one-third of schools also require corrective action or restructuring, while another quarter needs improvement.
- In PA, more than half of all Chester City and Philadelphia County Public Schools are designated for improvement, corrective action, or restructuring.
- Approximately 40% of schools in Baltimore City and Christina County, DE – also part of TRF's target market – also failed to meet AYP for at least two years.

- Of the DC public schools, 105 required corrective action or restructuring in 2010 – a result of failing to meet AYP for four years or more. An additional 45 schools were designated as in need of improvement, as they failed to make AYP for two or more years.

Location	% Made AYP	% Schools Need Improvement*	% Schools Need Corrective Action or Restructuring**
Washington, DC	24.2%	22.7%	53.0%
Camden, NJ	27.3%	18.2%	54.5%
Chester City, PA	33.0%	33.0%	33.0%
Jersey City, NJ	38.5%	28.2%	33.3%
Newark, NJ	40.0%	22.7%	37.3%
Philadelphia, PA	45.0%	28.0%	27.0%
Baltimore City, MD	59.4%	15.1%	25.5%
Christina County, DE	61.5%	19.2%	19.2%

Data: Retrieved from the DC, NJ, PA, MD and DE Departments of Education.
* Schools Needing Improvement defined under NCLB as schools failing to make AYP for 2+ years.
** Schools Needing Corrective Action or Restructuring as schools failing to make AYP for 4+ years.

(2) **Schools in areas where students perform below proficient on state academic assessments:** Charter school demand in larger inner-city markets in the mid-Atlantic region is driven largely by frustration over the persistently low performance of traditional public schools. TRF will target resources primarily to school districts in our market area that have low proficiency rates. Districts such as Philadelphia, Chester-Upland, Camden, Jersey City, Baltimore, and DC consistently perform worse than statewide and/or regional peers. For example, the average statewide Reading Proficiency level for 8th graders in 2009 for MD was 66%. By contrast, the average level in the Baltimore City School District is significantly lower, at 39.2%. The average High School Math Proficiency level in 2009 was 5.4% and 31.6%, respectively, for the Chester-Upland and Philadelphia School Districts, in both cases well below the statewide average of 55%. This disparate pattern also holds true for TRF's NJ target markets, where the average Grade Eight Reading Proficiency level in 2009 in the Camden and Jersey City School Districts were 38.4% and 61.7% respectively, again well below the statewide average of 82%. The chart below summarizes proficiency results for selected cities in TRF's target market.

Location	4th Grade Math	4th Grade Reading	8th Grade Math	8th Grade Reading	High School Math	High School Reading	% Receiving Free Reduced Lunch
Christina County, DE	71.6%	77.0%	54.2%	68.5%	35.5%	53.3%	50.5%
DE	76.0%	77.0%	66.0%	77.0%	57.0%	68.0%	36.0%
Baltimore City, MD	83.4%	77.9%	39.2%	61.6%	66.0%	67.9%	73.1%
MD	89.0%	87.0%	66.0%	80.0%	85.0%	84.0%	33.4%
Camden City, NJ	28.5%	19.3%	24.5%	38.4%	28.5%	19.3%	80.2%
Jersey City, NJ	55.0%	37.5%	46.8%	61.7%	55%	37.5%	75.5%
Newark, NJ	54.3%	40.3%	41.9%	55.9%	54.3%	40.3%	82.0%
NJ	73.0%%	63.0%	71.0%	82.0%	73.0%	83.0%	28.1%
Chester-Upland, PA	49.0%	38.9%	23.6%	41.3%	5.4%	18.2%	61.8%
Philadelphia City, PA	61.2%	47.3%	50.6%	62.0%	31.6%	38.0%	73.2%
PA	81.0%	72.0%	70.0%	80.0%	55.0%	65.0%	31.2%
Washington, DC	45.5%	45.3%	39.0%	39.6%	38.2%	38.6%	69.0%

Data: Retrieved from http://febp.newamerica.net and http://nces.ed.gov/ccd/
Notes: Proficiency rates listed are based on the 2009 State No Child Left Behind (NCLB) Report Cards; Free/Reduced Lunch data from the National Center for Education Statistics (NCES) Common Core of Data, School Year 2007-08.

(3) **Schools that serve low-income communities:** TRF has always approached charter school lending with a mission to assist schools serving a low-income population, as defined by the U.S. Department of the Treasury's CDFI Fund. Our track record provides ample evidence as to our ability to target and meet the financing needs of these schools. TRF's underwriting criteria for charter schools routinely evaluates whether the schools are reaching low-income children. TRF has a demonstrated track record of targeting our resources to benefit low-income communities. Of our $195 million charter school lending activity to date, 95% has financed schools in low-income areas and 88% of those have been in severely distressed communities. Of the schools financed through previous USED credit enhancement grants, 89% are located in low-income areas and 82% in severely distressed communities. Of those financed through our 2005 USED credit enhancement grant, 83% serve a majority student population qualifying for free or reduced lunch.

Invitational Priority

TRF's track record of using its USED credit enhancement awards to create financing options has delivered significant benefits to a charter school with minimum use of grant funds. For the JPMorgan Chase NMTC Financing Pool, [redacted] TRF negotiated with Chase to structure the financing to include both debt and a grant, which TRF used to blend down the price of the debt for the pool. The credit enhancement funds were essential to Chase's willingness to provide this funding. This Chase pool is evidence of TRF's continued leadership role in developing innovative financing options for the charter school market. A TRF charter school project in Jersey City was the prototype for the Chase pool, part of Chase's $325 million charter school initiative, a significant new resource for charter school financing for CDFIs across the country. TRF will use a new award to seek similar opportunities that provide the best pricing for charter schools.

Section A: Design and Significance of Grant Project

Charter Schools Targeted

TRF has always been a leader in creating innovative financing structures to meet charter school facility financing needs since being the first in the country to create a syndicated bank pool for loans to the then nascent charter school market. Our NMTC-financing became the inspiration for the Chase charter school initiative. With a new USED award, we intend to draw from these successes financing early-stage schools while also supporting charter expansions and replications, particularly those that bring the efficiency inherent in high-quality management. TRF remains among the few lenders in the nation offering loans and NMTC to early-stage schools. Building from these strengths, TRF plans to target schools across the mid-Atlantic with an emphasis on:

- MD, particularly Baltimore, which has a developing charter school industry. Working in Baltimore since the inception of charter laws in MD in 2003, TRF has financed 4 charter schools and continues to develop strong relationships with the local charter community, including the city's only authorizer, Baltimore City Public Schools. TRF also intends to leverage over $20 million in grants, loans and investments available through the Living Cities Integration Initiative. In 2010, Baltimore was 1 of only 5 cities chosen by Living Cities, a national consortium of major foundations, to participate in its three-year effort to address urban issues. TRF is the financial intermediary for the Baltimore effort. Together with a new USED award, these national resources targeted to Baltimore can create significant momentum for charter school financing.

- PA, particularly Philadelphia, which features a mature market poised for expansion. TRF has a long history of financing high quality charter schools in Philadelphia and working with local partners. This positions us well to support the significant new pipeline of projects likely to result from: 1) PA's new pro-charter governor's 2011-2012 budget which includes a proposal for a new independent state charter authorizer; 2) a grant award TRF is currently negotiating with the Commonwealth of PA that would provide $1 million of start-up grants for new charters; 3) a new advocacy organization, the Philadelphia School Partnership [redacted], has pledged to raise $100 million to support high quality schools over the next 5 years; and 4) the Philadelphia School District which has indicated that it will make surplus school buildings available, supplying a source for new charter sites (although most will require significant renovations).
- NJ, which also boasts a pro-charter governor and a supportive environment for charter schools. TRF has financed many charter schools across the state, many utilizing our NMTC. NJ has a strong pipeline of recently approved charter schools with a demand for facility financing, and [redacted] In addition, Newark has also been designated for funding by the Living Cities Integration Initiative, creating another potential pipeline of charter schools needing financing.

