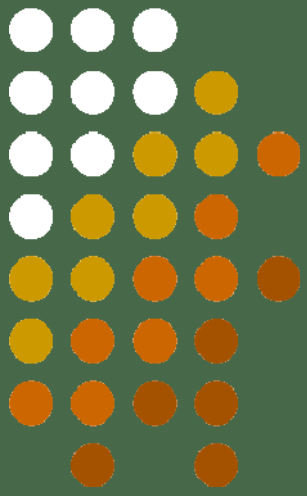
A Decade of Results:

Charter School Loan & Operating Performance



Prepared for the Low Income Investment Fund, The Reinvestment Fund and Raza Development Fund

By the Quantitative Economics and Statistics Practice of Ernst & Young LLP

May 2011

Contents

I. EXECUTIVE SUMMARY 1
- OBJECTIVE 1
- OVERALL FINDINGS 1

II. OVERVIEW AND METHODOLOGY 3
- BACKGROUND 3
- CHARTER SCHOOLS IN THE BROADER EDUCATION LANDSCAPE 3
- CHARTER SCHOOLS FINANCING 4
- METHODOLOGY 4

III. LOAN PERFORMANCE METRICS 6
- SUMMARY OF CHARTER SCHOOL LOAN PERFORMANCE 6
- LOAN TERMS AND STRUCTURE 7
- OTHER LOAN CHARACTERISTICS 10

IV. PAID OFF LOANS 12

V. OPERATING PERFORMANCE 18
- SCHOOL DEMOGRAPHICS 18
- FINANCIAL OPERATING PERFORMANCE 21
- CHARTER SCHOOL FACILITIES 24

VI. POPULATION SEGMENTS 26

VII. FORECLOSED, DELINQUENT OR EXTENDED LOANS 32
- FORECLOSED LOANS 32
- DELINQUENT OR EXTENDED LOANS 33

APPENDIX A - DATA PROVIDERS 37

APPENDIX B - DATA DICTIONARY 38

ENDNOTES 48

Table of Figures

Figure 2.1 - Charter School Growth 1999 to 2009 3
Table 2.2 - Charter Schools in the Larger Educational Landscape (2009-10 data) 4
Table 3.1 - Outstanding Loans of Survey Respondents 6
Table 3.2 - Loan Performance 6
Table 3.3 - Loan Terms 7
Table 3.4 - Comparison of Loan Terms between CDFI's and non-CDFI's 7
Table 3.5 - Quintiles for Key Loan Terms 7
Figure 3.6 - Interest Rate Types 7
Figure 3.7 - Loan Term Trends 8
Figure 3.8 - Loan Types 9
Figure 3.9 - Loan Security 9
Figure 3.10 - Borrower Types 10
Figure 3.11 - Credit Enhancement and Guarantees 10
Table 4.1 - Paid Off Loans 12
Figure 4.2 - Geography 13
Figure 4.3 - Repayment Sources 14
Figure 4.4 - Takeout Sources for Refinanced Loans (Full 10 Year Sample) 14
Figure 4.5 - Loans Maturing in the Past Three Years 15
Figure 4.6 - Extensions on Paid Off Loans (Full 10 Year Sample) 15
Figure 4.7 - Loan Types - Paid Off Loans V. Outstanding 16
Figure 4.8 - Borrower Types - Paid Off Loans V. Outstanding 16
Table 5.1 - Schools in the Study 18
Figure 5.2 - School Enrollment and Average Daily Attendance (ADA) 18
Figure 5.3 - School Geography 19
Table 5.4 - Grade Levels Serviced 19
Table 5.5 - Student Profile 20
Table 5.6 - Age of School at Underwriting 20
Table 5.7 - School Organizational Structure 20
Table 5.8 - School Management Structure 20
Figure 5.9 - Board Make-up 20
Table 5.10 - School Academic Performance - Scale of 1 to 10 20
Table 5.11 - School Financial Performance 21
Figure 5.12 - FY2009 Average Revenue by Source (Dollars in Thousands) 21
Figure 5.13 - Revenue Funding Methods 21
Figure 5.14 - FY2009 Average Operating Expenses by Category (Dollars in Thousands) 22

Table 5.15 - FY2009 School Operating Performance 22
Table 5.16 - Distribution of Funding per Enrolled 23
Figure 5.17 - Distribution of Net Income per Enrolled 23
Figure 5.18 - Distribution of Asset to Liabilities Ratios 24
Table 5.19 - Charter School Facilities 24
Figure 5.20 - Square Footage per Enrolled Student 24
Figure 5.21 - Construction Types 25
Figure 5.22 - Facility Ownership 25
Table 6.1 - Performance Metrics by Financing Activity 26
Table 6.2 - Performance Metrics by Construction Type 27
Table 6.3 - Performance Metrics by Loan Type 27
Table 6.4 - Performance Metrics by Age of Loan 27
Table 6.5 - Performance Metrics by Age of School at Underwriting 28
Table 6.6 - Performance Metrics by School Grade Level 28
Table 6.7 - Performance Metrics by School Organizational Structure 28
Table 6.8 - Performance Metrics by Loan Security Type 29
Table 6.9 - Performance Metrics by Borrower Type 29
Table 6.10 - Performance Metrics by Presence of Third Party Manager 30
Table 6.11 - Performance Metrics by School Ownership Structure 30
Table 6.12 - Performance Metrics by Percent of District Students in Charter Schools 30
Table 6.13 - Performance Metrics by Presence of Guarantee 31
Table 6.14 - Performance Metrics by Presence of Credit Enhancement 31
Table 6.15 - Performance Metrics by Refinance 32
Table 7.1 - Foreclosed Loans 32
Table 7.2 - Foreclosed Loans 33
Figure 7.3 - Delinquent and Extended Loans by Year of Origination 33
Table 7.4 - Del/Ext Loans 34
Table 7.5 - Loan Terms for Del/Ext Loans 34
Figure 7.6 - Interest Rate Types for Del/Ext Loans 34
Figure 7.7 - Loan Security for Del/Ext Loans 35
Table 7.8 - Comparison of Key Metrics for Schools with Del/Ext Loans v. All Others 35

I. EXECUTIVE SUMMARY

Objective

The purpose of the 2011 Charter School Financing Study is to identify and understand the relationships between charter school performance and loan performance. The study evaluates school performance across a wide range of factors, including financial metrics, school operations, and organizational structure. The study also tracks loan performance over the past decade (2000-2009) using such metrics as debt service coverage, delinquency, and history of refinance. Ultimately, improved understanding of charter schools can help lenders make more informed decisions about risk and return. It will also elucidate the challenges faced by local communities in financing schools in the current economic environment.

Ernst & Young was engaged by the Low Income Investment Fund, The Reinvestment Fund and The Raza Development Fund to conduct the survey, analysis and study. Funding for the study was provided by The Bank of America Charitable Foundation.

Overall Findings

The report contains data on 430 outstanding and paid off loans totaling $1.2 billion in original loan amounts[1]. It includes information on loans made between 2000 and 2009. It provides key performance benchmarks and explores the factors explaining performance. The following are some of the key findings:

Performance benchmarks

- The typical loan terms for outstanding loans are
  - Average original loan amount - $3.5 million
  - Median LTV at underwriting - 84%
  - Median DSC at underwriting - 1.40
  - Most common loan term – 7 years
  - Average interest rate 5.3%
- Of the loans in the dataset made since the year 2000, five loans totaling $12 million dollars (1.0% of the total loan amounts made during the period) ended in foreclosure. Just over $2 million dollars (0.2%) was reported as being written off.
- Among outstanding loans, eight (3.6%) had been delinquent at some point in their history for 60 days or more at the time of survey data collection. Twenty-six loans had been extended for a period of six months or more. Collectively these 34 loans are referred to as del/ext loans.
- Operating revenues average about $14,130 per enrolled student; net income averages $1,340 per enrolled student.
- About 78% of the schools associated with these loans operate with a positive net income (after debt service) and 96% have a positive ratio of assets to liabilities. For those with a negative net income, the median loss is about $159,000 – about $646 per enrolled student.
- Among the 148 loans that matured during the last 3 years of the study period, 15% were extended and are still outstanding and 85% were paid off. Of those that were paid off, 46% were refinanced through traditional taxable debt, 16% were paid off by private or public funds, 11% were refinanced through the bond market, 8% were refinanced through use of NMTCs, 6% fully amortized, and 13% were refinanced through other sources. Among *refinanced* loans as a whole (including, but not limited to, loans maturing in the past three years), 80% were refinanced with different lenders.
- Average enrollment has increased by 30% over the past two years, while average daily attendance has remained around 95%.

Factors Affecting Performance

- The size of the school's organization matters. Schools that are a part of a family of six or more schools have higher net income per enrolled students. On average schools without del/ext loans belong to an organization that is 69% larger than the size of schools with del/ext loans.

- Schools underlying del/ext loans are smaller, on average, than schools underlying other loans. Also, schools with a negative net income are smaller than schools with a positive net income.
- Stronger academic performance is associated with better loan performance. Among del/ext loans, 53% of underlying schools have met the adequate yearly progress (AYP) requirements of the No Child Left Behind Act. This compares to 74% of underlying schools for all other loans.
- Higher occupancy costs are associated with poorer loan performance. Occupancy costs include debt/lease payments plus capital, maintenance and utility costs. They average 11% of operating expenses at schools with del/ext loans, compared to 8% at other schools. Occupancy costs are highest at newer schools. Once a school is able to reach the first refinance, occupancy costs usually decrease and net income is higher.
- Schools in districts where a higher percentage of students are educated in charter schools tend to have better operating performance. The amount of funding is much higher in districts where more than 10 percent of the students are educated in charter schools, as is the corresponding net income. This is in spite of the fact that occupancy costs tend to be a greater percentage of expenses in those regions.
- LTV, DSC and interest rate at underwriting don't appear correlated with loan performance. This suggests that these loan-related metrics are not necessarily indicative of the underlying strength, or weakness, of the school and therefore by themselves are not predictive of loan outcomes. That does not necessarily mean that these metrics don't matter when underwriting charter school loans. The hypothesis that LTV affects loss given default was not able to be tested, as the number of foreclosures was so low (only five foreclosed loans).
- Loan performance varies with the type of interest rate. More than 28% del/ext loans were floating rate loans. Only four percent of other loans are floating rate loans – 90% have a fixed rate.

II. OVERVIEW & METHODOLOGY

Background

Charter schools are public schools operating under a charter that is typically granted by a State and/or Local Authority. The charter is a performance agreement detailing the school's mission, program, goals, students served, methods of assessment, and success metrics. The typical charter is 3 to 5 years in length and can be renewed by the entity that initially granted the charter.

Within the confines of this charter, the public charter school maintains a greater level of autonomy than a traditional public school in its methods for achieving the objectives of the charter. The schools themselves must meet state and federal academic standards and are accountable for both academic results and fiscal practices to the charter sponsor and the community they serve[2]. Charter schools are opened and attended by choice. That is, students can choose to attend a given charter school instead of their assigned public school – subject to space limitations. The school, like other public schools, is publically funded by local, state and federal tax dollars based on enrollment.

Charter Schools in the Broader Education Landscape

The charter school industry has grown rapidly since the first school debuted in Minnesota in 1991. Figure 2.1 illustrates that the number of charter schools has grown by 15% annually over the past decade. Over that time, about 400 charter schools have been added each year. As of 2009, there were approximately 5,040 charter schools currently servicing more than 1.5 million students across the United States.[3]

Figure 2.1 – Charter School Growth 1999 to 2009[4]

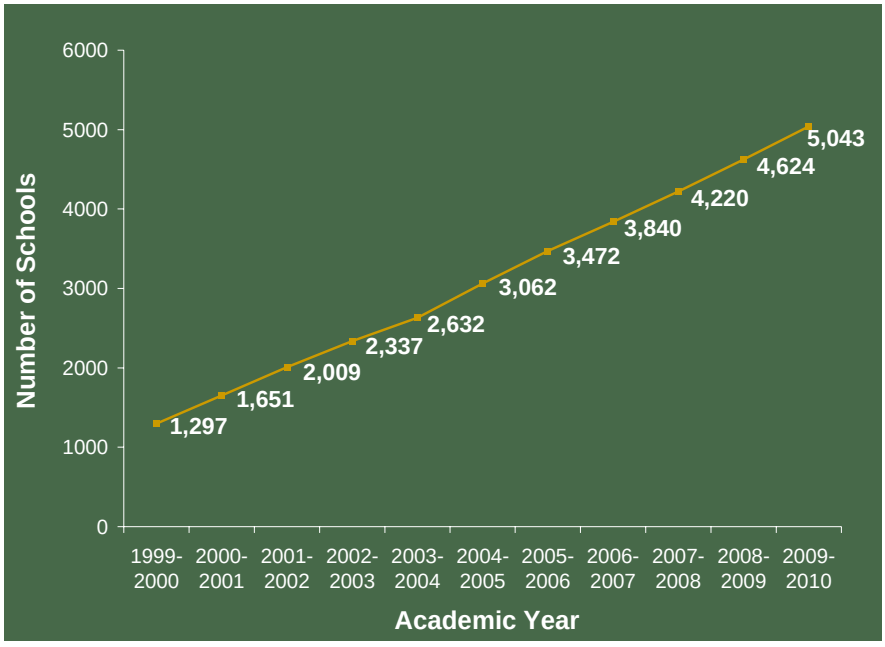


Table 2.2 shows the place charter schools occupy in the broader educational landscape in the United States. Approximately three percent of public school students are educated in charter schools.

Table 2.2 – Charter Schools in the Larger Educational Landscape (2009-10 data)[5]

	United States	Public Schools	Charter Schools
Number of Schools	132,656	98,916	5,043
Enrollment	55.2 million	49.3 million	1.5 million
Teachers	3.7 million	3.2 million	42,100

Charter Schools Financing

Most states require charter schools to finance their start-up and facilities expenditures out of general operating revenues, privately raised funds, or partnerships with other organizations. Capital for the start-up and early stage construction of charter school facilities generally comes from Community Development Financial Institutions (CDFIs), landlords, and donations. CDFIs have a different mission focus than banks, and can often accept a higher risk level and/or unusual terms unattractive to commercial lenders. Due to the often complex lending and school operating arrangements of charter schools, comprehensive data on loan and operating performance has not been widely available. This can make it difficult for charter schools, particularly new schools, to obtain the financing required. Even loans to existing and established charter schools are underwritten based on performance criteria that are weighted differently by individual lenders. What might be a considerably favorable determinant of performance to one lender, such as average grade in math and reading or rates of teacher turnover, might not be a significant factor to other lenders. The purpose of this report is to help provide data on the performance of these loans and the operating performance of the underlying schools. The project's aim is also to identify any loan or school characteristics that drive loan and/or school operating performance. It is the hope of the sponsors of this study that the availability of more and better data on loan performance will encourage the influx of capital, particularly by commercial lenders and NMTC investors who have started to enter the market with more regularity.

Methodology

To collect this data, Ernst & Young conducted a survey of charter school lending organizations. Appendix A contains a list of the data providers for the survey. The survey covers all loans made from 2000 to 2009 and includes detailed questions in the following key topic areas:

- Loan and school identification
- School operating performance
- Loan performance
- Paid off and foreclosed loans
- Additional school information

E&Y created an Excel based survey instrument for data collection. A committee of representatives from charter school lenders helped shape the content. The instrument included data edit checks to assess the reasonableness of information provided. E&Y conducted follow up with survey respondents to address any data issues and solicit response. The survey data collection took place from June 2010 through March 2011.