- DE, DC and MD, all USED's Race to the Top winners, are expected to generate a wave of new charter schools as result. TRF has financed charter schools in each of these areas and continues to collaborate with their charter school communities. As these states enhance their charter school environment and employ charter operators to tackle turnarounds of failing schools, TRF is well positioned to meet the facility financing needs.

With the exception of MD, our trade area features states with strong charter regulations and laws. As demonstrated in our Competitive Priority Section, each also has districts with high levels of inadequate traditional public school performance and low-income families, areas TRF targets.

In 2010, the National Alliance for Public Charter Schools (NAPCS) ranked DC 8th in the nation for strong charter school laws; PA followed in 12th, DE 18th and NJ 26th. DC law allows for new start-ups and public school conversions, and provides for strong authorizers. PA allows new start-ups, public school conversions and virtual schools, and places no cap on charter school growth. Neither DE nor NJ restricts the annual number of authorized charter schools; both allow for a variety of schools and show strong indications of charter support. DE won in the first Race to the Top competition; NJ has a single but strong charter authorizer.

Though TRF will concentrate in our markets with greater regulatory advantage, we will not ignore the long-term potential for charters in MD, ranked 40th by NAPCS. MD enacted its charter school laws in 2003; other states in our market enacted their laws between 1995 and 1997. Despite weak state charter school laws, Baltimore has created a steadfast authorizing structure, providing a safe lending environment. TRF believes continuing to finance facilities in the face of weak laws will strengthen the charter school movement, creating advocacy for stronger laws.

In the Center for Education Reform's 2011 ranking for charter friendliness, DC ranks 1st and MD ranks 35th of 41. PA, DE and NJ rank 12th, 14th and 19th respectively. Since our first efforts in Baltimore, MD's charter school rating has improved.

Program Structure

A new USED award is critical to enable TRF to continue financing charter schools, particularly early stage schools as the credit enhancement has allowed us to provide the higher than standard (up to 100%) loan-to-values needed by charter schools with limited cash reserves to use as equity. We are using the experience gained from our $195 million charter school lending track-record and ongoing feedback we receive from our borrowers and other charter schools to guide our proposed program's structure. While it has become more challenging for schools to access financing, we continue to see a growing demand for sub-debt, leasehold improvement financing and energy loans. To the extent that schools have been able to access bank debt for facility projects, the demand for sub-debt has greatly increased. With banks more conservative in loan-to-value ratios, projects are often dependent on sub-debt financing to bridge the gap. Access to the tax exempt bond market continues to be challenging for schools and even if available, includes significant upfront transaction costs. We continue to see schools defer permanent facilities, opting for more leasehold improvements. For larger financing needs, many are turning to NMTC as a vehicle.

Using a new USED credit enhancement award, TRF's new loan pool will replicate our previous success. The structure reflects the demand and offers a diversity of products to respond to the wide array of needs. The new loan pool will be a $75 million multi-product loan program for new and expanding charter schools, enhanced with $10 million in first loss funds from the USED. It will also include a direct [redacted] contribution for technical assistance (TA), in addition to leveraging significant other resources available to TRF, such as capital from the PA Department of Energy earmarked for energy-efficiency related TA for new building projects and predevelopment grants for charter schools from the Commonwealth of PA as well as the Living Cities Integration Initiative in Baltimore. Loan products will include: leasehold improvement loans, subordinated debt loans and NMTC loans using TRF's own allocations and those from other CDEs. TRF loans may also have construction or rehabilitation components. TRF will encourage charter schools to incorporate energy efficiency measures into their projects by offering energy reviews and energy financing.

[redacted]

A new USED award will build TRF's capacity and that of those whom we work with. As always, TRF will collaborate with other charter school stakeholders to drive projects forward. TRF has participated with other lenders, such as Low Income Investment Fund (LIIF), NCB Capital Impact, Building Hope and Boston Community Capital to offer financing to schools. TRF often presents at national and state charter school conferences to lend its financing expertise including energy efficiency financing. TRF has been a resource to many charter school real estate development consultants in our region, including Real Estate Advisory and Development Services and OmniVest. In instances where we co-lend with other USED grantees, we are careful not to double-enhance any piece of a transaction.

Program Goals

Goal # 1. Serve Communities/Schools in Need: **A)** At least 80% of the schools will have a majority of students who qualify for free or reduced price lunch. **B)** At least 75% of the schools in the TRF's portfolio will be located in low-income areas.

Goal # 2. Implement Grant Project in Timely Fashion: **A)** Over the next five years, from receipt of award, TRF will close at least $75 million in new loans to 23 or more charter schools.

Goal # 3. Achieve a blended leverage ratio of at least 7.5:1 for NMTC, sub-debt and leasehold improvement loans: **A)** After TRF meets its initial goal of leveraging $75 million in debt for closed charter school financings, TRF will recycle funds as loans pay down.

Goal # 4. Provide Financing with More Favorable Terms: **A)** TRF will make every reasonable effort to minimize interest rate mark-ups and fees. **B)** TRF will charge no origination fees on loans originated under the NMTC program. On non-NMTC loans such as energy, sub-debt and leasehold improvement loans, TRF will charge a 1% origination fee. No separate origination fees will be charged on TRF loans that convert from construction to permanent. **C)** On NMTC loans, TRF will offer either below-market interest rates or forgiveness of up to 25% (forgiveness is subject to loan performance and investor requirements). On non-NMTC TRF will offer higher than standard LTV.

Goal # 5. Market the Grant Project/Promote Replicability: **A)** TRF will promote the replication of this grant and other innovate credit enhancement models such as our Chase NMTC pool through presentations at national, regional and local charter school forums, through its electronic and print publications and its website.

Goal # 6. Provide Quality Education Options: **A)** By Year 5 of financing, a majority of the charter schools credit enhanced by this award will have standardized state reading/language arts literacy scores exceeding the average scores in their district. **B)** By Year 5 of financing, a majority of the charter schools credit enhanced by this award will have standardized state mathematics scores exceeding the average scores in their district.

Leverage of Program Funds

TRF has a successful track record raising investments to fund specific loan programs. The following examples demonstrate TRF's ability to leverage capital funds. TRF Collaborative Lending Initiative is a TRF support corporation with 501(c)(3) status which has secured a $25 million syndicated line from a consortium of 20 banking institutions. TRF Urban Growth Partners is a

TRF-managed partnership that has raised $48 million for private equity investments in the mid-Atlantic region. TRF's joint venture with NCB Capital Impact (NCBCI), the Charter School Capital Access Program (CCAP), is a $45 million non-revolving permanent loan pool for charter schools located from New York to Washington, DC. As part of CCAP, TRF leveraged USED credit enhancement to raise the first bank syndication in the nation for debt for charter schools. TRF's PA Fresh Food Financing Initiative (PA FFFI), a public/private partnership designed to increase the number of high-quality supermarkets in underserved low- and moderate-income communities, received $30 million in state grant funds and raised $146 million in matching funds to support the program's activities to date.

TRF leveraged its first NMTC allocation of $38.5 million in 2004 within two months; TRF's 2006 award of $75 million in credits raised 80% of needed private investment within 100 days. TRF has fully deployed its 2008 allocation of $75 million and fully committed its 2009 ARRA NMTC allocation of $90 million, which will be deployed completely by September 2011.

With TRF's 2005 USED credit enhancement, TRF used the remaining $2.5 million of the award to leverage $50 million for the Chase NMTC facility. The USED award was key to the greater than 10:1 leverage ratio achieved. The facility uses as its prototype structure the Learning Community Charter School financing– an NMTC project TRF financed with Chase in Jersey City. TRF offers charter schools a structured loan product with this facility; Chase provides senior leverage and NMTC equity, and TRF provides subordinated leverage. To date TRF has deployed or committed half of the facility and has a full project pipeline for the remaining funds which must be fully deployed by 9/30/2011.