All survey participants represent financial institutions with some degree of explicit focus on community development and with a significant track record of lending to charter schools, including CDFI's and banks. E&Y worked closely with key lending institutions to develop the list of major charter school financers to be surveyed. The primary sources drawn from to compile the list of survey respondents were as follows:

- Members of the Charter School Lenders' Coalition;
- Known banks and other private lenders that had provided direct financing to charter schools;
- Past recipients of federal Department of Education Charter School Credit Enhancement awards;
- New Market Tax Credit allocatees whose applications focused on using the credits for charter schools; and
- Respondents to the Charter School Facility Finance Landscape survey conducted by the Local Initiatives Support Corporation

Once a list of organizations was compiled from these sources, a threshold was set to establish minimum criteria for survey participation. The threshold was

intended to allow a wide range of charter school lenders to participate in the survey without requiring that information be collected from lenders who had participated only minimally in the market. To determine this threshold, a small "pre-survey" was sent to a sample of potential respondents with questions on historical lending volume and the number of loans each organization had made in the charter school market. Based on the results of this pre-survey, the threshold was set such that only those organizations that had made a minimum of 10 facility loans to charter schools, or had made a total of at least $5 million in charter school facility loans over time, could participate as respondents to the full survey. In addition, it was agreed that only those organizations that directly serviced charter school facility loans could participate in the full survey. This was to avoid duplication of data submitted as many loans have multiple lenders but only one servicer.

As a final step, potential respondents were contacted to determine whether they met these threshold criteria. A handful of organizations were eliminated from the respondent list based on the criteria, while a few respondents were added at this stage that met the threshold test.

This process resulted in the selection of 25 charter school lenders to receive survey invitations. Fifteen organizations responded, for a response rate of 60%. A list of participating organizations appears in Appendix A.

The survey results represent the financing activity of responding organizations and include a small subset of the 5,043 charter schools nationwide. In general, charter schools

1. have no financing because they either lease or were given already improved space,
2. are financed through the bond market (rated and unrated), or
3. are financed through the traditional loan market.

This report considers financing of schools under the third scenario only. Survey respondents provided data on 430[6] charter school loans made from 2000 to 2009, totaling approximately $1.2 billion. They also provided operating and demographic data on 336 schools to which they made loans.

Analysis of the collected data helped derive the survey estimates contained in the remainder of this report as summarized below:

- **Loan performance metrics.** This chapter consists of summary statistics, including percentages, medians, averages, etc., on key loan characteristics and measures of performance such as delinquency and foreclosure rates.
- **Paid off loans.** Charter school loans are most often short term loans of seven years or less. Accordingly, most of the loans need refinancing at the end of the original term - through bond financing, a new lender, or some other mechanism. This chapter reports information on loans that have been paid off over the past decade, including the source of repayment, loan terms and key performance metrics.
- **School operating performance.** This chapter has data on the operating performance of the underlying schools, including summary statistics on school demographics, revenue, operating expenses and facilities.
- **Population segments.** This chapter compares key performance metrics (loan terms, enrollment, funding, net income, etc.) across population segments of interest (geography, school size or type, loan type, etc.)
- **Foreclosed, delinquent and extended loans.** This chapter analyzes loans that have been foreclosed, delinquent, or extended for a period of six months or more. In doing so, it identifies key distinguishing characteristics of the loans or underlying schools that seem related to loan performance.

III. LOAN PERFORMANCE METRICS

This chapter presents key summary statistics for each of the outstanding loans for which respondents reported performance information. The next chapter considers paid off loans. This chapter covers two main subject areas:

- **A summary of loan performance, including metrics such as loan amount, debt service coverage, delinquencies and extensions**
- **Loan terms and structure, including loan to value ratio, interest rate, loan type, borrower type and guarantees**

Throughout this chapter, the unit of analysis is the loan. A charter school loan may be made to a single charter school or multiple charter schools.

Summary of Charter School Loan Performance

Figure 3.1 summarizes the responses we received for outstanding loans. There are 265 outstanding loans totaling $950.5 million in original loan amounts – for an average loan amount of $3.6 million. On average, the current balance on these loans is $2.6 million, so that 73% of the original loan amount remains outstanding.

Respondents provided information on the performance of each loan, including debt service coverage (DSC), history of delinquency and occurrence of foreclosure. Debt service coverage is usually defined as a school's operating income divided by the required hard debt service. Survey respondents provided the DSC as reported on the most recent audit. Table 3.2 shows that the current median debt service coverage for these loans is 1.67.

Respondents also reported on the delinquency history of their loans, including whether the loan was delinquent at the time of data collection and if it had been delinquent by at least 60 days at any time since origination. Figure 3.2 shows that 1.1% of loans are currently delinquent, all of which have been at least 60 days delinquent at some point in the history of the loan. The 3.6% of loans reported as ever having been 60 days delinquent is inclusive of the 1.1% that are currently delinquent.

Table 3.1 – Outstanding Loans of Survey Respondents

Number of Loans	265
Total Original Loan Amounts	$950.5M
Average Loan Amount	$3.6M
Average Percent Current Balance	72.8%
Average Current Balance	$2.6M

Note: There were an additional 26 outstanding loans for which the original loan amount was not provided.

Table 3.2 – Loan Performance

Median Current Debt Service Coverage (DSC)	1.67
Percent Currently Delinquent	1.1%
Percent at least 60 days delinquent one or more times	3.6%
Foreclosure rate	1.1%

Note: Statistics in this table are based on the number of loans

Loan Terms and Structure

Table 3.3 summarizes the typical loan terms for charter school financing. The median loan to value ratio and the median DSC at underwriting are 84% and 1.40, respectively. Note that this differs from the median DSC of the previous table – that was the DSC from the most recent audit. The average interest rate charged is 5.3% with an average loan term of just under nine years.

Among the 15 institutions that responded to the survey, 10 were Community Development Financial Institutions (CDFI's) and 5 were not. Table 3.4 compares loan terms between CDFI's and non-CDFI's.

With $923 million in original loan amounts, CDFI's accounted for about 76% of the loan amounts in this dataset. CDFI's had higher median LTV's at underwriting and longer average loan terms. The median DSC at underwriting and interest rate are both similar for the two groups.

Table 3.5 shows the quintile distribution for the loan terms from the previous table. For example, it shows that the 20th percentile for LTV is 70% - that is, 20 percent of the charter school loans in this study have an LTV below 70% and 80 percent have an LTV above that.

Interest rate skews a bit toward higher values, ranging from a 20th percentile value of approximately four percent to a 60th percentile value of six percent. Most interest rates are between five and six percent. Figure 3.6 shows that fixed rate loans are the predominant interest rate structure (88%).

Table 3.3 – Loan Terms

Median Loan to Value (LTV) Ratio	84%
Median DSC at Underwriting	1.4
Weighted Average Interest Rate	5.3%
Average Loan Term in Years	8.6

Table 3.4 – Comparison of Loan Terms between CDFI's and non-CDFI's

	Total Original Loan Amounts ($M)	Median LTV at Underwriting	Median DSC at Underwriting	Median Interest Rate	Avg Loan Term
CDFI	$922.8M	86%	1.33	6.0%	8.9
Non CDFI	$295.5M	75%	1.40	6.0%	6.8

Table 3.5 – Quintiles for Key Loan Terms

	LTV at Underwriting	DSC at Underwriting	Loan Term (Years)	Interest Rate
20th Percentile	70%	1.3	5	3.9%
40th Percentile	79%	1.4	7	5.3%
60th Percentile	89%	1.5	7	6.0%
80th Percentile	100%	2.3	10	6.6%

Figure 3.6 – Interest Rate Types

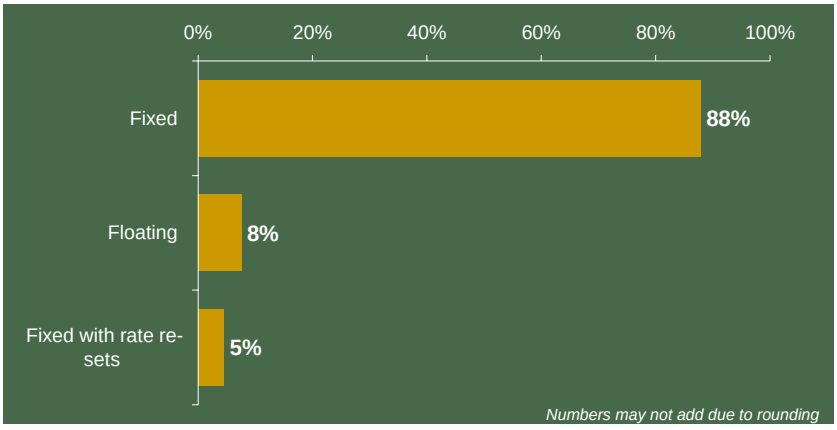
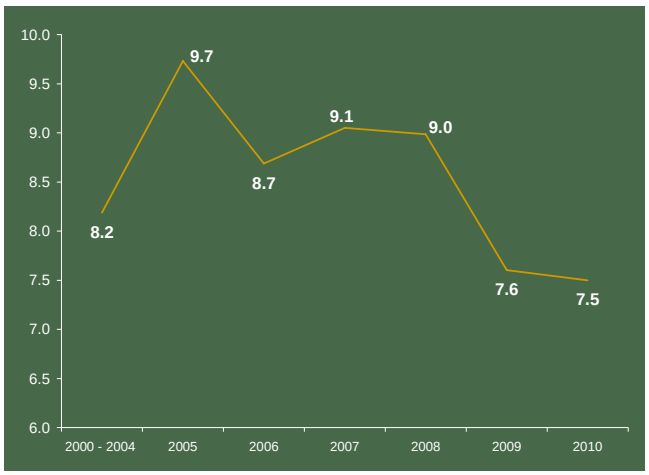


Figure 3.7 shows the trend over the past decade in these four metrics. In each case, the year corresponds to the year of loan origination. Due to the small number of loans in the dataset originated from 2000 to 2004, those years are consolidated in these graphics.

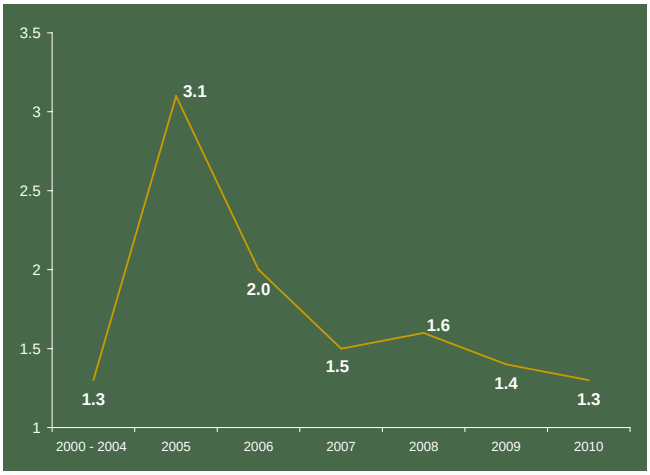
Because there are fewer data points in each year, the metrics for a given year are more likely to be affected by a single data point, which explains some of the peaks and valleys in the graphs. The trend in loan term is generally downward, falling from an average of 8.2 years in the early part of the decade to around 7.5 by the end of it. Median debt service coverage has fallen from around 2.0 at the middle of the decade to 1.3 toward the end. Median LTV rates have risen over the course of the decade, from around 80% in the early part of the decade to 85-90% in recent years. The interest rate has also risen in recent years – approaching six percent on average by the end of the decade.

Figure 3.7 – Loan Term Trends

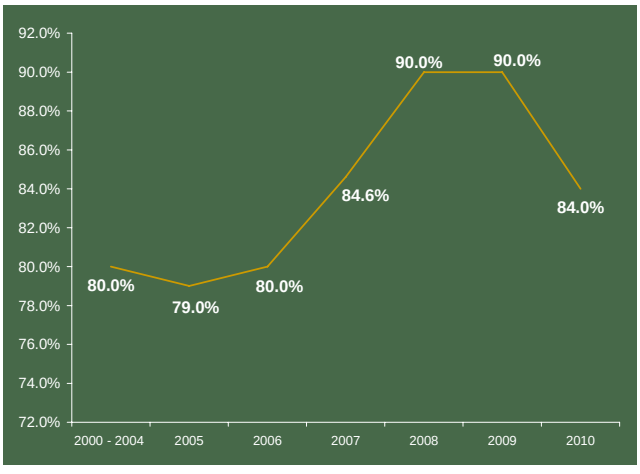
Average Loan Term



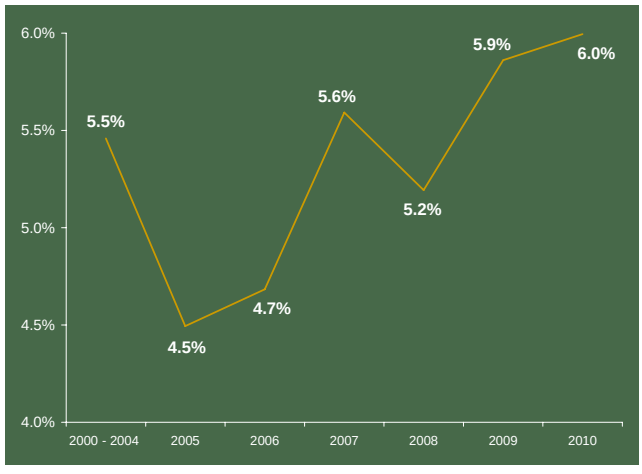
Median Debt Service Coverage



Median LTV Ratio



Average Interest Rate



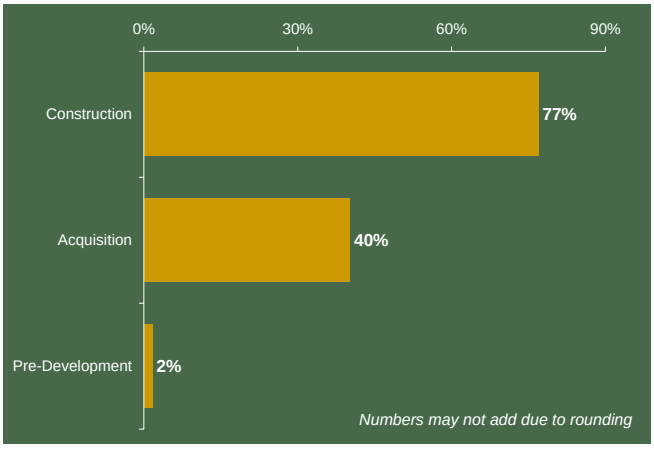
As seen in Figure 3.8, 77% of charter school loans finance construction activities, while 40% finance acquisition activities. Some loans may finance multiple activities – for example, there may be costs to acquire a property and rehabilitate it. In this case, the loan would finance acquisition and construction activities.

Seventy percent of loans are so-called "mini-perm" loans. This means that the term is up to seven years. Another 25% are considered "perm loans" covering terms of seven or more years. A mini-perm loan typically finances activities early in the life of the school and usually converts to a perm loan or is refinanced with another lender.

As shown in Figure 3.9, nearly half of the loans in the dataset are first liens, with another 17% classified as second liens. Twelve percent are secured by New Market Tax Credit (NMTC) collateral. This means that the leveraged lender generally receives as security an assignment of general partner interest in the investment fund.[7]

Figure 3.8 – Loan Types

Loan Financing Activities



Loan Types

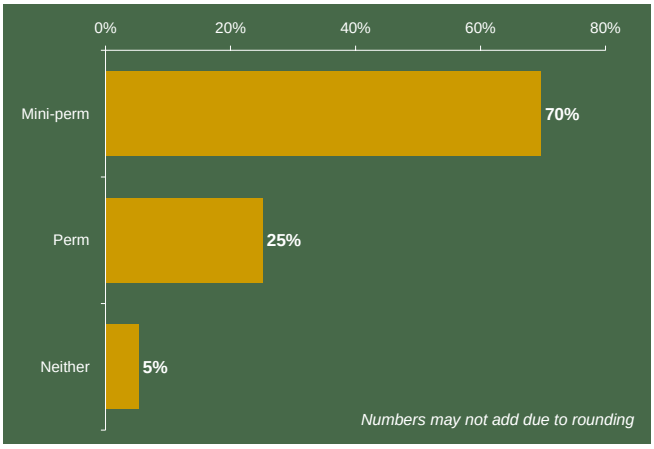
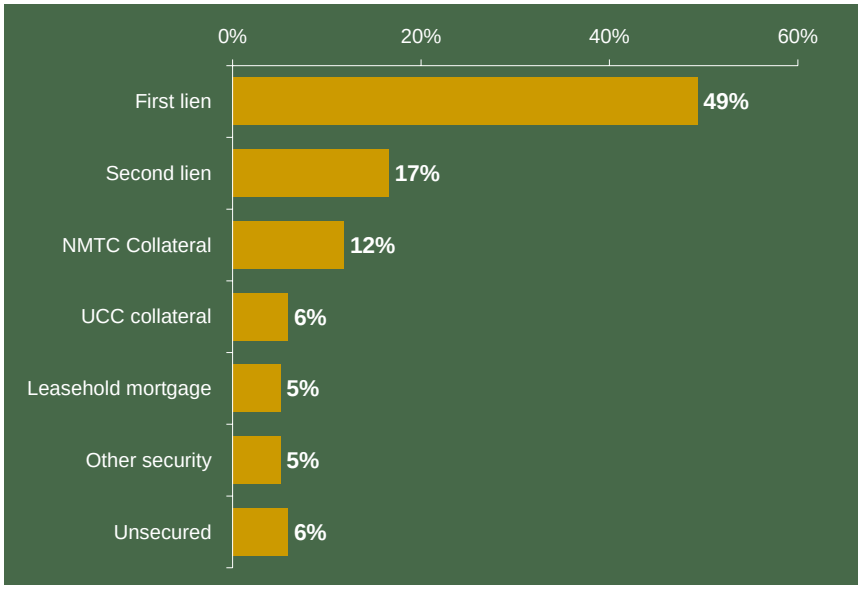


Figure 3.9 – Loan Security



Other Loan Characteristics

Respondents also described the loan's borrower. Although the borrower is sometimes the school operator, a third party entity often incurs the loan and charges rent to the school. Figure 3.10 shows that 30% of borrowers are the school itself, while 43% are a special purpose entity created to provide financial stewardship of the school. Another 12% are not-for-profit charter school developers. These organizations usually own multiple charter school facilities and serve as the borrower for all of the schools. The nonprofit developer then leases the school facility to operators during their initial years of operation. Often, these school facilities are then sold to the operator once it has reached stabilization. The nonprofit developer can then recoup its equity to reinvest in its next project. Among respondents who indicated "other," fully owned subsidiaries were the borrowers most often specified. A fully owned subsidiary differs from a special purpose entity in that the latter is established purely to serve as the borrower on the loan; the former may serve other functions as well.

Third party organizations often provide additional protection to lenders of charter school loans in the form of a credit enhancement or a guarantee. Seventy-seven percent of loans have some form of either a credit enhancement or a guarantee.

Figure 3.10 – Borrower Types

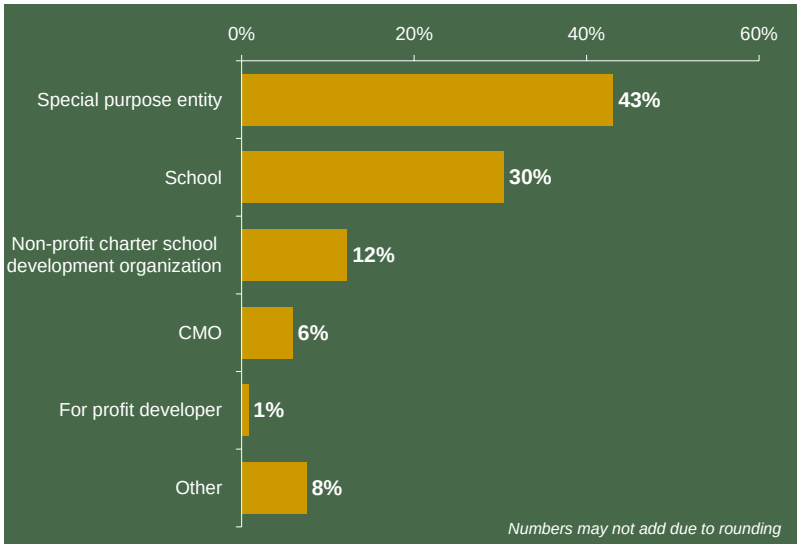
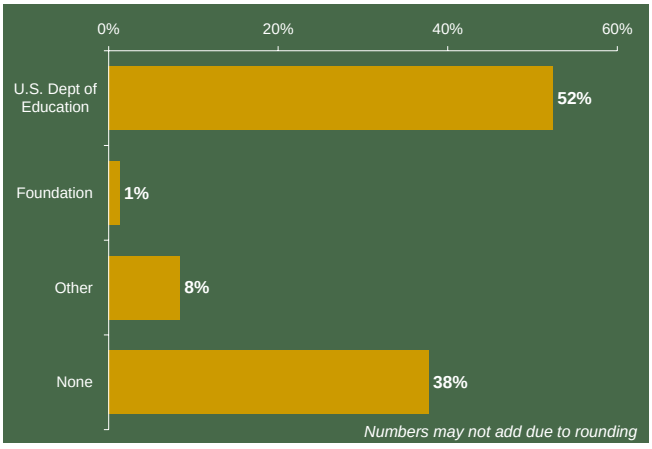
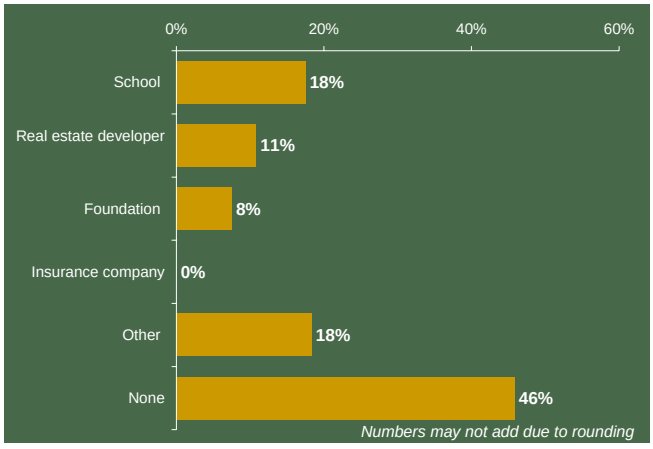


Figure 3.11 – Credit Enhancement and Guarantees

Type of Credit Enhancement



Primary Guarantor



The credit enhancement most often comes in the form of funds that lenders deposit in a reserve account and can withdraw for some specified purpose(s). Among CDFI's, 63% of loans have credit enhancement, compared to 50% of loans made by non-CDFI's. Typically, the funds are available to offset potential losses associated with charter school loans – 77% of the loans in the dataset whose school has negative income have some form of credit enhancement.

The most common credit enhancement comes from the United States Department of Education, present on 52% of these charter school loans. As described in their website, the purpose of the credit enhancement program is "to demonstrate innovative methods of assisting charter schools to address the cost of acquiring, constructing, and renovating facilities by enhancing the availability of loans or bond financing.[8]" The funds can be used for:

1. Guaranteeing and insuring bonds and debt used to finance charter schools
2. Guaranteeing and insuring personal or real estate property leased for charter schools
3. Facilitating charter school debt and bond financing

Guarantees are made by some private organization and typically cover the full loan amount – though there are some limited recourse vehicles. About 54% of loans have some form of guarantee. The most common forms of guarantee are provided by the school itself (18%), followed by a real estate developer (11%) and a foundation (8%). Other organizations that provide guarantees include CMO's.

IV. PAID OFF LOANS

The previous chapter considered outstanding loans. In this chapter, loans that have been paid off are analyzed. Respondents have less information on the schools underlying these loans, so they only provided answers to a subset of the school related questions. The information in this chapter covers three main subject areas:

- **Loan terms and performance**
- **Payoff types and sources of funds**
- **Recently maturing loans and the use of extensions**

Table 4.1 shows data on 154 paid off loans totaling over $250 million in original loan amounts. Combined with the $950 million in outstanding loans in chapter 2, respondents made approximately $1.2 billion in charter school loans over the past decade. The average loan amount of $1.6 million is less than half the average noted for outstanding loans. The median LTV ratio on the paid off loans was 82% and the median debt service coverage was 1.2. The average time to pay off was 2.2 years. Note that this is the time it takes for the loan to be paid off or refinanced, as opposed to the term of the loan from the previous chapter. Paid off loans tend to have a greater concentration of shorter term, pre-development type loans than outstanding loans, since these are more likely to be paid off quickly.

Table 4.1 – Paid Off Loans

Number of Paid Off Loans	154
Total Original Loan Amounts	$250.2M
Average Loan Amount	$1.6M
Median LTV at Underwriting	82%
Median DSC at Underwriting	1.2
Average time to pay off (years)	2.2
Loan balance at repayment	$215.2M

Note: There were an additional 8 paid off loans for which the original loan amount was not provided.

The loan balances at repayment totaled $215 million, which is 86% of the original loan amounts. Since charter school loans are most often short to mid-term financing, the balance at payoff is usually still relatively high.

Figure 4.2 shows the geographic distribution of outstanding and paid off loans. The Northeast has the greatest number of loans at 161 – 95 outstanding loans and 66 paid off loans - and the largest total amount financed at $365 million. The Pacific region follows closely with $354 million financed through 109 loans. The combined financing activity in dollar terms in the South, Midwest and Mountain regions is smaller than in each of these two regions.

As noted, 95 of the 161 Northeast loans are outstanding – about 59%. The percentage of outstanding loans (by number of loans) ranges from 59% in the Northeast to 64% in the Pacific and Mountain regions. In the Pacific region, outstanding loans constitute $288 million of the $354 million total financed over the past decade - 81% by dollar amount. This percentage is higher than the percentage of number of loans because outstanding loan amounts are higher, on average, than paid off loans. The percentage of loan amounts that are outstanding ranges from 63% in the Mountain region to 81% in the Pacific.

Figure 4.2 – Geography[9]

Pacific Region

70 Outstanding, $287.9M

39 Paid off, $66.3M

Midwest Region

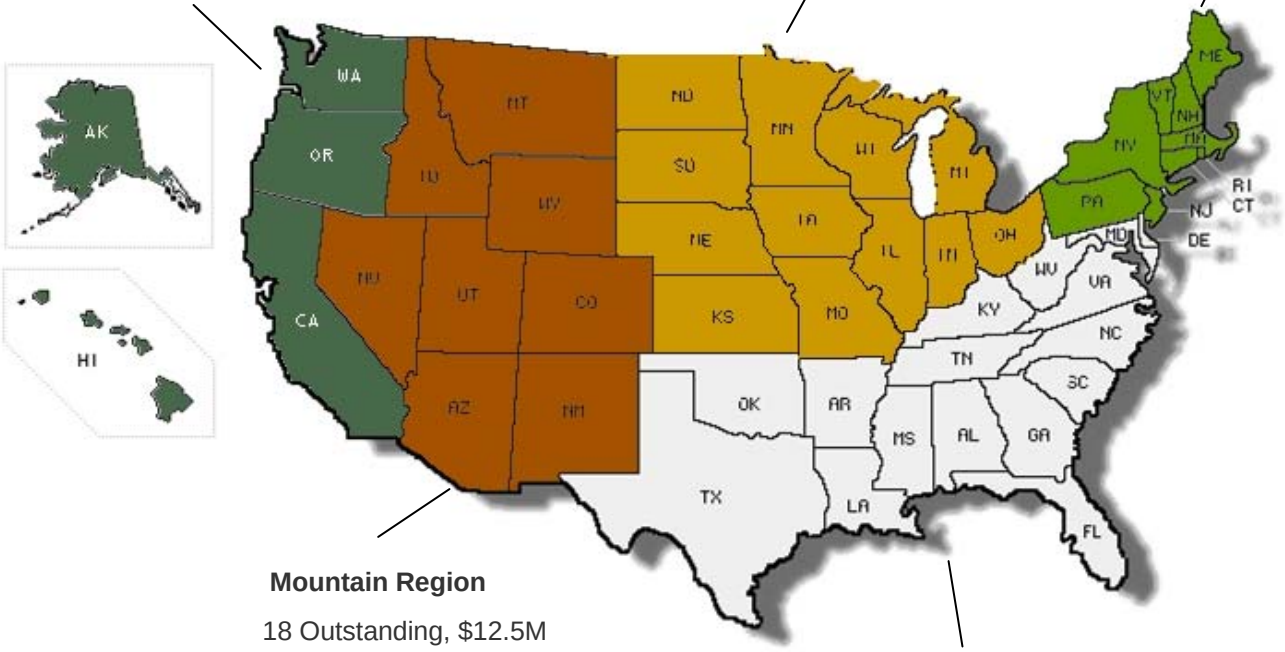
23 Outstanding, $57.4M

14 Paid off, $19.0 M

Northeast Region

95 Outstanding, $252.2M

66 Paid off, $113.7M



Mountain Region

18 Outstanding, $12.5M

10 Paid off, $7.4M

South Region

42 Outstanding, $142.3M

25 Paid off, $43.7M

Note: 17 outstanding loans totaling $198.2M did not provide location information.

Figure 4.3 shows the source of funds used to pay off the loans in our dataset. The most common was a refinance, covering 46% of paid off loans. Twenty-two percent of loans were paid off through private sources, and 12% were fully amortized.

Respondents provided additional information on refinanced loans, including the takeout source for the refinance. Figure 4.4 shows the most common refinance scenario was another term loan, covering 64% of refinances. Of these term loans, 4 in 5 were made by a different lender than the original one. Another 24% of loans were refinanced through a bond facility, while 9% were financed via the NMTC mechanism discussed in chapter 3.

Charter schools are typically financed through short to medium term loans – as noted previously the most common loan term is seven years, and 70% of outstanding loans are "mini-perms". At, or before, the conclusion of that term, the borrower will need to obtain permanent financing. Often, a loan extension of greater than six months indicates difficulty securing this new financing.