With all of TRF's syndicated debt pools, TRF negotiates the terms and conditions of the credit with one representative of each interested bank and documents the agreement with the lead bank. The other banks then subscribe to the agreement based on individual level of interest. Like our other syndicated credits, this $75 million would be drawn on a just-in-time funding basis as TRF makes loans. This matching precludes the arbitrage risks of idle cash and changing interest rates.

Financial Projections

TRF has prepared detailed 7-year projections for the activities of the Charter School Loan Pool (see Attachment 6). The projections are presented on a cash basis and include a summary of key assumptions, statement of financial position, statement of activities and statement of cash flows. The financial projections demonstrate that the loan pool will operate profitably based on rational, achievable assumptions and a demonstrated financial record. Key assumptions are discussed below.

Leverage – Projections assume an award of $10 million which we will leverage with $75 million of private debt, resulting in a combined leverage ratio of 7.5 to 1. We intend to use $2.5 million of the grant as credit enhancement on an NMTC financing pool to raise $25 million in lendable funds (10:1 ratio) and the remaining $7.5 million to raise $50 million in conventional debt. The 6.7:1 ratio is the maximum leveraging ratio for conventional debt investors' current risk tolerance. The credit enhancement will serve as first-loss funds in each pool. This level of leverage is achievable based on other TRF financing pools.

Loan volume – The loan pool will offer NMTC-eligible facilities financing and non-NMTC loans including subordinate debt, leasehold improvement and energy loans. Projected loan size and volume is based on TRF's historical performance and assessment of demand. Based on the proposed pool's capitalization and average loan size for each of the products discussed, TRF projects 23 loans to 23 schools in the first five years of operations, serving over 8,000 students.

Loan losses – The model assumes an average annual loss rate of [redacted] - conservative, given we have never experienced a loss in [redacted] years and [redacted] of charter school lending.

***Net interest income*: Sub-debt, Leasehold Improvements and Energy Efficiency Loans** – The assumed interest rate charged to the charter school is [redacted] often the best alternative available to early-stage schools turned away by banks because of their lack of credit history. TRF's cost to raise five-year funds in today's volatile credit markets approximates [redacted] We will offer our borrowers rates that are [redacted]

***Net interest income*: NMTC Loans** – [redacted]

The below market-rate pricing offered under the loan pool is possible due to: 1) the USED credit enhancement, which reduces the pool's cost of funds by reducing risk of loss to investors; 2) NMTC value, passed through to the borrower in the form of equity, below-market rates and flexible underwriting terms; and 3) operating efficiencies achieved due to TRF's economies of scale.

Loan fees - [redacted]

[redacted] Accordingly, the fee and related direct origination costs of a permanent loan are excluded from projections -- [redacted]

Operating expenses – Variable operating expenses include loan underwriting and servicing. Loan underwriting activities include analysis, approval, closing and monitoring/servicing. Loans whose credit quality has deteriorated require more time and cost-intensive management. TRF's stellar loan performance history is due in large part to our ability to effectively underwrite loans and our ongoing borrower contact and early intervention on potential problem loans.

Variable operating expenses are based on loan production volumes and the average time it takes to complete each task, assessed via time tracking. Hours and rates (a composite of salary, benefits and other indirect costs) for loan production are based on TRF's current operations. Loan servicing, which includes management of credit impaired/delinquent loans, is budgeted at [redacted] on outstanding loans receivable and is consistent with TRF's cost of service delivery. Fixed costs include legal, audit, reporting and investor relations. Legal expenses in years 1 & 2 include costs for creating the NMTC structures as well as fees to negotiate and close stand-alone credit facilities for the non-NMTC pool. Audit fees assume a single audit for receipt of the grant funds as well as an investor audit for the NMTC pool.

Technical assistance (TA) – TA includes a TRF contribution of [redacted] to fund real estate feasibility and energy reviews. Outsourced organizational assessments from interest earnings are estimated at $7,000 per study.

Investment of Reserve Fund

The financial projections assume the principal and part of interest earnings from the USED award will be reinvested in the reserve fund and used to cover credit losses on charter school loans. [redacted] continue to leverage the reserve fund credit enhancement well past the initial $75 million of loan disbursements. As loans repay, we will redeploy funds into new charter school loans, in effect, creating a revolving loan pool with significant longer term results and impacts. TRF invests current and future USED reserve funds in accordance with the guidelines established by our performance agreement, which designates preservation of principal as an overriding objective. TRF primarily invests these funds in direct obligations of the U.S. government or its agencies. TRF assumes a return on these investments of 0.27% annually, reflecting the marginal rate environment for short-term U.S. Treasury obligations.

Procedures for Documenting Results

Transactions undertaken through this credit-enhanced loan pool will be logged through loan write-ups and legal documentation. Using our custom Outcomes Database, TRF will track social and economic impact of these transactions. The system also tracks data on basic financial terms as reported by loan officers promptly after each closed loan and investment, and is queried for internal analysis and external reporting. TRF uses PolicyMap, TRFs online mapping and data analysis tool, to geocode investments for analysis and sharing via the web. PolicyMap provides custom maps and reports to support underwriting, planning and impact assessment.

For charter school loans, TRF captures the following impact indicators: 1) number of schools served; 2) number of students served; 3) demographics of students served, including race, ethnicity and eligibility for free or reduced-price lunch; 4) square feet developed; 5) number of jobs created and retained; 6) school's academic achievement ; 7) rates and terms extended to schools, compared to other available products; and 8) leverage of other dollars into TRF's charter school projects, in addition to TRF's capital. TRF has also done groundbreaking analytical work on the impact of school quality on property values (see TRF's website).

Timeline of Project

Lending decisions and portfolio oversight will be performed by the current TRF Community Facilities Loan Committee. Banks that invest in the entity may require representation on the loan committee, and may require approval authority over underwriting policy exceptions.

Project Implementation Plan

TASK	TIME FRAME (days/months from award date)
Organizational Management	
Dedicate Loan & Servicing staff	complete
Loan Servicing and Accounting system	complete
Resource Development	
Commit TRF T/A resources [redacted]	complete / on-hand
Convene Prospective Permanent Investors	30 days
Marketing - materials printed & distributed	30 – 45 days
Marketing - outreach activities	from 30 days - ongoing
Contract with USED	90 days
Receive Dept of Education Funds	120 days
Obtain first $30 million in commitments with remainder ongoing	120 days
Close on Investments	180 days
Lending & Portfolio Activities	
Draft form of Underwriting Guidelines	complete
Final, investor and USED approved Guidelines	90 days
Begin Lending (non-Permanent Loans)	0-90 days
Begin Lending (Permanent Loans)	180 days
Lend 13% of the pool	12 months
Lend next 60% of the pool	13 -36 months
Lend remaining 27% of the pool	37- 60 months

Section B: Quality of Services

Charter School Involvement in Project Design

In developing the project design, TRF solicited input from schools we have supported through both email surveys and phone interviews. We also surveyed start-up school operators who have yet to receive any financing at state charter school conferences.

The results charter operators expressed helped us refine and reaffirm the value of our product - a wide array of tools critical to charter schools in the earliest stages of development. The assistance needed when charter operators are conceptualizing their school is twofold. Finding financing is challenging, as commercial banks typically present stringent underwriting standards related to operating history and equity contributions. At the same time, schools are often overwhelmed by the technical decisions surrounding facility selection and construction budgets.

Our surveys indicate that TRF meets these challenges by combining flexible financing and technical expertise. One developer with whom TRF has worked on several occasions with notes that TRF is much more receptive to charter school real estate financing for early stage schools, many of which struggle to meet the more stringent underwriting requirements of conventional lenders. In a survey of charter schools TRF has assisted, 60% cited both a lack of credit history and loan size limits as barriers to school startup. To that end, survey participants listed three key features of TRF financing as advantageous: lower interest rates, higher loan-to-value/lower equity requirements and acceptance of variety of collateral.

Leasehold improvement and technical assistance related to facility financing were also cited among the most pressing financing needs for early stage schools. Of the schools and developers surveyed, 90% cited TRF's deep understanding of charter schools as key to the financing assistance they received from TRF; TRF typically spends at least 50 hours of due diligence on each borrower before loan closing. E.L. Haynes Charter School commented that the real estate development process can be "very involved, with numerous angles and stakeholders to consider. It is also time consuming and requires both a broad range of expertise and enough lead time to ensure than a positive outcome can be achieved." E.L Haynes came to rely on TRF's expertise to navigate the process, as did LAMB Charter School Director Diane Cottman, who said TRF's staff "really made a complete difference" in the process.

In terms of financing options available to early stage schools, it is important that TRF works with them as banks will provide "almost nothing" according to charter school developer Jeff Crum of READS. "Not previously owning a building gave us limited assets for collateral," said Diane Hedde of the Center for Student Learning Charter School at Pennsbury. "Many banks saw the only asset, besides cash (which was greatly depleted with a building purchase down payment and upfront closing, deposit, and project development costs), was our tuition receivables. There was reluctance on the part of bankers we dealt with to recognize those receivables as a safe collateral asset."

In this financially tumultuous time, TRF's assistance is critical. Hedde describes how as the school was ready to purchase its property, the mortgage crisis hit. "Suddenly the banks the school was working with withdrew from entering a financing commitment," shared Hedde. "It was at that time that the school looked beyond banking institutions for financing options," and financed their building with TRF, permitting them to move out of a sub-standard facility and expand enrollment.

TRF's survey of new charter school operators confirmed that TRF's line of products is consistent with charter schools' most pressing needs. Lack of credit history and upfront development costs remain the biggest challenges that early stage schools face in finding facility financing; TA with the facility project is a necessity; low-interest rates and fees are highly valued.

The PA Coalition of Public Charter Schools awarded TRF its 2006 Trailblazer Award for charter school leadership. We have strong relationships with the Departments of Education in PA and NJ, as well as the NJ Charter School Resource Center, the NJ Charter Public Schools Association, the MD Charter School Network and Baltimore City Public Schools. In DE, we have ongoing contact with Innovative Schools Development Corp. TRF is often asked to participate in forums on charter school facility needs. Through these events and meetings with charter school financing applicants, we also gain current information. Letters of support (Attachment 10) from charter schools we have financed and other industry stakeholders indicate the extent of these relationships and the value we will continue to offer the new loan pool.

As a result of TRF's charter school lending track record, banks know our products and provide feedback on terms and loan structure. Banks often refer schools to TRF because they cannot meet the school's identified needs for financing or high-touch underwriting. Either the bank is not interested in financing charter schools, or it will not lend beyond 70% - 80% loan-to-value when providing senior debt [redacted]. In some instances, banks request that we participate in their loans to take advantage of TRF's underwriting expertise. Our experience with bank pools gives us a strong indication of how leverage, pricing, and liquidity must figure into program design.

Product Benefits

TRF's Charter School Loan Pool will offer leasehold improvements loans, subordinate debt facility loans and New Markets Tax Credit loans, products in high demand and which TRF is uniquely suited to provide. Each of these products has advantages for schools, including below-market-rate pricing, more flexible terms and lower closing costs. TRF's continuum of products is designed to meet charter schools' needs at different stages of their life-cycle, from startups to mature, established schools. TRF also knows that all high performing school networks began with one unknown school. TRF recognizes that "one school" is an underserved segment of the market and values being a catalyst for their demonstration period and growth.

TRF works with each school to carefully balance the financial resources and collateral available with the project's space requirements and development costs to shape a loan that accommodates a school's ability to carry debt, is adequately secured and enhances the school's programmatic offerings. By engaging with TRF throughout underwriting, charter schools receive the benefit of feedback on their operating projections and project budgets and the comfort of knowing that the financing has been right-sized for their needs.

Start-Up to Maturity ~ TRF's Lifecycle of Financing
First Philadelphia Charter School for Literacy (FPCSL), Philadelphia, PA

- Opened with 333 elementary-grade students spread over multiple leased locations as it searched for an appropriate permanent site
- Converted a former industrial site into a state-of-the-art school facility featuring a library as its showcase core in keeping with FPCSL's literacy theme
- TRF met all the school's financing needs with [redacted] of construction financing plus a [redacted] energy loan which both converted to a long-term permanent loan
- New facility accommodated 750 students as FPCSL expanded to K-8
- TRF's financing positioned the school to eventually refinance with a tax-exempt bond issue, which allowed for construction of additional classrooms and a performing arts facility
- TRF financing at the early stages of FPCSL was critical to stabilizing the school, eventually enabling the school's first replication of its successful program, the Tacony Academy Charter School. With two high-performing schools, FPCSL recently announced the creation of a new charter network, the First Philadelphia Paradigm.

With all our charter school lending products, TRF encourages opportunities to integrate energy-efficient building systems into facilities. TRF has provided $5.2 million in energy financing to 11 charter schools. Utilities typically represent the third largest operating expense after personnel and rent. Incorporating energy conservation measures into development plans lowers long-term operating expenses and leaves more money for the education program. TRF will offer energy reviews as TA to prospective schools and provide energy financing, often with lower interest rate incentives, as a component of the loans.

Energy Loans Included in Financing Package
Mayfield Scholastic – The Green School of Baltimore & Afya Charter School, Baltimore, MD

- TRF provided [redacted] of financing to Mayfield Scholastic to purchase and renovate a facility it was leasing to two charter schools in Baltimore, the Green School and Afya Charter School
- TRF evaluated the construction plan and identified opportunities to make the building more energy efficient
- On TRF's recommendations, Mayfield incorporated over [redacted] in energy measures that will lower long-term facility operating costs
- The two charter schools will directly benefit because the utility costs pass through in the lease
- Afya has been able to replicate its successful program with a second school, Tunbridge Charter School, also financed by TRF.

Leasehold Improvement Loans: Charter schools often begin in leased space, by necessity or choice to get into buildings quickly or into premium spaces that current owners (including school districts and archdiocese) will not sell. Leasing can allow for phasing in additional space as enrollment and financial resources grow, controlling costs while stabilizing operations and building a cash reserve. However, leased space even when offered by the local school district at very low cost, still often requires significant renovations, especially to be ready to meet the technology needs of a quality educational program. Organizations frequently have difficulty finding financing for leasehold improvements since lenders typically view these as unsecured loans. Landlords may finance fit-outs, but they often, like conventional lenders, view charter schools as start-up enterprises. Absent more reasonable choices, the school may rely on the landlord to perform the improvements and amortize the cost over the term of the lease, usually with a large cost mark-up from the landlord.

TRF has financed 23 leasehold improvement projects totaling $59.6 million, over 30% of our historical lending activity. TRF's leasehold improvement loans evaluate the collateral in the leasehold and will typically consider other collateral sources, such as pledges and guarantees, to strengthen the credit. With the ability to access a leasehold improvement loan directly, instead of through the landlord, a charter school can reduce the cost of leasing renovated space. Most recently, TRF closed on [redacted] of leasehold financing for Golden Door Charter School in Jersey City in December 2010, enhanced by TRF's previous $10 million USED grant. Within the USED grant allocation that TRF received in partnership with NCBCI, TRF has enhanced 5 leasehold improvement projects with financing totaling $7 million.

Leasehold Improvement Loans: *Wissahickon Charter School (WCS), Philadelphia, PA*
• WCS leases space in an office/retail/warehouse complex across the street from Fairmount Park, a location that enhances the school's environmental theme and recreational options • TRF financed the school's initial leasehold improvements for grades K-5, closing the [redacted] loan before the school opened • One-year later, the school borrowed [redacted] to expand for 6th and 7th grade • TRF then financed a [redacted] expansion to build out for 8th grade, add an auditorium/gymnasium and create a separate entrance for the middle school • TRF's lending increased with the school's borrowing capacity and provided the capital needed just as the school needed it

Leasing to Acquisition: TRF also lends to charter schools seeking to acquire facilities they are leasing. TRF has financed 8 lease-purchase transactions totaling $21.4 million (11% of TRF's historical lending activity). This is a good way for schools to retain their facilities' investment value or maintain their home when the landlord wants to sell, and often results in cost savings.