This study attempted to collect and analyze data on the outcome of loans maturing during the three year period prior to the survey date as this may be more indicative of repayment activity in the current market. Ideally, the percent of loans extended during a given period would be calculated as a percentage of all loans coming due during that same period, in this case three years. The data as collected did not precisely capture the number of loans coming due in the past three years. Instead, loans that fell into one of the following three categories are considered as a proxy:

A. Outstanding loans which have been extended - since respondents did not provide information on the date of the extension for outstanding loans, this analysis includes all such loans

B. Paid off loans whose takeout date was in the past three years – whether extended or not

C. Outstanding loans that were reported as a refinance and originated in the past three years

Figure 4.3 – Repayment Sources

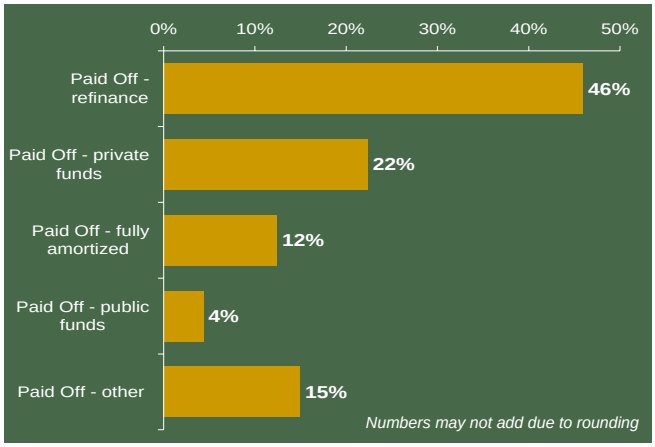


Figure 4.4 – Takeout Sources for Refinanced Loans (Full 10 Year Sample)

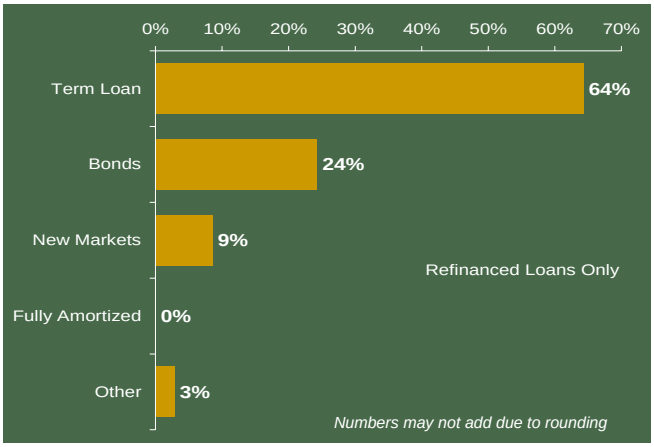


Figure 4.5 summarizes the 148 loans falling into each of these categories. Among these loans, 15% have been extended and are still outstanding and 85% were paid off. Of the 83 loans in category B, 46% were refinanced through traditional taxable debt, 16% were paid off by private or public funds, 11% were refinanced through the bond market, 8% were refinanced through use of NMTCs, 6% fully amortized, and 13% were refinanced through other sources.

Respondents also reported whether there were extensions of six months or more taken on their paid off loans. Figure 4.6 shows that 94% of paid off loans had no extensions taken - six percent of paid off loans were extended. Note that this includes all paid off loans – not just those maturing in the past three years. This compares to the 15% of outstanding loans which were extended for a period of six months or more. Just under 3% of paid off loans were extended less than one year, and a little more than 3% were extended between one and three years. There were no reported extensions of more than 3 years for paid off loans.

Figure 4.5 – Loans Maturing in the Past Three Years

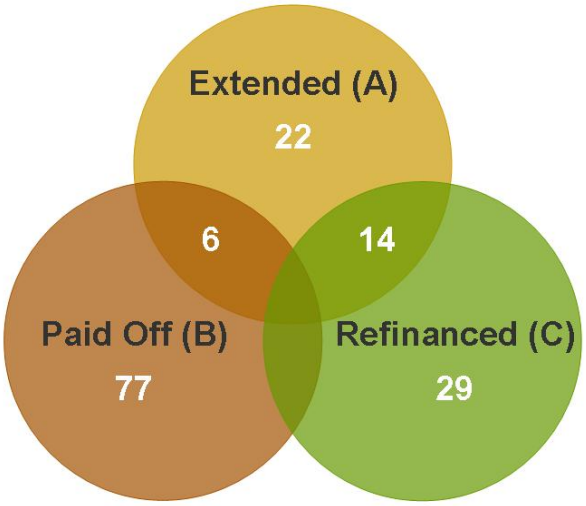


Figure 4.6 – Extensions on Paid Off Loans (Full 10 Year Sample)

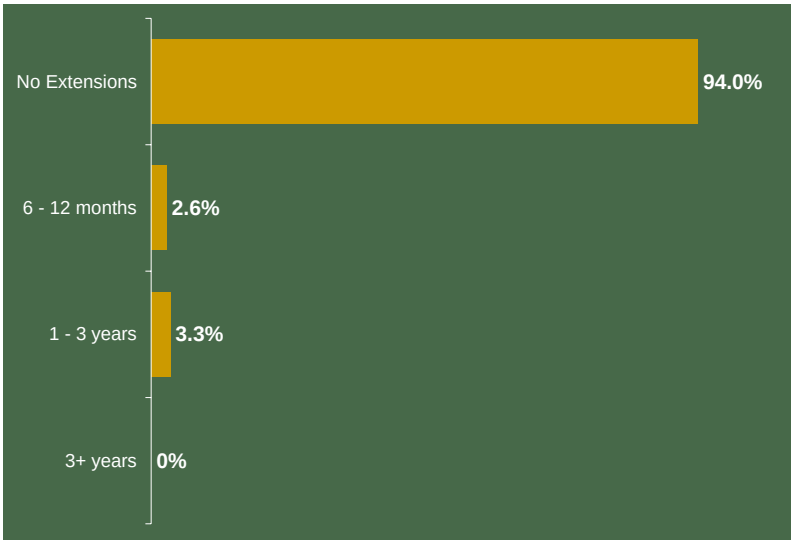
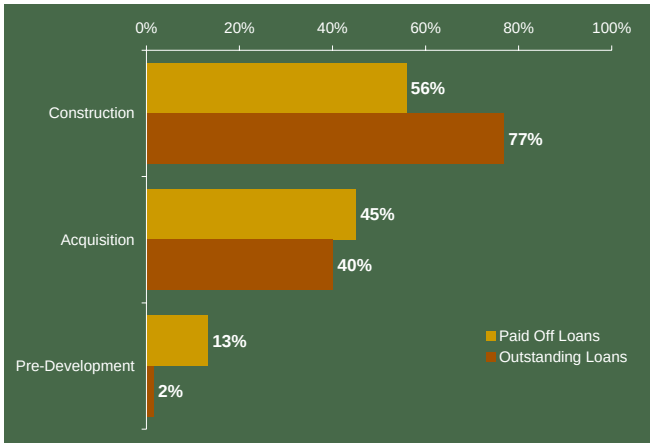


Figure 4.7 compares the loan types for paid off and outstanding loans. Paid off loans are less likely to have financed construction activities and much more likely to have financed pre-development activities – 13% of paid off loans finance pre-development activities, compared to only 2% of outstanding loans. Pre-development loans tend to be short–term loans that are paid off by construction loans. As seen at the right, paid off loans are much less likely to be "perm" loans than outstanding loans – 14% of paid off loans vs. 25% of outstanding loans. These "perm" loans are longer term loans and not designed to be refinanced as mini-perms are.

Finally, Figure 4.8 compares the borrower types for paid off loans versus outstanding loans. Paid off loans are more likely to involve the school as a borrower (39% v. 30%) and less likely to involve special purpose entities (24% v. 43%). SPE's are frequently used with NMTC loans. NMTC loans began in the middle of the decade and generally have a seven-year term and therefore most wouldn't have paid off during the scope of this study. That helps explain some of this difference.

Figure 4.7 – Loan Types – Paid Off Loans V. Outstanding

Loan Financing Activities



Loan Types

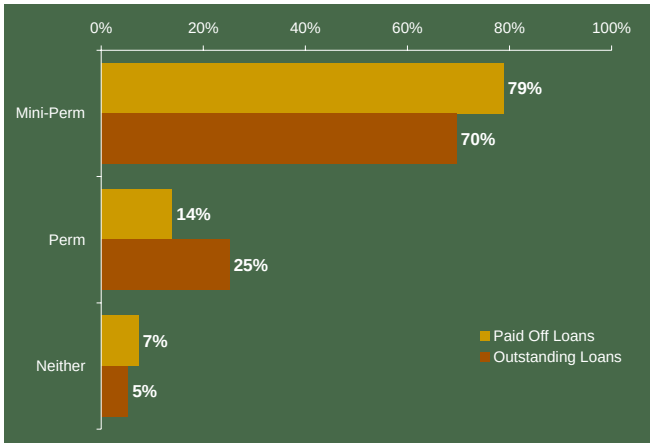
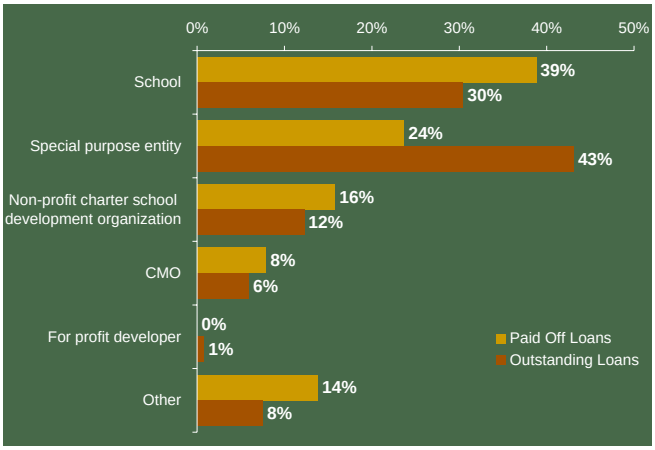


Figure 4.8 – Borrower Types – Paid Off Loans V. Outstanding



This chapter has shown a few key differences between paid off loans and outstanding loans that are important to keep in mind when considering the loan performance of each. Almost half of paid off loans were refinanced – most often by a term loan from a lender different than the one that financed the original loan.

About a third (33%) of all paid off loans over the past decade relied on the bond market or NMTC for a takeout.

Six percent of paid off loans had been extended by at least six months at some point during their term; fifteen percent of outstanding loans had been extended by at least six months. The difference in the rate of extensions between paid off loans and outstanding loans may suggest that difficulty in obtaining extensions has increased in recent years. Median LTV at underwriting of paid off loans was 82%, versus 84% for outstanding loans. Median DSC at underwriting for paid off loans was 1.2 versus 1.4 for outstanding loans. This implies that underwriting to certain LTV and DSC levels may not materially impact successful repayment at loan maturity.

Among the 148 loans maturing in the past three years, 15% have been extended and are still outstanding and 85% were paid off. Of those that were paid off, 34% were refinanced through traditional taxable debt, 8% were refinanced through the bond market, 6% were refinanced through use of NMTCs and 52% were refinanced through other sources. These sources primarily include private or public funds and loans that fully amortized.

Paid off loans average about half the size of outstanding loans – loan amounts average $1.6 million for paid off loans, compared to $3.5 million for outstanding loans. This is not surprising as pre-development loans are smaller and have shorter terms and so drive down the paid off figure, while NMTC loans are larger and longer, driving up the outstanding figure.

Paid off loans are less likely to have an SPE as a borrower and more likely to have the school as a borrower. This likely owes to loan programs, such as NMTC, which tend toward the SPE borrower structure and began later in the decade. The result is that these loans are less likely to have been paid off yet since they are more recent.

V. OPERATING PERFORMANCE

This chapter presents and summarizes a broad range of data points as well as operating results of the schools underlying the loans described in the previous two chapters. This information was requested from respondents in an effort to identify those factors which might have a significant relationship to school financial performance and/or loan performance. In chapters 6 and 7, these relationships are explored. This chapter includes the following information on the schools underlying the loans:

- **A summary of school demographics, including enrollment, geographic region student profile and academic performance**
- **Key financial operating metrics, such as revenue, expenses, income and balance sheet information**
- **Facility statistics such as size, age, construction and ownership structure**

School Demographics

Table 5.1 summarizes the schools in the study with outstanding loans. Not all respondents who reported loan performance data also reported school operating performance data. In addition, a number of loans covered multiple schools. This explains why the number of schools in Figure 5.1 is lower than the number of loans noted in chapter 3. In general, respondents were only asked to provide data for schools on outstanding loans on which they were the loan servicing agent. Total 2008-09 enrollment at the 231 schools in the study was over 87,000, for an average of 379 students per school. The Average Daily Attendance was 95% in 2008-09.

Figure 5.2 shows the three year trend in both average school enrollment and average daily attendance (ADA). As we will see later in this chapter, these two metrics often determine the operating revenues for a school. Both have been trending higher in recent years. ADA has ticked up from 94.5% in 2006-07 to 95.1% in 2008-09, while average enrollment has increased from 281 to 364 in that period. This may be indicative of a trend towards financing larger schools and/or schools financed reaching stabilized enrollment.

Table 5.1 – Schools in the Study

Number of Schools	231
Total 2009 Enrollment	87,571
Average Daily Attendence	95%

Figure 5.2 – School Enrollment and Average Daily Attendance (ADA)

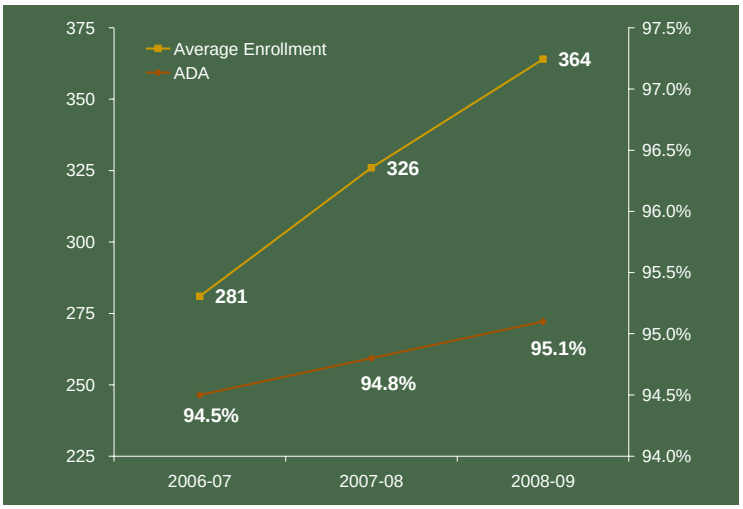


Figure 5.3 shows the geographical distribution of schools in this study, which follows a similar pattern to the distribution of loans. That is, the highest concentration of charter schools in this study is in the Northeast and Pacific regions. It also shows the regional distribution of charter schools nationwide, as calculated by the Center for Education Reform. For example, 20% of charter schools nationwide are in the Pacific region, compared to 28% of the schools from our study.

Table 5.4 shows that the leading type of school in the analysis was the middle school, with 63% reporting having middle school students. Another 48% reported having high school students and 51% reported having elementary students. Note that schools may house more than one type of student. Often, a school will cover grade levels K-8 or 6-12, which explains why middle schools are the most common type.

Figure 5.3 – School Geography[10]

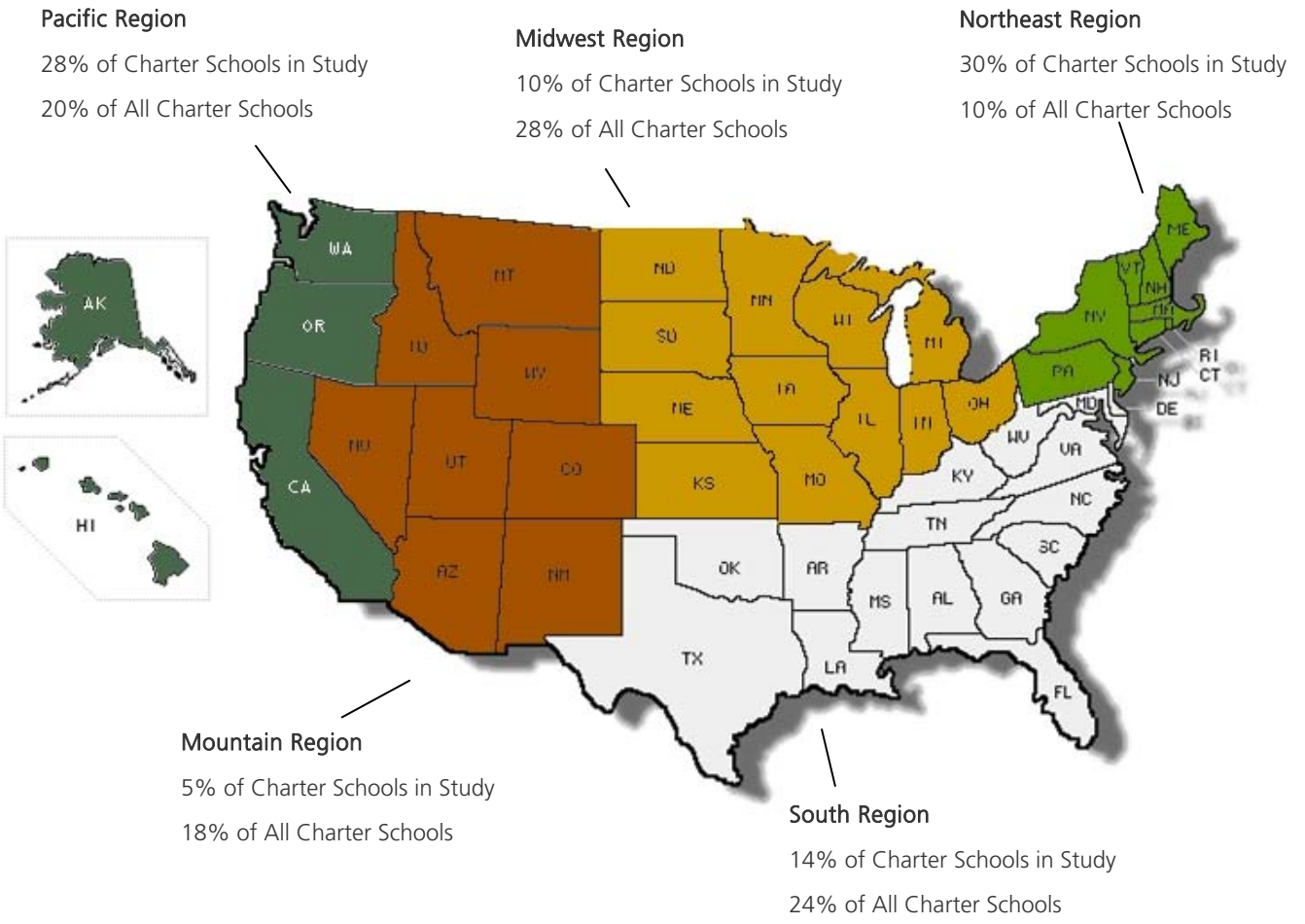


Table 5.4 – Grade Levels Serviced

% with High School Operations	48%
% with Middle School Operations	63%
% with Elementary School Operations	51%
% with Pre-K Operations	13%

Table 5.5 summarizes key demographic information on the student population in each school. More than 70% of students at charter schools in this study qualify for free or reduced lunch programs. Fourteen percent speak English as a second language, and ten percent have an individualized education program. On average, eight percent of the students in the charter school's school district are enrolled in charter schools, compared to three percent of students nationwide.

Figure 5.6 displays statistics on the age of these charter schools at underwriting. Forty percent had been in place for three years or less, including 12% that were new at underwriting.

While many charter schools are independent organizations, there are a number that operate as part of a family of schools, with overall management by an umbrella organization. Among the respondents, 45% of schools operate under the latter structure, and the average number of schools in such organizations is between six and seven.

Table 5.8 shows that 40% of schools contract with a full-service school management company. Twenty-five percent contract with a 3rd party business manager for back-office functions (e.g., state reporting and accounting).

Respondents provided details on the make-up of the board of directors at their schools, displayed in Figure 5.9. Most (82%) have a financial expert on the board. A community representative is also present on 82% of boards, and two-thirds have a legal representative.

Finally, the academic performance of the schools underlying the loans was assessed. Approximately 67% of schools have met the adequate yearly progress requirements of the No Child Left Behind Act. Respondents also assessed the relative academic performance of the school, using either an existing rating or the lender's best judgment. Since there is no national rating system that applies to all charter schools, respondents rated the academic performance of the underlying schools on a scale of 1 to 10, with 10 being the best. Table 5.9 shows that they rated 30% of the schools as a nine or ten, while 25% rated of schools were rated as six or below.

Table 5.5 – Student Profile

Speaking English as a Second Language (ESL)	14%
On an individualized education program (IEP)	10%
Qualifying for Free or Reduced Lunch	71%
School district population in charter schools	8%

Table 5.6 – Age of School at Underwriting

New Schools	12%
Less than 3	28%
3-4 Years	25%
5-8 Years	22%
9+ Years	13%

Table 5.7 – School Organizational Structure

% Multi-School	45%
Average number of schools	6.4

Table 5.8 – School Management Structure

Contract with full service manager	40%
Contract with 3rd party business manager	25%

Figure 5.9 – Board Make-up

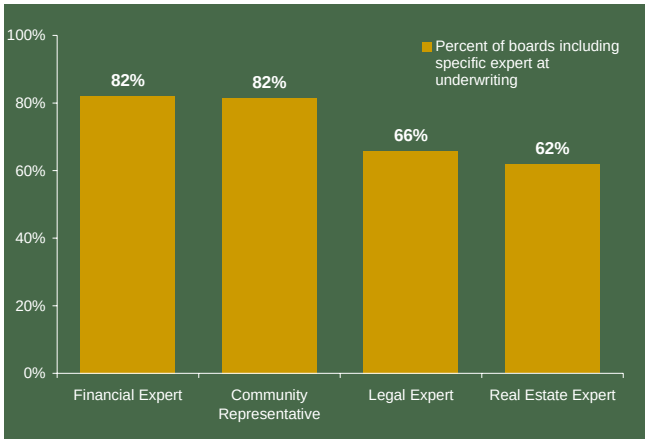


Table 5.10 – School Academic Performance – Scale of 1 to 10

% Self-Assessment 10	16%
% Self-Assessment 9	14%
% Self-Assessment 8	28%
% Self-Assessment 7	17%
% Self-Assessment 6	6%
% Self-Assessment 5 or Below	19%

Financial Operating Performance

Lenders reported financial operating information for 129 schools. Total Revenue at these schools totaled nearly $690 million in 2009, while operating expenses were just under $619 million. This means that there was approximately $71 million in net income – about $549,000 per school.

With 129 schools reporting $690 million in total revenue, the average revenue per school is $5.3 million. As depicted in Figure 5.12, about $4.5 million of this comes from government sources and $0.3 million come from fundraising sources.

Table 5.11 – School Financial Performance

Total 2009 Revenue	$689.6M
Total 2009 Operating Expenses	$618.8M
Total Net Income	$70.8M

As noted previously, the two most common reimbursement methods for charter schools are on a per-enrolled basis or per attending student basis. The graphic on the left of Figure 5.13 shows that "per ADA" is the most common method among our respondents at 37%, followed by "per average enrollment" at 23%. Another common method is to reimburse based on enrollment as of a specified date – usually the first day of school or October 15th. The figure at the right shows that, most often, payment occurs on a monthly basis.

Figure 5.12 – FY2009 Average Revenue by Source (Dollars in Thousands)

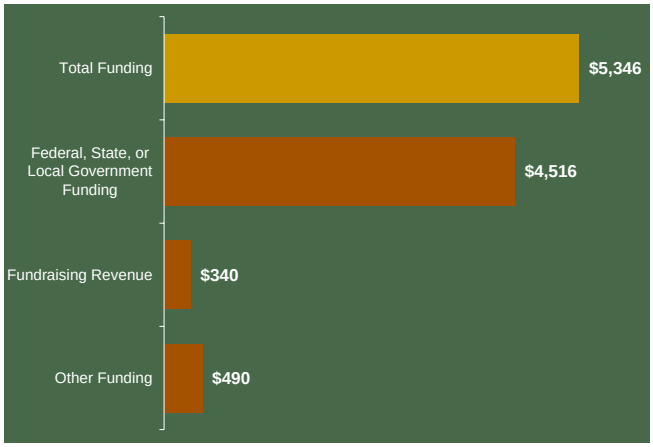
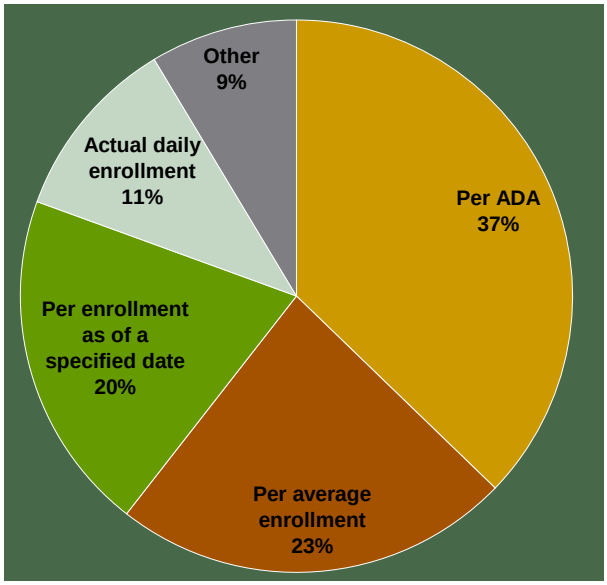
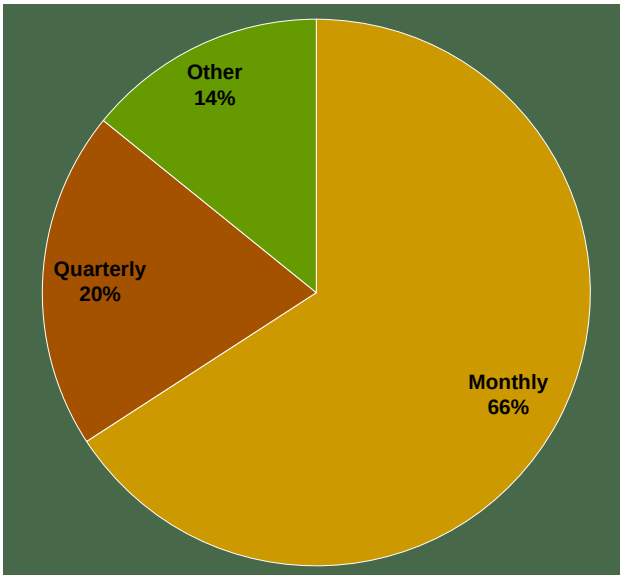


Figure 5.13 – Revenue Funding Methods

How Revenue Funding Is Calculated



When Payment Occurs



Expenses at charter schools in the study totaled $619 million in FY2009, for an average of about $4.8 million per school. Figure 5.14 summarizes the average operating expenses by category. Personnel expenses lead the way at $2.8 million. Debt service payments averaged about $247,000 annually, while capital expenses totaled about $157,000. On average, these "occupancy costs" account for about 8.4% of all expenses. Other expenses include costs for materials, supplies, transportation and food service.

Table 5.15 summarizes key school operating financial metrics for 2008-09. Average funding, operating expenses and net income per enrolled are about $14,100, $12,800 and $1,300, respectively. On average, operating expenses equal 90% of total revenue.

Figure 5.14 – FY2009 Average Operating Expenses by Category (Dollars in Thousands)

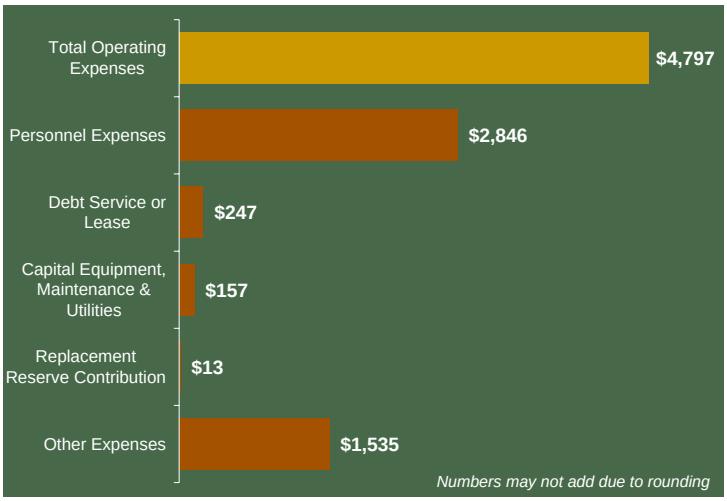


Table 5.15 – FY2009 School Operating Performance

Average Funding per Enrolled	$14,127
Average Expenses per Enrolled	$12,787
Average % Expenses of Revenue	90%
Average Net Income per Enrolled	$1,340
Average % Personnel Expenses	63%
Average Expenses per Square Foot	$138
Average Cash as % of Assets	14%
Average Ratio of Assets to Liabilities	1.53

Figure 5.16 presents a distribution of funding per enrolled student, showing that almost half of underlying schools have between $10 and $15 thousand dollars of funding per enrolled student.

Similarly, Figure 5.17 shows the distribution of net income per enrolled. About 22 percent of these charter schools had a negative net operating income in 2008-09; at the other end of the scale, 22% of schools had net income of $1,500 per enrolled or more.