Lease to Purchase: ***Alliance for Progress Charter School (AFPCS), Philadelphia, PA***
• AFPCS had leased a property built for it by its founding organization. As AFPCS matured, it sought to gain greater independence from its founder and wanted control of its facility • TRF financed the acquisition of the site • AFPCS has since expanded with a satellite location, added a new playground and received permission to add middle school grades

Subordinated Loans: Even when schools secure permanent financing from conventional lenders, a gap between the debt offered and the project costs may require the school to make a larger equity contribution. Conventional lenders, and particularly underwriters of letters of credit, will frequently accept only a 60-80% LTV. On a $5 million transaction, this leaves at least a $1 million gap. TRF's role in this market is to provide a key piece of financing in a subordinate position, bringing the total financing up to [redacted] of the completed project value and leveraging the senior financing. As our loans will be satisfied in a default situation only after the senior lender's obligations, it is much riskier but necessary position for many projects to work. TRF has provided $21.4 million of sub-debt financing to 12 projects, 11% of our charter school lending.

With USED credit enhancement, TRF will continue to be able to provide sub-debt. [redacted] This is below the cost that a conventional lender would charge for a high risk, subordinated debt position. In the past, TRF's role as a subordinated lender has been to bring affordable, flexible financing to move a project forward. Today, with subordinated debt increasingly unavailable, TRF remains a source for this critical product. Without a sub-debt product like TRF's, many charter school facility projects would simply not be financially viable.

Sub-Debt Financing: *Antonia Pantoja Charter School (APCS), Philadelphia, PA*
• APCS was a start-up school, the first replication of a small (228 students in K-6), successful dual-language charter school into a 700-student K-8 program • The senior bank lender would only do 62% loan-to-value • TRF financed to [redacted] real estate LTV and funded the project's energy efficient components • TRF also offered [redacted] financing for a bridge loan to a construction grant from a state source and provided patient guidance through the state grant process • Since the first replication of its successful program financed by TRF, Aspira of PA, the operator of APCS has been designated as the turnaround manager of two failing district schools

New Markets Tax Credit Loans : TRF successfully placed all of its $113.5 million NMTC allocations received in 2004 and 2006. Of TRF's $75 million allocation in 2006, over $21 million was used for charter schools. TRF has fully committed its more recent 2008 $75 million allocation and the $90 million ARRA NMTC allocation, $50 million of which is committed to charter schools. To date, $119 million of these has been deployed with the remainder committed. TRF will be a strong applicant in the 2011 NMTC round. In addition to placing TRF's own NMTC allocations in charter schools, TRF has created facilities with other CDEs such as Chase and the former Merrill Lynch, who turned to TRF to place their allocations with charter schools in our region.

TRF's NMTC financing model provides significant opportunity for schools to secure ownership of their facilities. TRF's NMTC loans often offer very high loan-to-value ratios [redacted] Each transaction offers a debt and equity combination specifically structured to address a borrower's insufficient equity. The value of the credit is split into two loans. One provides market-rate debt, which is blended down when subsidy is available (on an interest-only basis for 7 years); the other, a soft second mortgage, offers significantly below-market interest rate payments, and is forgiven or donated to the school at the end of 7 years.

By providing USED-enhanced debt in conjunction with the NMTC vehicle, TRF can boost the investor's yield and lower the borrowing costs to the school – while preserving the ability to forgive approximately 20-25% of the debt after seven years. At the time of this balloon, the school has a strong equity position in the property, and is better positioned to secure refinancing from conventional or bond sources (even in a weaker interest rate or bond market).

NMTC Financing: ***Learning Community Charter School (LCCS), Jersey City, NJ***
• [redacted] NMTC transaction leveraged [redacted] in financing for the acquisition and renovation of a permanent home for LCCS, an exemplary K – 8 charter school in Jersey City • The move to a new facility enabled school to expand from 381 to over 500 students and add a gym, laboratories, cafeteria and library as well as capacity to add a 30-student pre-K when program funding was subsequently approved by the state • TRF provided [redacted] LTV financing, and the put/call options in the subordinate NMTC Note will give the school at least [redacted] equity in the property at the end of seven years, positioning them well to secure refinancing • The transaction became the model for the Chase NMTC funds currently being implemented by 5 CDFIs around the country.

Technical Assistance (TA) Resources: The loan pool will provide TA in three forms to support charter schools [redacted] to fund real estate feasibility and energy reviews. TA in the form of organizational assessments, estimated at [redacted] will be paid for through interest earnings from the loan pool. TRF estimates [redacted] based on the following assumptions: $5,000 per facility feasibility assistance, $3,000 per energy review and $7,000 per organizational assessment. TRF will also make available to charter schools significant other technical assistance and predevelopment resources available to TRF, including capital from the PA Department of Energy earmarked for energy-efficiency related technical assistance for new building projects and predevelopment grants for charter schools from the Commonwealth of PA as well as pre-debt loans from the Living Cities Integration Initiative in Baltimore.

Real estate feasibility: Most charter school operators lack experience to undertake a facilities project and often require intensive assistance in navigating the facilities development process. Though ultimately for our benefit and risk mitigation as a lender, TRF's site review, preliminary plan review and initial cost analysis provide schools useful project assistance. Project specifications and budget are thoroughly reviewed by a TRF TA provider to ensure feasibility. In tandem with this TA contribution, TRF may also fund additional TA to cover the soft costs of hiring development professionals during the planning phase.

Real Estate Feasibility TA
• TRF provides potential borrowers with access to real estate professionals such as architects, construction managers and building inspectors, as part of its loan application process. • A TRF site review of Math, Civics and Sciences Charter School in Philadelphia showed their favored facility location was too small and required significantly more renovations than planned. • [redacted], the school was spared from wasting crucial time and was able to find a more suitable location in time for the start of the school year.

Energy Review: To determine whether TRF's low interest rate energy-efficiency loans can be made available to a school, the applicant uses a series of program guidelines and TRF Energy TA review to identify the energy-savings opportunities that may qualify in the school project. Schools are encouraged to give this information to their architect and contractor early in the planning process. The cost-saving measures can be incorporated as the project develops rather than necessitating a redesign later, and can be financed through TRF's energy loan product.

Energy TA
• An energy review looks at a building and its energy systems and analyzes its previous energy performance. The review concludes with recommendations to improve the building's energy efficiency, sometimes including estimates of potential utility savings. • Latin American Montessori Bilingual (LAMB) Public Charter School in Washington, DC purchased a historically significant school building and built an addition that doubled the original size. • Based on TRF's review, the school chose to incorporate energy-efficient building measures that will reduce long-term operating costs of the facility. TRF financed [redacted] of energy-efficiency measures including a green roof. This loan was in a subordinate position with an additional [redacted] of sub-debt from TRF utilizing NMTC-eligible funds from Merrill Lynch for construction and permanent financing.

Organizational Assessments: The loan pool will often hire charter school experts to assist with an overall assessment of management, staffing, student performance goals and accountability plans, and school curriculum design. The consultants will assess non-financial aspects of school operations and recommend improvements. These assessments help schools prepare for renewal. TRF covers the cost through interest earned on the USED grant and uses these assessments also enhance underwriting processes.

For charter schools seeking NMTC loans, TRF contracts with experts such as the Reznick Group and Novogradac during underwriting to provide specialized tax and accounting assessments to confirm qualification of the project, borrower and loan structure.

Our bank investors often consider these assessments essential to reducing credit risk, and as a result offer better rates when assessments are included as part of the loan program. We use these assessments with start-ups and emerging charter management organizations that are undertaking replications to determine the capacity of untested management or the ability of existing management to withstand expansion.