The median size of the loss at schools with negative income is about $159,000, or $646 per enrolled student. There are a few notable characteristics of those schools which are operating at a loss

- Among schools with a negative income, 77% have some form of credit enhancement
- The average enrollment at schools with a negative net income averages 290, compared to 404 at schools with a positive net income
- Average funding per enrolled at schools with a negative net income averages $12,900, compared to $14,400 at schools with a positive net income
- Schools with negative net income are more likely to be the borrower on the loan (52% vs. 29% of those with a positive net income); a special purpose entity is much less likely to be the borrower (15% vs. 55% of those with a positive net income)

Table 5.16 – Distribution of Funding per Enrolled

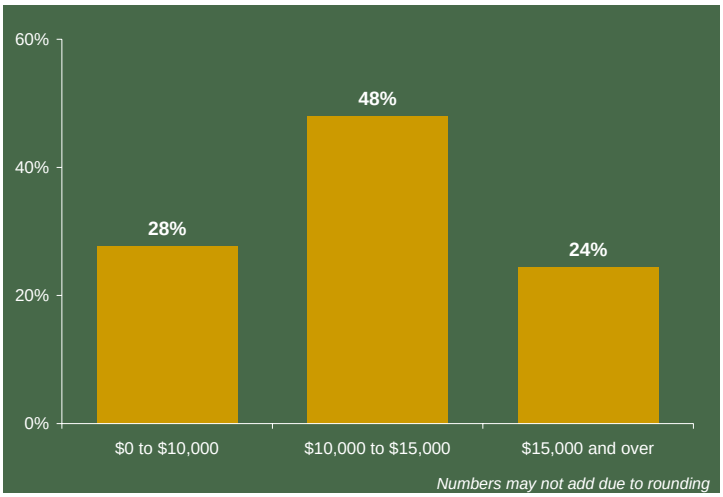
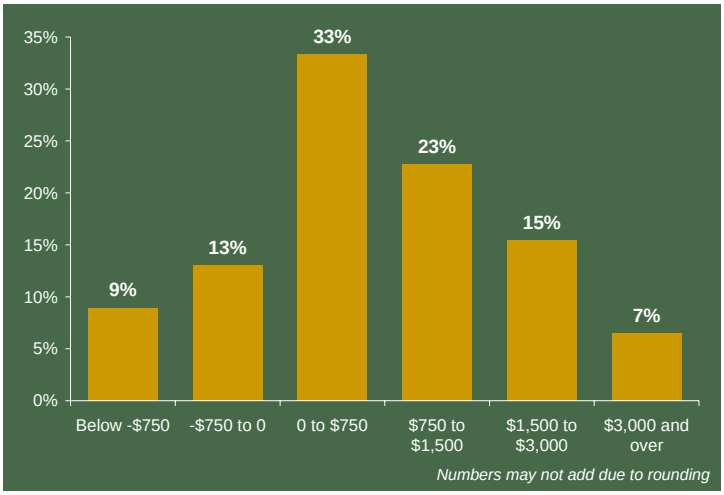


Figure 5.17 – Distribution of Net Income per Enrolled



The average operating expenses for all schools totaled $12,800 per enrolled student and $138 per square foot. From a balance sheet perspective, these charter schools averaged about 14% of their total assets in cash and the ratio of assets to liabilities was about 1.5 to 1. Table 5.18 displays a distribution of this last metric.

Charter School Facilities

Table 5.19 includes information about the facilities that house charter schools. While some schools are housed in facilities built and designed specifically for use by a school, many facilities are refurbished religious buildings or retail spaces. Often the schools share the space with another organization or business. The average square footage per charter school facility is about 44,500 – of which about 35,500 is used by the school itself. This translates to about 98 square feet per enrolled student. Figure 5.20 shows the distribution for square footage per enrolled student. While most charter schools operate at a single facility, some use multiple buildings - often to house multiple levels of students (e.g. elementary and middle schools). Survey respondents note that 15% of schools operate at multiple facilities.

Figure 5.18 – Distribution of Asset to Liabilities Ratios

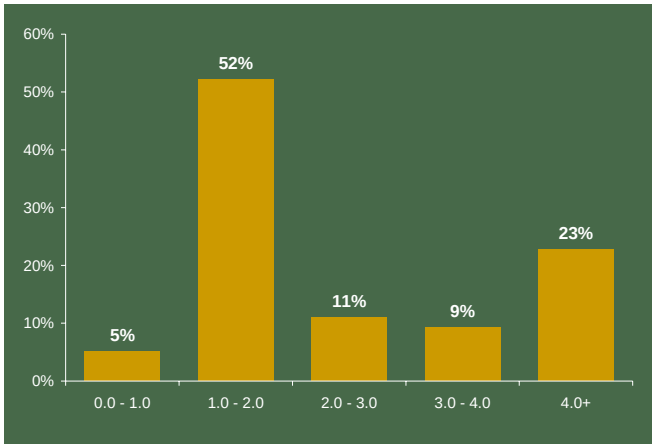
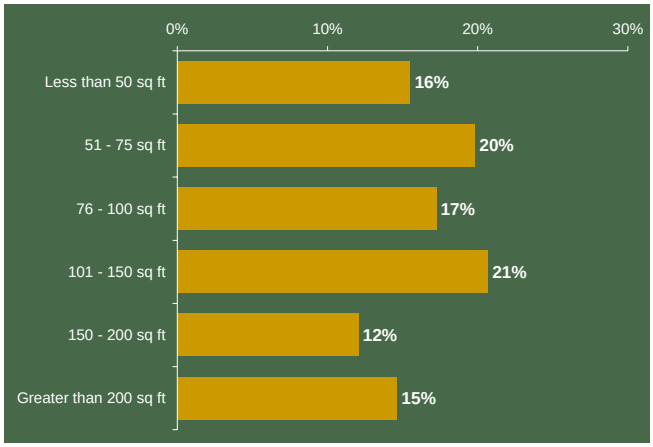


Table 5.19 – Charter School Facilities

Average square footage	44,543
Average square footage occupied by school	35,474
% with multiple facilities	15%
Average Square Feet per Enrolled	97.6

Figure 5.20 – Square Footage per Enrolled Student



There are two primary modes of construction used to build charter schools. Sometimes a charter school building is built from the ground up as a new construction. In other cases, a charter school will rehabilitate an existing structure for use by the charter school. In the case of a rehabilitation, the work done may be extensive (gut rehab) or light (cosmetic rehab). Figure 5.21 displays the construction types used by schools in the study, and shows that a combination of new and rehab construction is the most common. That is, a school starts with an existing structure that it rehabs for use by the charter school and adds components that were not in place previously. Some schools use an existing facility as is without any construction – 16% in the case of these respondents.

Most (75%) of these charter schools operate in leased facilities as shown in figure 5.22. The building may be leased from a third party organization (45%) or an affiliated entity (30%). In the case of an affiliated entity, it is usually either a multi-school organization as described previously, or a special purpose entity that is created simply to own the building and charge rent to the school itself. Some states do not allow the not-for-profit charter school to own property itself. Others provide incentives such as a reimbursement program for lease payments where mortgage payments do not qualify. In these cases a third party entity is often formed to own the real estate and charges rent to the school.

Figure 5.21 – Construction Types

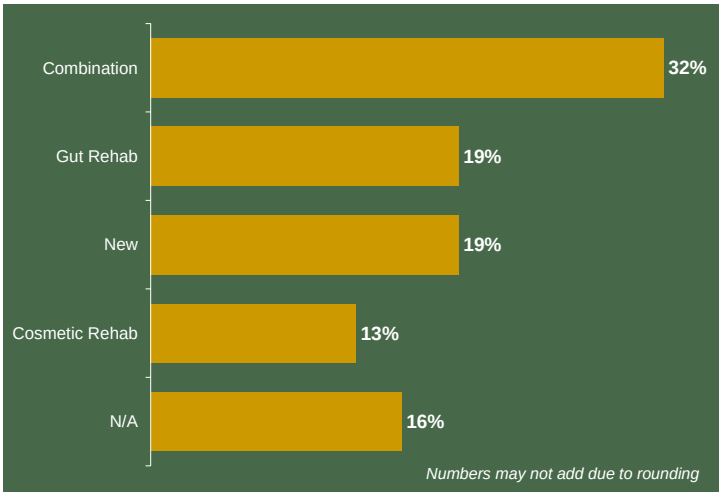
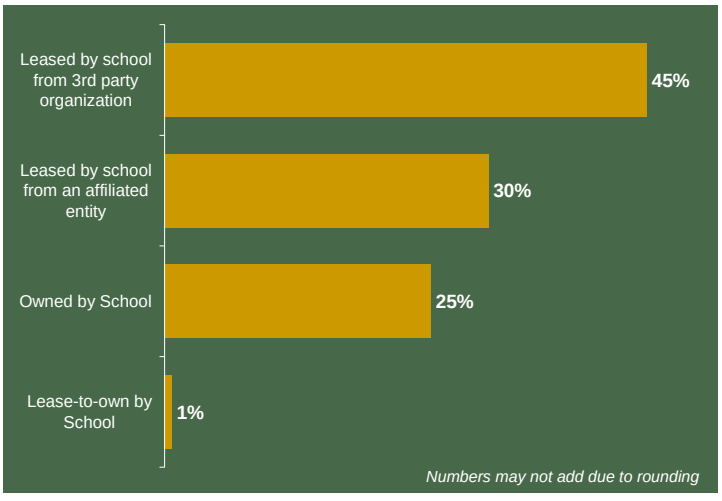


Figure 5.22 – Facility Ownership



VI. POPULATION SEGMENTS

This chapter compares key loan and school operating performance metrics across different loan and school types. The following are the key metrics presented in each of the tables of this chapter:

- **Average loan amounts**
- **Median loan to value (LTV) ratio at underwriting**
- **Median current debt service coverage (DSC) ratio**
- **Average enrollment**
- **Average funding, loan amount and net income per enrolled**
- **Percent of expenses related to occupancy costs, where occupancy costs include debt/lease payments plus capital, maintenance and utility costs.**

There are a few things to keep in mind while reviewing the tables in this chapter.

The tables in this chapter present single relationships. These relationships may be different when multivariate analysis is applied. For example, occupancy costs are highest among schools requiring major construction costs. If a particular region is more likely to have this type of construction, you would expect occupancy costs to be higher in that region. Part of the analysis undertaken included building a multivariate regression model. Unfortunately, there was insufficient data to uncover significant relationships.

The tables include both loan metrics and school performance metrics. In general, more respondents provided information on loan performance than school performance. Therefore there may be some apparent inconsistencies between things which seem as though they should be related, such as DSC ratio and net income per enrolled.

The number of records for a given segment may be very small, so caution in analyzing these results is appropriate. This is especially true for the school performance metrics, since fewer respondents provided that information.

Finally, data for most of the characteristics used to define these tables is only available for outstanding loans. Therefore, these tables only include information on outstanding loans.

Table 6.1 compares key performance metrics against the financing activity of the loan. The two most common activities are acquisition and construction - there are very few loans for pre-development. As noted in chapter 3, loans may finance more than one activity. The loan metrics (denoted with a gold heading) are similar between construction and acquisition activities, as are the school-level operating metrics (denoted by a gray heading).

Table 6.1 – Performance Metrics by Financing Activity

Financing Activity	Percent	Average Loan Amount (thousands)	Median LTV at Underwriting	Median Current DSC	Average Enrollment	Average Funding per Enrolled	Average Loan Amount Per Enrolled	Average Net Income Per Enrolled	Average % Occupancy Costs
Pre-Development	2%	$ 1,418	na	1.15	258	$ 9,052	$ 2,911	$ 121	9.3%
Acquisition	40%	$ 2,739	83%	1.75	373	$ 15,814	$ 9,863	$ 2,884	10.1%
Construction	77%	$ 3,390	87%	1.87	375	$ 14,413	$ 10,846	$ 1,438	8.3%

In general, a charter school loan may finance new construction, the rehabilitation of an existing structure or some combination of these two. It might also provide financing to a school where no construction is involved. Table 6.2 compares the metrics across construction types.

Not surprisingly, loan amounts are highest for new construction and lowest for cosmetic rehabs. LTV ratios are similar across construction types. DSC ratios are highest for combination construction.

From an operating performance perspective, occupancy costs are noticeably higher for new construction and gut rehabs, likely because loan amounts are highest for those types of construction. Net income is highest for new construction.

Recall from chapter 3 that mini-perm loans typically have a term of seven years or less and are designed to be refinanced. As is evident from Table 6.3, the majority of charter school loans included in this survey are mini-perm loans. The average loan amount for mini-perm loans is more than twice that for perm loans, which are longer financing vehicles. LTV and DSC ratios are also both higher for mini-perm loans.

Looking at school operating performance metrics, loan amount per enrolled and occupancy costs are higher for mini-perm loans. While funding per enrolled is similar for the two types of loans, net income is much higher for perm loans. This is not surprising, as permanent loans would be most often available to stabilized, fully enrolled schools.

Table 6.4 compares performance metrics across the age of the loan. In general, older loans tend to have larger original loan amounts and lower LTV ratios at underwriting. As seen in chapter three, LTV rates were lower for loans originated in the early part of the decade.

Table 6.2 – Performance Metrics by Construction Type

Construction Type	Percent	Average Loan Amount (thousands)	Median LTV at Underwriting	Median Current DSC	Average Enrollment	Average Funding per Enrolled	Average Loan Amount Per Enrolled	Average Net Income Per Enrolled	% Occpancy Costs
Combination	29%	$ 3,408	85%	2.37	344	$ 12,616	$ 9,959	$ 738	8.7%
Cosmetic Rehab	19%	$ 1,767	88%	1.26	298	$ 16,393	$ 7,578	$ 924	7.9%
Gut Rehab	20%	$ 2,938	87%	2.24	351	$ 13,424	$ 9,335	$ 1,150	12.7%
New	19%	$ 5,015	83%	1.56	336	$ 13,957	$ 16,499	$ 2,136	11.2%
None	14%	$ 2,507	88%	1.15	318	$ 13,305	$ 8,313	$ 715	9.6%

Table 6.3 – Performance Metrics by Loan Type

Loan Type	Percent	Average Loan Amount (thousands)	Median LTV at Underwriting	Median Current DSC	Average Enrollment	Average Funding per Enrolled	Average Loan Amount Per Enrolled	Average Net Income Per Enrolled	% Occpancy Costs
Mini Perm	70%	$ 3,680	89%	1.95	394	$ 13,490	$ 11,564	$ 772	8.6%
Perm	25%	$ 1,848	81%	1.32	347	$ 14,907	$ 5,716	$ 1,976	8.5%
Neither	5%	$ 2,933	75%	2.67	445	$ 20,644	$ 8,093	$ 7,489	4.6%

Table 6.4 – Performance Metrics by Age of Loan

Age of Loan (Years)	Percent	Average Loan Amount (thousands)	Median LTV at Underwriting	Median Current DSC	Average Enrollment	Average Funding per Enrolled	Average Loan Amount Per Enrolled	Average Net Income Per Enrolled	% Occpancy Costs
Less than 2	50%	$ 3,390	90%	1.78	357	$ 14,987	$ 11,075	$ 2,337	8.6%
3 - 4	31%	$ 2,861	83%	1.35	364	$ 12,681	$ 7,350	$ 710	10.5%
5 or more	19%	$ 5,243	79%	2.09	450	$ 14,672	$ 11,400	$ 528	5.4%

Funding per enrolled and net income per enrolled tend to be highest for newer loans. Occupancy costs are lowest among loans that are five years or older.

Table 6.5 compares performance metrics across the age of the school at underwriting. That is, at the time the loan was underwritten, how old was the school, as opposed to the age of the school at the time of the survey. Note that since some data providers did not provide school information, some of the loan metrics here will be different from the general study population.

Most of the loans in the study were underwritten to schools that were less than five years old at the time of underwriting. Some differences in loan metrics are apparent. DSC rates are generally higher for older schools, which are more likely to have reached stabilized enrollment.

Operating performance metrics show similar trends as seen when considering the age of the loan. Older schools have higher enrollment, driving lower loan amounts per enrolled. Older schools also have higher net income per enrolled, perhaps because economies of scale have been fully realized, except for those schools that were 9 or more years old at underwriting.

Table 6.6 compares performance metrics across grade levels served by the school. The average loan amount increases with the age of the students served, as does DSC.

Loan amounts per enrolled and average net income per enrolled also increase with the age of students.

As shown in Table 6.7, charter schools can either operate as an independent organizations (that is, school organization size is one) or part of a multi-school organization. Loan amounts are significantly larger for schools that are part of family of 6 or more schools, averaging over $5 million. LTV ratios are lowest for these schools, while DSC ratios are highest.

Table 6.5 – Performance Metrics by Age of School at Underwriting

Age of School at Underwriting	Percent	Average Loan Amount (thousands)	Median LTV at Underwriting	Median Current DSC	Average Enrollment	Average Funding per Enrolled	Average Loan Amount Per Enrolled	Average Net Income Per Enrolled	% Occpancy Costs
2 or less	40%	$ 2,808	89%	1.26	304	$ 11,604	$ 12,103	$ 750	11.8%
3 - 5	33%	$ 3,098	80%	2.23	328	$ 14,308	$ 11,882	$ 1,147	9.7%
6 - 8	15%	$ 2,155	86%	2.69	399	$ 14,812	$ 6,508	$ 2,142	10.3%
9 or more	13%	$ 2,777	90%	2.21	427	$ 13,572	$ 6,843	$ 518	5.2%

Table 6.6 – Performance Metrics by School Grade Level

School Type/Grade Level	Percent	Average Loan Amount (thousands)	Median LTV at Underwriting	Median Current DSC	Average Enrollment	Average Funding per Enrolled	Average Loan Amount Per Enrolled	Average Net Income Per Enrolled	% Occpancy Costs
Pre-K/Elementary	31%	$ 2,144	89%	1.67	379	$ 13,963	$ 6,738	$ 1,318	8.7%
Middle School/Junior High	40%	$ 2,770	87%	2.05	389	$ 14,361	$ 9,072	$ 1,400	7.7%
High School	29%	$ 3,413	85%	2.24	397	$ 14,220	$ 10,723	$ 1,462	8.6%

Table 6.7 – Performance Metrics by School Organizational Structure

School Organization Size	Percent	Average Loan Amount (thousands)	Median LTV at Underwriting	Median Current DSC	Average Enrollment	Average Funding per Enrolled	Average Loan Amount Per Enrolled	Average Net Income Per Enrolled	% Occpancy Costs
1	46%	$ 2,966	88%	1.26	343	$ 13,852	$ 10,329	$ 206	9.9%
2 - 5	24%	$ 2,928	90%	1.95	447	$ 16,324	$ 8,223	$ 1,066	5.9%
6 or more	30%	$ 5,262	79%	2.23	388	$ 13,876	$ 16,016	$ 2,759	9.4%

Larger organizations tend to see the greatest net income at their schools, with an average net income of about $2,760. Since funding levels are similar for these schools to those for independent schools, it appears that schools in larger organizations are better able to manage operating expenses, perhaps because of the efficiencies gained by operating more schools.

Table 6.8 compares metrics across loan security types. The most common types are first and second liens and New Markets Tax Credits (NMTC) loans. There are so few of the other types of collateral noted that drawing additional conclusions from them is difficult. Second liens have relatively small loan amounts relative to first liens and NMTC loans and relatively high LTV ratios. DSC ratios are lowest among NMTC loans.

Schools using second liens and NMTC loans have higher average enrollments on average. NMTC loans tend to be for schools with higher levels of funding per enrolled. Net income per enrolled tends to be highest at schools with second liens, as do occupancy costs.

Table 6.9 compares performance across types of borrowers. Most often, there is a special purpose entity created to be the borrower on the loan. Loan amounts are highest in this case. The school is the next most frequent borrower type. LTV and DSC ratios tend to be highest when the borrower is the school.

Table 6.8 – Performance Metrics by Loan Security Type

Primary Loan Security	Percent	Average Loan Amount (thousands)	Median LTV at Underwriting	Median Current DSC	Average Enrollment	Average Funding per Enrolled	Average Loan Amount Per Enrolled	Average Net Income Per Enrolled	% Occpancy Costs
First Lien	49%	$ 4,498	80%	1.66	352	$ 13,528	$ 15,365	$ 644	8.5%
Second Lien	17%	$ 1,172	90%	1.67	449	$ 15,540	$ 2,989	$ 3,033	13.0%
NMTC Collateral	12%	$ 3,445	83%	1.21	431	$ 15,210	$ 14,281	$ 85	7.8%
UCC Collateral	6%	$ 664	76%	4.55	354	$ 12,605	$ 1,414	$ 1,625	7.9%
Leasehold Mortgage	5%	$ 3,308	89%	2.41	481	$ 18,040	$ 7,454	$ 3,945	4.8%
Other Security	5%	$ 1,802	97%	1.95	358	$ 12,982	$ 1,261	$ 1,982	5.7%
Unsecured	6%	$ 559	3%	1.27	356	$ 12,677	$ 1,531	$ 1,034	8.7%

Table 6.9 – Performance Metrics by Borrower Type

Borrower Type	Percent	Average Loan Amount (thousands)	Median LTV at Underwriting	Median Current DSC	Average Enrollment	Average Funding per Enrolled	Average Loan Amount Per Enrolled	Average Net Income Per Enrolled	% Occpancy Costs
Special purpose entity	43%	$ 4,604	83%	1.47	355	$ 13,218	$ 13,410	$ 1,112	10.1%
School	30%	$ 1,890	90%	2.18	375	$ 14,107	$ 6,685	$ 1,449	8.7%
Non-profit charter school de	12%	$ 3,106	87%	1.27	316	$ 15,840	$ 9,981	$ 730	9.5%
CMO	6%	$ 1,960	89%	1.21	300	$ 9,091	$ 6,838	$ 98	9.8%
For profit developer	1%	$ 3,250	63%	0.00	0	$ -	$ -	$ -	0.0%
Other	8%	$ 2,765	84%	1.45	222	$ 13,985	$ 6,313	$ (1,196)	11.4%

Funding per enrolled is higher among non-profit charter school development organizations, while enrollment and net income is lower. Loan amount per enrolled is highest among loans where the borrower is a special purpose entity; funding per enrolled is lowest among CMOs.

Table 6.10 compares performance between schools that have a third party operating manager with those who do not. While the majority of schools do not have a third-party manager, a significant minority do. Loan amounts are two and a half times higher among those with third party managers. DSC ratios are also higher among those with third party managers.

From a school operating perspective, funding and net income are significantly higher for those without a 3rd party manager. Though the two groups have similar enrollments, loan amounts per enrolled are much higher at schools managed by a third party.

Table 6.11 compares performance across facility ownership structures. In general, either the facility is owned by the school or the school leases it from another organization that might or might not be affiliated with the school. Loan amounts tend to be highest when the school is leased from an affiliated entity. LTV and DSC ratios are highest when the facility is owned by the school.

Funding, loan amount per enrolled and occupancy costs tend to be highest when the facility is leased from an affiliated entity. Net income is highest when owned by the school.

Approximately half of the respondents reported the percentage of students in the school's surrounding district that attend charter schools. Table 6.12 compares the performance metrics for those who reported this data.

Table 6.10 – Performance Metrics by Presence of Third Party Manager

3rd Party School Manager	Percent	Average Loan Amount (thousands)	Median LTV at Underwriting	Median Current DSC	Average Enrollment	Average Funding per Enrolled	Average Loan Amount Per Enrolled	Average Net Income Per Enrolled	% Occpancy Costs
Yes	36%	$ 5,067	85%	2.23	363	$ 12,441	$ 16,316	$ 639	8.9%
No	64%	$ 1,955	88%	1.64	350	$ 14,213	$ 6,319	$ 1,408	9.5%

Table 6.11 – Performance Metrics by School Ownership Structure

Facility Ownership	Percent	Average Loan Amount (thousands)	Median LTV at Underwriting	Median Current DSC	Average Enrollment	Average Funding per Enrolled	Average Loan Amount Per Enrolled	Average Net Income Per Enrolled	% Occpancy Costs
Leased by school from 3rd party organization	30%	$ 2,027	84%	1.37	321	$ 11,770	$ 6,528	$ 932	9.9%
Leased by school from an affiliated entity	42%	$ 4,687	87%	1.66	337	$ 14,603	$ 15,794	$ 852	10.8%
Owned by School	28%	$ 1,927	90%	1.95	381	$ 13,443	$ 5,707	$ 1,618	8.3%

Table 6.12 – Performance Metrics by Percent of District Students in Charter Schools

School District Charter Population	Percent	Average Loan Amount (thousands)	Median LTV at Underwriting	Median Current DSC	Average Enrollment	Average Funding per Enrolled	Average Loan Amount Per Enrolled	Average Net Income Per Enrolled	% Occpancy Costs
Less than 7%	46%	$ 3,346	88%	1.85	311	$ 11,386	$ 12,677	$ 818	11.6%
7-10%	29%	$ 1,313	93%	1.95	339	$ 11,442	$ 4,998	$ 388	9.3%
More than 10%	25%	$ 1,531	88%	1.28	437	$ 15,113	$ 3,850	$ 2,955	15.6%

Schools in districts where more than ten percent of students are educated in charter schools have much different values for several key metrics than their counterparts, specifically:

- enrollment is higher
- funding per enrolled is much higher
- net income per enrolled is significantly higher, and
- occupancy costs are higher

Table 6.13 compares the performance metrics for loans with and without a guarantee. Loan amounts are higher for loans with a guarantee. DSC ratios are higher for loans without a guarantee. Funding and net income per enrolled are higher where there is no guarantee. These results are not surprising, as guarantees are generally sought when income per enrolled is lower, driving lower DSC rates.

Table 6.14 shows the results for loans with and without a credit enhancement. While loan amounts and DSC ratios are similar, LTV ratios are higher for loans with a credit enhancement. As with guarantees, funding and net income per enrolled are higher where there is no credit enhancement. As with the presence of a guarantee, these results are not surprising. Credit enhancement is often required by lenders with higher LTV loans, which are often perceived to be riskier.

Finally, Table 6.15 compares the metrics for refinanced loans against those that are not. While the majority of the loans in the study are not refinances, there is a significant set of loans that are. Loan amounts and LTV ratios are similar for refinanced loans versus those that are not. DSC ratios are much higher for refinances. Funding and net income are higher for refinances, while occupancy costs are much lower.

Table 6.13 – Performance Metrics by Presence of Guarantee

Guarantee	Percent	Average Loan Amount (thousands)	Median LTV at Underwriting	Median Current DSC	Average Enrollment	Average Funding per Enrolled	Average Loan Amount Per Enrolled	Average Net Income Per Enrolled	% Occpancy Costs
Yes	54%	$ 3,494	86%	1.39	308	$ 12,660	$ 13,959	$ 774	10.5%
No	46%	$ 2,506	85%	1.95	365	$ 14,381	$ 6,346	$ 1,478	10.4%

Table 6.14 – Performance Metrics by Presence of Credit Enhancement

Credit Enhancement	Percent	Average Loan Amount (thousands)	Median LTV at Underwriting	Median Current DSC	Average Enrollment	Average Funding per Enrolled	Average Loan Amount Per Enrolled	Average Net Income Per Enrolled	% Occpancy Costs
Yes	62%	$ 3,165	88%	1.78	339	$ 12,381	$ 12,146	$ 738	9.8%
No	38%	$ 2,947	81%	1.66	351	$ 14,804	$ 8,242	$ 886	8.7%

Table 6.15 – Performance Metrics by Refinance

Refinance	Percent	Average Loan Amount (thousands)	Median LTV at Underwriting	Median Current DSC	Average Enrollment	Average Funding per Enrolled	Average Loan Amount Per Enrolled	Average Net Income Per Enrolled	% Occpancy Costs
Yes	18%	$ 3,277	85%	2.21	390	$ 14,263	$ 8,701	$ 2,105	8.0%
No	82%	$ 2,911	87%	1.60	329	$ 13,209	$ 10,655	$ 774	10.5%

VII. FORECLOSED, DELINQUENT OR EXTENDED LOANS

This chapter considers three categories of loans:

- **foreclosed loans**
- **loans that have been delinquent at any time**
- **loans that have had an extension of six months or more at any time**

For obvious reasons, loans in the first two categories present difficulties for lenders. Loans in the third category are also often an indication of a problem. Charter school loans are generally shorter term financing designed to be refinanced. If there are problems obtaining the next level of financing, lenders will sometimes extend the loan term for a short period. Usually the extension is related to administrative concerns or some other relatively benign factor. Issues like these can be resolved in a few weeks or months, requiring a short extension. If the extension lasts beyond six months, that is often an indicator of difficulty obtaining additional financing, which may be a sign of weakness in the school's financial situation.

FORECLOSED LOANS

Among the 15 respondents and 464 outstanding and paid off loans there were five foreclosed loans over the past decade. Three of these foreclosed loans originated in 2006, one in 2005 and another in 2000. Table 7.1 displays a cohort analysis for foreclosure activity. It shows, for example, that loans originated in 2006 had the greatest rate of foreclosures in the study. Of the $156 million in charter school loans made that year by study participants, $8.6 million was foreclosed. The total associated amount written off was just under $1.0 million. This means that 5.5% of 2006 loan amounts were foreclosed, and the loss in that year was about 0.6% of the total loan amounts made.

In all, loan amounts for foreclosed loans totaled $11.9M for study participants, of which lenders wrote off about $2.2 million. These amounts represent 1.0% and 0.2%, respectively, of total loan amounts made during the period. It is also worth noting that two of the five loans were made by separate lenders to the same school.

Table 7.1 – Foreclosed Loans

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

Respondents also reported the reason for the foreclosure, the status of the charter at the time of foreclosure and the status of the loan at the time of data collection - table 7.2 summarizes those results.

Delinquent or Extended Loans

Because of the small number of foreclosures and the limited data that respondents can provide concerning them, extensive analysis of them is not possible for this study. As noted at the outset of the chapter, loans that are delinquent or extended for a period of at least six months are often a sign of trouble ahead. This chapter refers to loans meeting either of these criteria as *del/ext loans*. Since there was more data reported for del/ext loans, a greater level of analysis is possible. Note that there is no overlap between these two groups. Loans in this data set have either been extended by six months or delinquent, but not both.

There were 34 del/ext loans in the dataset – 25 were outstanding and 9 were paid off. Figure 7.3 compares the number of del/ext loans originating from 2000 to 2010 against the number of other loans. Loans made in 2003 have the highest del/ext loan rate – 7 of the 21 loans made in that year were delinquent or extended at some point over the life of the loan. The number of del/ext loans is lower in 2008 and 2009, likely because the loans are not old enough to have experienced a large number of delinquencies or extensions.