Assisting Charter Schools with a Likelihood of Success and the Greatest Need

For many start-up schools, TRF is often the only resource for facility financing. A case in point is Wissahickon Charter School (WCS) in Philadelphia. WCS was granted their charter in 2001, and opened its doors to 250 students in September of 2002. After countless failed attempts to obtain financing to improve the space it leased, WCS turned to TRF. As Julie Stapleton Carroll, the school's founding Chief Administrative Officer explains, "No lender had any interest in a fledgling organization that did not own the property to invest money in capital improvements without any fiscal background whatsoever. TRF took the time to get to know us, and after having done so, took the chance to invest in us. I'm not sure we would exist without TRF's support and 'out of the box' thinking." (TRF's financing support to WCS is further illustrated on Page 23.)

TRF's hands-on underwriting assistance and technical expertise helps start-up schools navigate tumultuous beginnings and take steps to stabilize operations. The Charter High School for

Architecture & Design (CHAD) was the first charter high school for architecture and design in the nation. In 1999, TRF provided CHAD a [redacted] loan to improve the space it had leased to operate a new school. The school had a very chaotic first semester, actually closing for two weeks in October to complete the renovations to the facility and regroup after firing its principal and losing enrollment. TRF worked with the school as it stabilized the situation. TRF's patient approach paid off as the school exceeded both its breakeven and target enrollment. The school, which integrates the design process with a strong liberal arts education, provides inner city students with a design curriculum that has demonstrated the ways that creativity is a foundational skill with wide applications. Today CHAD's students come from across Philadelphia and 68% its students qualify for reduced price or free lunch. CHAD's average daily attendance rate is a remarkable 99%.

TRF proudly supports the work of high performing schools embarking on their first replication. Mastery Charter School, founded Philadelphia in 2001 to help students achieve better academic progress, completed its first four-year charter term and was awarded a five-year renewal. In 2005, the Philadelphia School District announced plans to close several middle schools, converting them to high schools. Previously, the PA Department of Education had selected Mastery as one of six "Best Practices" models; thus, the Philadelphia School District selected Mastery to operate a turnaround charter conversion of Thomas Middle School. As the site was expected to operate at a significant loss over the first four years until it achieved full enrollment in the fifth year, conventional lenders were not an option. TRF financed the renovations of Thomas and subsequently Mastery's next two turnaround charter conversions of Shoemaker and Pickett schools in Philadelphia. Today, Mastery Charter Schools is a highly acclaimed network of middle and high schools. But without TRF making the initial investment to support replication, the thousands of students Mastery has since gone on to serve would not have had the quality education the schools provide.

Section C: Organizational Capacity

Expertise in capital market financing

Founded in 1985, TRF currently manages $700 million in assets from over 800 individual and institutional investors. In addition to other capital sources, TRF has used its NMTC allocations and the credits of other CDE's to provide large, flexible loans to charter schools throughout our market. TRF's proposal to USED builds on a successful history of leveraging private-sector debt with public funds and forming public-private partnerships. TRF's USED track record includes:

- In 2003, TRF and NCBCI received a $6.4 million credit enhancement award, which raised more than $35 million in private capital to create CCAP, a syndicated bank pool that provides long-term facilities financing (up to 20 years) for charter schools. Syndicated by JPMorgan Chase, 10 banks collectively provide $35 million of senior debt. TRF and NCBCI each provide $5 million in subordinated debt, and have used the USED award first loss funds. To date, TRF has financed 3 schools through CCAP, totaling $10.76 million. TRF generated commitments from CCAP facilitated construction financing for at least two other schools, which subsequently led to them securing tax-exempt bonds for permanent financing. As the market for this type of financing products began to dwindle, TRF and NCBCI sought permission from USED to deploy some of the funds that have recycled towards other projects, following the guidelines set forth in our 2004 credit enhancement award. To the extent permitted by the bank syndicate, TRF also moved any available credit enhancement funds to supplement the 2004 award.
- In 2004, TRF and NCBCI received and shared a $3.6 million award. TRF used its $1.8 million portion to provide credit enhancement for shorter-term loans, primarily for construction and leasehold improvements, in order to revolve the funds to serve more borrowers. To date, TRF has provided $35.9 million in financing through this award to 12 schools, 75% of which have a majority of their students eligible for free or reduced-price lunch.

- In 2005, TRF received a $10 million credit enhancement grant. TRF created two facilities using this award as a first loss pool: 1) a flexible facility that provides sub-debt, energy loans and unsecured leasehold improvement loans to younger charter schools and 2) a facility providing NMTC transactions. As of December 30, 2010, TRF had used the award to leverage $58.7 million to support 18 schools. 83% of the schools financed serve a majority free/reduced price lunch student population. TRF has also earmarked $2.5 million of the credit enhancement award towards a $50 million NMTC facility created with JPMorgan Chase. As of September 30, 2011, this NMTC facility will be fully deployed and TRF will have completely utilized and fully leveraged its credit enhancements funds under this award. At that point, the leveraged capital will be $85 million, supporting over 20 schools.

TRF's experience leveraging public funds with private capital in other business lines:

PA Fresh Food Financing Initiative: The Commonwealth of PA provided TRF $30 million in grants to create the PA FFFI. TRF committed to leveraging this grant 3:1 with grant, debt and equity sources. As of 12/31/2010, TRF raised $145 million in added capital for this fund including $32.4 million from a syndicated bank pool. PA FFFI has financed 88 stores, bringing 5,023 jobs and 1.67 million square feet of food retail to underserved communities. PA FFFI was a finalist for the Harvard Innovation in American Government award. The Obama administration is currently working to implement a national initiative modeled on FFFI.

New Market Tax Credits: TRF has received four NMTC awards to date. In each instance, TRF has moved quickly to deliver capital to eligible projects. For TRF's first $38.5 million in credits in 2004, TRF raised nearly all the needed private investment within two months. In 2006, TRF received $75 million in credits and raised 80% of needed private investment within 100 days. Even in this difficult economic environment, TRF has fully committed its most recent allocations – the

2008 allocation of $75 million and the ARRA NMTC allocation of $90 million. Of the $165 million, $119 million has been deployed with most of the remainder committed to charter school projects.

Energy Financing: In 2010, TRF was selected to manage and administer 3 energy loan funds, designed to promote energy efficiency and renewable energy in PA, each targeted to specific geographies. TRF will leverage the awards with private and public capital to create nearly $85 million in new financing to support energy conservation and renewable energy in building projects. All three include some funding from the ARRA, with TRF providing matching capital. The awards recognize TRF's successful track record of investing in green technologies and sustainable energy projects.

Financial Track Record and Strength

TRF is a very productive and efficient lender. TRF has completed 2,500 lending or investment transactions totaling over $1 billion. [redacted] TRF's financial strength is further evidenced by our ability to structure and capitalize numerous credit-enhanced loan products over the years. As Table 2 in Attachment 1 shows, in the most recent fiscal year, TRF managed 3 credit-enhanced loan products. In each instance, TRF used public credit enhancement provided to leverage private capital.

Historical Charter School Lending Activity

	FY 2007	FY 2008	FY 2009	FY 2010	CY 2010 (6/30/10 - 12/31/10)	Total 1998 through 12/31/10
Unique School Count [1]	8	7	11	7	2	66
Number of Financings [2]	12	11	11	8	3	98
Loan Origination ($)	$40,594,000	$49,612,000	$27,180,356	$3,820,152	$10,889,000	$194,480,049
Average Financing [3]	$3,382,833	$4,510,182	$2,470,941	$477,519	$3,629,667	$1,984,490
Charter School Seats Enhanced [4]	4,370	4,900	3,011	1,657	833	30,877
Default Rate	0%	0%	0%	2.8%	0%	2.8%
Charge Offs	$0	$0	$0	$0	$0	$0

1. Annual count excludes any schools that previously received TRF financing.
2. Financing events include facility projects, predevelopment loans and bridge loans. In some cases, TRF has provided several rounds of financing to a school.
3. Annual loan origination divided by number of financings.
4. With multiple rounds of financing, the calculation for total seats for any school does not exceed charter capacity
5. Calculated as $ of Loan(s) in Default/Total Loan [redacted]

[redacted]

TRF has consistently received the highest rating of AAA+1 from the CDFI Assessment and Rating System (CARS). This rating affirms TRF's comprehensive business model that achieves outstanding community impact with strong financial performance guided by an integrated policy agenda. Please see Attachment 4 for the official report.

Protecting Against Unwarranted Financial Risk

TRF's strong lending record reflects its ability to effectively manage capital and risk. TRF has a comprehensive system of internal accounting, risk mitigation strategies and operational controls to safeguard corporate assets. We have well-established loan and investment procedures for each type of financing activity.

Loan Underwriting - TRF's Board of Directors has delegated the authority to approve loans to two loan committees: the Housing and Commercial Real Estate Loan Committee and the Community Facilities Loan Committee, which meet monthly. Made up of TRF investors, civic representatives and professionals with lending, finance or real estate development experience in each business line, each loan committee approves deals and monitors portfolio performance. TRF's underwriting policies, last reviewed and approved by the Board 1/10, are rigorous regarding both financial risk and mission fit. In 2010, TRF updated its loan policy and review processes to increase efficiency, facilitate assessment of portfolio-wide risks and formalize TRF's current best practices.

Loans are underwritten in accordance with these policies, not to rigid underwriting parameters for loan products. Policies establish guidelines for debt service coverage ratios, loan-to-value ratios, income-expense trending, and other key underwriting factors. This flexibility is essential to TRF's business model and role in the market. TRF monitors loans by product type, loan risk rating and delinquency status. See Attachment 2 for TRF's lending policies and underwriting grids.

To address credit risk, TRF has developed individualized risk rating grids for each loan product, which are used to determine under what circumstances TRF will lend money and monitor loans. TRF loan officers also assess potential projects for financial strength of the borrower, management and development team track record, budget integrity for project including assessing market data/demand, collateral, the reasonableness and functionality of the product plan and materials. With regard to mission fit, charter schools are screened primarily testing the qualification of the student population for free/reduced lunch and the quality of the education program.

TRF's pricing is tied to the cost of capital for a particular product. This spread is determined by a mix of the assessment of the risk of the specific loan and loan product, as well as any investor pricing requirements. Each loan is reviewed internally before going to its relevant loan committee or to the internal managers specified in our staff lending authorities set by the TRF Board.

Financial Management/Risk Mitigation - Within a framework of financial transparency, TRF maintains a comprehensive system of policies and procedures to manage financial risks associated with its loan and investment portfolio. Its internal systems, strong financial staff leadership and active Finance and Audit Committee provide the rigor needed to manage the complex portfolio and capital sources. TRF's investment of its idle funds seeks to preserve principal while maximizing returns within the expected timeframe fund use. Parameters in its policy allow for investments in U.S. Government agency issuances as well as medium term debt rated "AA/Aa" or better and commercial paper rated "A1/P1" or better. Investments are managed by an outside money manager with monthly review by TRF's CFO and quarterly review by the Finance and Audit Committee.

TRF has a long successful history of managing various sources of funds, including individual investor solicitation through a promissory note program regulated by the PA Securities Commission, numerous credit facilities with financial institutions, public sector grants and contracts with governed and varied entities. TRF establishes and maintains separate bank accounts as required to track flow of cash funds, and has invested in major system upgrades to complement the staff responsible for accurate and timely use and reporting of funds.

TRF management reviews comprehensive monthly reports that address budget vs. actual production, revenue and expenses, cash adequacy, and analysis of the loan portfolio (interest spreads, rate/volume analysis, loan delinquencies, concentrations, lending and investing activity). TRF's annual financials are prepared and audited promptly and efficiently, with audited statements available within 90 days of TRF's fiscal year end.

Monthly cash flow reporting allows TRF to assess liquidity and operating reserve needs. Based on this analysis, TRF ensures sufficient capital is available to fund all obligations as well as to maintain a cash reserve for unanticipated items. The Finance and Audit Committee also reviews cash flow projections and related liquidity and operating reserves at each of its quarterly meetings.

Portfolio Monitoring - TRF's Credit Administration team performs routine servicing and monitors our loan portfolio throughout the loan term; activities include customer service procedures, borrower request actions, compliance issues, reserve account management and document management. Most important for portfolio quality is the close relationship lenders maintain with borrowers to anticipate needs and assess any early risks.

A portfolio review team comprised of senior lending and finance staff meets monthly to review loans in detail. The review of each loan and relationship includes a discussion about what is happening with loan (borrower's financial condition, market conditions, etc.) and how that loan's relationship may affect other business/loans with TRF. Additionally, if the loan is impaired, the team reviews the current reserves held and determines if adjustments are necessary. Criteria used for selecting the loans included in portfolio review include: impaired loan; over 60 days delinquent; matured; non-accrual loan; restructured; forbearance agreement; extensions in the past 18 months; capitalized interest for the past 18 months; lien position other than first; and all loans associated with a borrower whose loan is indentified in any of the conditions listed above.

In addition to the monthly review defined above, TRF and its loan committees conducts an annual portfolio review for each loan in the portfolio. Policies require that all loans rated 'below average' be reviewed at least annually and all rated 'watch' or below be reviewed semi-annually. The loan officer's portfolio report includes analysis of the borrower's management and financial capacity, an analysis of loan performance and loan rating recommendation. The Loan Committee makes any final determination on rating modifications which are key to calculating TRF's loan loss reserve.

TRF has formal policies and procedures on portfolio diversification, borrowing and lending limits. TRF's largest borrower/investee relationships are updated and reviewed with the Finance and Audit Committee and full Board quarterly. Portfolio diversification is achieved through our varied product offerings. Any exceptions to Board-approved lending policies require the advance approval of Board Exec Committee. TRF's CFO manages compliance with established policies.

Borrowers are also required to provide TRF annual submission of tax returns and/or audits, evidence of insurances and semi-annual or quarterly submission of financials. Loan product specific reporting requirements exist for construction loans where the borrower provides regular project status reports and third party reports from architects, engineers and management firms. Charter school loans require copies of testing results, annual reports, and submissions to authorizing entities.

TRF has a thorough and consistently applied methodology for write-offs and charge-offs of unrecoverable loans, and manages delinquencies closely. TRF's early intervention on delinquent loans, close contact with borrowers and local market knowledge result in identification of problem loans before they become severely delinquent.

Assessing Credit and Evaluating the Success of Charter Schools

TRF uses flexible but rigorous underwriting procedures to make responsible charter school loans and provides TA to borrowers to help them use resources wisely and establish a feasible repayment plan. Because TRF's goal is to bring quality education choices to low-income communities, TRF also places great emphasis on a school's management and performance.

<u>Assessing Credit</u> - TRF requires operating cash-flow projections from each applicant to determine the school's ability to repay the loan and provides TA in preparing this projection.

Cash flow available for facilities can vary greatly due to the funding parameters of the state or charter authorizer, the ownership or leasehold arrangements, the size and nature of the facility, the availability of other external sources (philanthropy, local support, etc) and the costs and demands of the educational program. TRF has developed a charter school operating projection model into which the schools' growth plans and financial data are entered, adapted for each geography in which we work. In situations where the school is a tenant in a building owned by an affiliate, the model projects free cash flow for rental payments as well as the affiliate's free cash flow for debt service payments.

TRF also considers the value of collateral to determine loan amounts. TRF provides sub-debt when borrowers do not have the necessary equity to bridge the gap created by low leverage amounts. Leasehold loans present an even more complicated situation, because lenders cannot be secured by a fee interest in the property. With start-up schools, there are no corporate assets yet, so there may not be any true collateral. In jurisdictions where permitted, TRF takes a security interest in the personal property (corporate assets) of the borrower (furniture, fixtures, and accounts). Most lenders consider these types of loans to be unsecured and therefore avoid them. However, the loan loss reserve created by the Dept of Education grant permits us to exceed conventional limits of 60-80% loan-to value and compensate for the insufficient collateral available in leasehold situations.

<u>Assessing Performance</u> - Not only does TRF have expertise in underwriting chart school loans since 1998, but our relationships and experiences financing exemplary schools expose us to the practices that lead to successful charter schools. The director of TRF's Community Facilities Lending Group spent five years teaching in urban public school classrooms and working along-side rural classroom teachers. Members on TRF's Board of Directors and Community Advisory Board also bring specific charter school expertise as described in the next section.

For untested start-ups or schools with a mixed but improving track record, TRF contracts with third-party consultants such as Foundations Inc. to assess the school's performance and leadership. TRF may conduct this evaluation before making a loan to determine a school's potential.

TRF also actively observes schools' academic performance by tracking student performance on State assessments. The loan committee reviews academic performance or potential for academic success at time of underwriting and continually as part of TRF's annual portfolio review. TRF also considers other characteristics of charter schools, such as security and parental involvement.

Conflicts of Interest

TRF's loan policies have appropriate standards of conduct governing relationships between borrowers/investees, staff/committee and board members. All TRF Board members, Loan/Investment Committee members and senior staff are required to inform TRF of any conflicts of interest as part of an annual renewal process. TRF's conflict of interest policy clearly establishes that no person shall attempt to exert personal influence with respect to a matter in which there is a conflict of interest. TRF's policy also provides procedures for handling conflicts should one arise. Should there be a conflict, the member with the conflict of interest is required to disclose all material facts at a meeting pending action with respect to the specific contract or transaction. Members with conflicts are prohibited from the discussion and approval process for any loan/investment application for which they have either a personal or professional interest in the outcome of the decision. TRF's Human Resources policies also includes a code of conduct and personnel policies for all employees that require that staff inform managers of any conflicts of interest.

Section D: Grant Project Team

Supported by the full infrastructure of TRF, the grant project team consists primarily of TRF's Executive team and its Community Facilities Lending team, with additional expertise from TRF's Board of Directors and Community Advisory Board. The Executive Team has lead responsibility for capitalization and investor relations and oversees compliance and all internal systems support. This team has average tenure of more than ten years. The Charter School team manages business development, underwriting, technical assistance, closing and monitoring charter school facility loans. Key individuals on the TRF's charter school lending team are as follows with complete resumes for the Executive team and Lending team provided in Attachment 9:

<u>Don Hinkle-Brown, President, Community Investments & Capital Markets:</u> Mr. Hinkle-Brown has 20 years of experience at TRF and overall responsibility for TRF's lending and investing,

including charter school lending oversight, NMTC program management and all related capitalization. As of June 2011, he will be TRF's Acting CEO. He is widely recognized as an expert in developing and capitalizing innovative lending programs that create high impact in low-income communities, including modeling the Chase Fund for charter schools with JPMorgan Chase and developing earlier charter school financing vehicles such as CCAP.

Sara Vernon Sterman, Executive Vice President, Community Investment & Capital Markets: Combining top notch financial skills and a deep understanding of what it takes to make a school successful, Ms. Sterman leads TRF's charter school lending team. She will serve as Program Manager for the project that TRF develops with this USED award. Ms. Sterman joined TRF in 1999, bringing strong business skills, a Masters in Social Work and experience as an elementary school teacher. She has overall responsibility for program design and implementation of lending products for a $311 million portfolio consisting of non-profit educational institutions (primarily charter schools), social service organizations and healthy food access projects throughout TRF's Mid-Atlantic region. She is sought after as a speaker and writer on charter school finance, most recently writing a chapter for OFN's *The Next American Opportunity – Good Policies for a Great America.*

Bridget Wiedeman, Loan Officer: With TRF for a decade, Ms. Wiedeman is responsible for underwriting, closing and monitoring charter school projects. She markets TRF's lending products and provides technical assistance to borrowers and non-profit organizations, drawing on her deep knowledge of charter school financials. She has developed a specialty in modeling a school's operating projections and reviewing appraisals for loan-level and portfolio-wide collateral analysis.

Molly Merriman, Loan Officer: Bringing extensive nonprofit financial expertise to TRF in 2008, Ms. Merriman is responsible for marketing, underwriting, closing and monitoring charter school loans, providing technical assistance to TRF borrowers. She specializes in the detailed procedures for closing NMTC loans and generating and summarizing data about our portfolio's risk profile.

Roger Clark, Director of Energy Programs: With 30 years of building energy experience, Mr. Clark helps charter schools evaluate opportunities to reduce their building's energy costs. By providing technical assistance and counsel on energy issues, Mr. Clark helps school leaders make efficient energy performance a priority in their school renovation or construction projects and connects schools with TRF energy-targeted capital resources.

Alden Blyth, Architect and TRF Consultant, specializes in residential and charter school design in his own practice and has been brought in to conduct feasibility assessments of many of the charter schools TRF has underwritten since 1998. A registered architect since 1967, since 2002 he has been architect for charter and other schools serving low-income children, including incorporating energy design elements.

TRF's Board of Directors and Community Advisory Board: TRF's Board of Directors and Community Advisory Board integrate technical expertise and civic leadership. Both always include representation from those who work in and are accountable to low-income communities. TRF's Board of Directors represents the diverse civic and investor interests inherent in TRF's mission. It assists in planning, building strong external relations, financial oversight, policy development, and capitalization (see Attachment 9). Its members are accountable to TRF's target market through their own organization's missions or through their broader civic engagements. In addition to four meetings each fiscal year, the Board fulfills its responsibilities through standing and ad hoc committees that best make use of each member's skills. Among those who serve on TRF's Board of Directors is Ms. Joyce Miller, who brings significant financial expertise related to charter schools. As principal of J. Miller & Associates, a public accounting firm, Ms. Miller specializes in charter schools and other nonprofit organizations. She also serves on the Board of Project H.O.M.E. and the Community Partnership School. Ms. Miller serves on the TRF Board's Finance and Audit Committee as well as the Community Facilities Loan Committee.

TRF's Community Advisory Board members connect us with many organizations that serve low-income communities and help TRF better understand our market's needs. Each member has experience in either community financing or community organizing and an intimate knowledge of the low-income communities we target. They help us focus programs, including reflecting on the right structure for a proposal such as this one. Among the members of our Community Advisory Boards with significant charter school experience are Andrea Thomas-Reynolds and Simran Sidhu.

Dr. Thomas-Reynolds, CEO of Algiers Charter Schools Association in New Orleans, has a background in education, non-profit management and community economic development, as well as over 13 years of experience working with charter schools in LA, PA, GA and MD, making her an invaluable charter school perspective on this board. She serves on the LA Department of Education's Trailblazer Initiative and the Advisory Committee on Educator Evaluation, as well as the LA Master Plan Educational Standards Review Committee.

Simran Sidhu, Executive Director of YouthBuild Philadelphia Charter School since 2002, has been with YouthBuild since 1995. She has built the innovative school for out-of-school youth, leading it through challenging times and elevating it to a flagship program within the YouthBuild network. Ms. Sidhu is the co-president of the YouthBuild USA Affiliated Network and is a sought after member of various local and statewide youth education and policy committees, due to her experience with hard-to-serve youth. Her commitments include the United Way Professional Advisory Council, the Philadelphia School District's Renaissance Schools Committee, and the statewide Dropout Re-engagement Coalition (coordinated by PA Partnerships for Children), due to her expertise and experience with hard-to-serve youth.

Community Facilities Loan Committee: The Committee includes representatives from banks, the community and experts in the education industry. Both Joyce Miller and Susan Harper are active on this committee, bringing extensive work with charter schools to lending decisions. Working for the largest lender to CDFIs, Susan Harper, Senior VP, CDFI Lending and Investing at Bank of America, brings a perfect match of experience for charter school lending. Prior to banking, she was with LIIF where she designed and led the charter school lending programs and at NCBCI. She is on the board of a charter school and brings extensive perspective from her work and other loan committee experience with CDFIs including NFF and Enterprise.

Through monthly credit request review meetings and semi-annual loan portfolio reviews, committee members provide guidance in underwriting, risk management and deal structuring. The majority of the members have served on the committee for five plus years, during which they have reviewed more than 60 charter school loan requests and provided oversight for the $87 million charter school portfolio (as of 12/31/10).