Table 7.2 – Foreclosed Loans

Primary Reason for Foreclosure	Charter Status at Foreclosure	Loan Status
Financial	Charter in effect	Foreclosure - still own
Financial	Charter revoked or not renewed	Foreclosure - still own
Management	Charter revoked or not renewed	Foreclosure - sold or transferred
Management	Charter revoked or not renewed	Foreclosed - school closed
Political	Charter revoked or not renewed	Foreclosed - school closed

Figure 7.3 – Delinquent and Extended Loans by Year of Origination

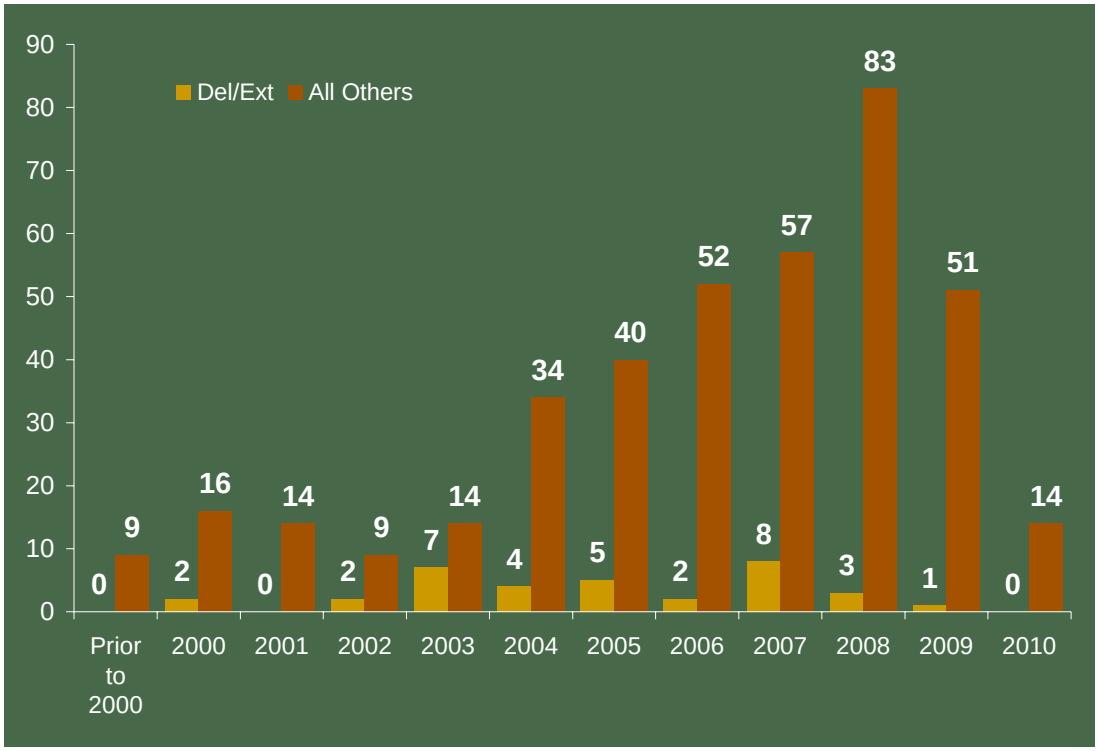


Table 7.4 compares the 34 del/ext loans against all other loans, of which there are 430 (396 of which reported loan amounts). This means that about eight percent of loans are del/ext loans. The average loan amount for del/ext loans is $3.1 million - about 11% higher for del/ext loans than all others. The percent of the loan balance that remains outstanding on del/ext loans is about 78%, slightly higher than for other loans.

Table 7.5 compares the loan terms for del/ext loans against all other loans. The average LTV ratio at underwriting of 84 % is only 1 point lower for del/ext loans than for other loans. The DSC ratio at underwriting is also slightly higher for del/ext loans, at 1.5. The averages for interest rate and loan term are both lower for del/ext loans than for other loans. Loan terms at underwriting don't appear correlated with loan performance. This suggests that these loan-related metrics are not necessarily indicative of the underlying strength, or weakness, of the school and therefore by themselves are not predictive of loan outcomes.

However, one loan characteristic does appear related to performance. Figure 7.6 compares the interest rate types for del/ext loans against all others. Twenty-eight percent of del/ext loans have floating interest rates, compared to five percent of all other loans. Stated differently, 7 of the 20 loans with floating interest rates have been delinquent or extended for more than 6 months – 18 of the 244 loans that don't have floating interest rates have been delinquent or extended.

Table 7.4 – Del/Ext Loans

	Del/Ext loans	All Others
Number of Loans	34	396
Total Original Loan Amounts	$106.1M	$1.1B
Average Loan Amount	$3.1M	$2.8M
Average Percent Current Balance	77.6%	75.5%
Average Current Balance	$2.4M	$2.1M

Notes: (1) There were 34 loans in the 'All Others' category for which loan information was not provided, they are excluded from this table. (2) Respondents did not provide information on delinquency or extensions for 15 loans

Table 7.5 – Loan Terms for Del/Ext Loans

	Del/Ext loans	All Others
Median Loan to Value (LTV) Ratio	84.0%	85.0%
Median DSC at Underwriting	1.5	1.4
Weighted Average Interest Rate	5.0%	5.3%
Average Loan Term in Years	7.7	8.7

Figure 7.6 – Interest Rate Types for Del/Ext Loans

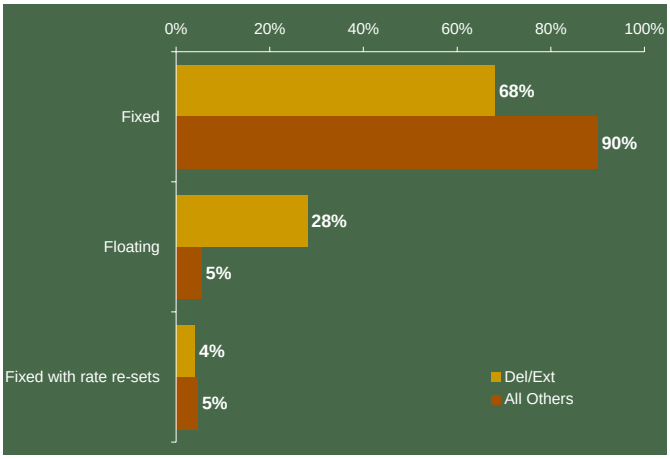


Figure 7.7 compares the loan security types for del/ext loans against all others. Del/ext loans are more likely to be first liens (63% of del/ext loans v. 48% of others) and UCC collateral (17% v. 5%) and less likely to be second liens (8% v. 17%) or NMTC collateral (4% v. 13%).

Finally, Table 7.8 compares key school operating performance metrics for schools with del/ext loans vs. all others.

A few key differences stand out from this table:

- Schools with del/ext loans tend to be part of a smaller family of schools. They average 2.5 other schools in the organization to which they belong, for a total of 3.5 schools in the family. Other schools average about six schools in the organization. Del/ext loans also tend to have smaller enrollments – but recall from chapter six that schools in smaller organizations also tended to have lower enrollments.
- On average, schools with del/ext loans have slightly higher funding levels, which also may be a function of the size of the organization to which they belong (see table 6.7). However, they have lower net income per enrolled. This indicates that these schools have difficulty managing expenses rather than income. In particular, schools underlying with del/ext loans have higher occupancy costs, which is not a function of organization size.
- Finally, the lenders rated the schools underlying del/ext loans lower on average than other schools in terms of academic performance. Almost half of schools underlying del/ext loans had not met adequate yearly progress requirements in 2008-09, compared to just over a quarter of other schools.

Figure 7.7 – Loan Security for Del/Ext Loans

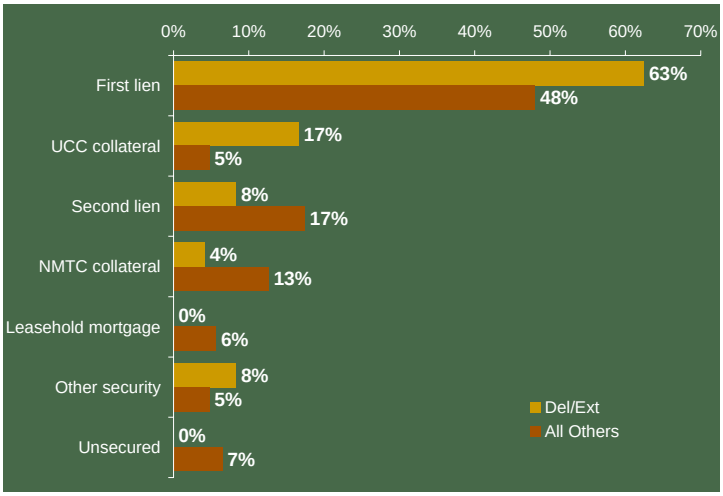


Table 7.8 – Comparison of Key Metrics for Schools with Del/Ext Loans v. All Others

	Del/Ext loans	All Others
Average 2008-2009 Enrollment	298	396
Average Number of Schools in School Family	3.5	5.9
Percent with a Financial Expert on the Board	79%	80%
Average Revenue per Enrolled	$14,497	$14,113
Average Net Income per Enrolled	$746	$1,396
Average Percent Occupancy Cost	11.0%	8.1%
Average Academic Rating	6.7	7.4
Percent Contracted with Full-Service Management Company	44%	39%
Percent meeting AYP Requirements	53%	74%
Average Age of School at Underwriting	3.0	3.6

The last two chapters present a number of comparisons about the performance of loans made to charter schools and identify some characteristics that distinguish stronger performing loans from others. As noted previously, the analysis in this report considers single variables at a time. Unfortunately, there was not sufficient data to build a multivariate model yielding significant results. Still, some patterns are apparent in the analysis:

- The type of interest rate appears to be related to loan performance. More than 28% of loans that have been delinquent or extended for more than six months were floating rate loans. Only five percent of other loans are floating rate loans – 90% are fixed.
- The size of the school's organization matters. Schools that are a part of a family of six or more schools have higher net income per enrolled student. On average schools without del/ext loans belong to an organization that is nearly twice the size of schools with del/ext loans.
- Higher occupancy costs are associated with poorer loan performance. Occupancy costs include debt/lease payments plus capital, maintenance and utility costs. They average 11% of operating expenses at schools with del/ext loans, compared to 8% at other schools. Occupancy costs are highest at newer schools. Once a school is able to reach the first refinance, occupancy costs usually decrease and net income is higher.
- Schools in districts where a higher percentage of students are educated in charter schools tend to have better operating performance. The amount of funding is much higher in districts where more than 10 percent of the students are educated in charter schools, as is the corresponding net income. This is in spite of the fact that occupancy costs tend to be a greater percentage of expenses in those regions.
- LTV, DSC and interest rate at underwriting don't appear correlated with loan performance. This suggests that these loan-related metrics are not necessarily indicative of the underlying strength, or weakness, of the school and therefore by themselves are not predictive of loan outcomes. That does not necessarily mean that these metrics don't matter when underwriting charter school loans. The hypothesis that LTV affects loss given default was not able to be tested, as the number of foreclosure rates was so low (only five foreclosed loans).

APPENDIX A - DATA PROVIDERS

The following is a list of lenders who provided data for this study. We are truly grateful to them for the significant time each spent to provide very detailed lending and operating data.

- Bank of America
- Boston Community Loan Fund
- Community Reinvestment Fund, Inc. (CRF)
- IFF
- The Low Income Investment Fund (LIIF)
- Local Initiatives Support Corporation (LISC)
- MassDevelopment
- NCB Capital Impact
- New Jersey Community Capital
- Nonprofit Finance Fund (NFF)
- PNC Capital Markets
- Prudential Insurance Company of America
- Raza Development Fund, Inc.
- The Reinvestment Fund (TRF)
- Vectra Bank

APPENDIX B - DATA DICTIONARY

The following is a list of the fields and definitions distributed to data providers for data collection. The questionnaire was delivered in an Excel workbook format. Each worksheet asked for a different category of information, as denoted by the headings below.

Identification	
Data Field	Definition
Loan Number	A number that can be used to uniquely identify a loan within your portfolio of charter school loans
Is this a syndicated or participation loan?	Indicate whether or not this is a loan where multiple lenders are providing capital on a single loan.
If so, is your organization the servicing agent for this loan?	Indicate whether you are the servicing agent for this loan. If not, you may skip all school information and only include information on the loan performance tab.
School Name	Indicate the school name for which the loan is used.
Did this loan finance any pre-development activities?	Indicate whether the loan financed any pre-development activities. Answer yes even if other activities were financed.
Did this loan finance any acquisition activities?	Indicate whether the loan financed any acquisition activities. Answer yes even if other activities were financed.
Did this loan finance any construction activities?	Indicate whether the loan financed any construction activities. Answer yes even if other activities were financed.
Was this a mini-perm loan (up to 7 years) or perm loan (7 years+)?	Indicate whether the loan is a mini-perm (up to 7 years) or a perm loan (7+ years). If it started as mini-perm and converted to a perm loan, you should consider it a perm loan. If neither situation pertains, please indicate "Neither."
Number of Years Remaining on Current Charter - in Years	Indicate the number of years remaining on the current charter.
Number of Charter Renewals to Date	Indicate the number of times this charter has been renewed to date.
City	Provide the city in which the main campus of the school is located.
State	Provide the state in which the main campus of the school is located.
Zip Code	Provide the zip code in which the main campus of the school is located.
Location Type	Indicate whether the school is located in a suburban, urban, or rural area.
Year School Opened	Provide the calendar year in which the school opened (i.e. year in which school began servicing students).

2008-09 % ESL Students	Indicate the percentage of students who were learning English as a second language in the 2008-09 school year.
2008-09 % IEP Students	Indicate the percentage of students who required an individualize education program in the 2008-09 school year.
2008-09 % Free or Reduce Lunch Students	Indicate the percentage of students who qualified for free or reduced-price lunches in the 2008-09 school year.
Pre-K	Indicate whether or not the school services pre-kindergarten students as authorized by the school's charter or if there are plans to do so. "Planned" is defined as legally allowable in addition to having the physical and financial capacity for expansion. Do not answer "Y" to this question if the pre-K program is not included as part of the school's charter.
Elementary	Indicate whether or not the school services elementary students (typically grades K through 5) as authorized by the school's charter or if there are plans to do so. "Planned" is defined as legally allowable in addition to having the physical and financial capacity for expansion.
Middle/Junior High	Indicate whether or not the school services middle or junior high students (typically grades 6 through 8) as authorized by the school's charter or if there are plans to do so. "Planned" is defined as legally allowable in addition to having the physical and financial capacity for expansion.
High School	Indicate whether or not the school services high school students (typically grades 9 through 12) as authorized by the school's charter or if there are plans to do so. "Planned" is defined as legally allowable in addition to having the physical and financial capacity for expansion.
Is School Part of a Multi-School Organization?	Indicate if this school is part of a larger organization of affiliated schools.
How Many Schools are in this Family of Schools? Indicate "1" if it is a Single School	
Was the school contracted with a [full-service] school management company at the end of FY09	Did the school have a contract with a 3rd party entity to manage the education function of the school at the end of FY09? Note that Charter management organizations (CMOs) are nonprofit entities that start and manage new, aligned systems of charter schools within a specific geographic region. By centralizing and sharing certain functions and resources across schools, CMOs aim for greater efficiency and long-term sustainability.

Was the school contracted with a 3rd party business manager for back-office functions (state reporting and financial) at the end of FY09	Did the school have a contract with a 3rd party entity to manage certain administrative functions of the school at the end of FY09?
Is the school that was financed part of a single charter that operates at multiple locations/sites	Indicate if the school has more than one educational facility/building associated with it.
Are there multiple, independent schools located in the same building/facility?	Indicate if one facility contains two or more independent schools. One facility is defined as one physical building.
Current Total Facility Square Footage	Indicate the current square footage of the facility in which the school resides.
Square footage occupied by the school	Indicate the current square footage occupied by the school itself.
Construction Type	Indicate the kind of facility construction.
Facility Ownership	Select the facility ownership structure from the list below.
Number of Facilities	Indicate the number of buildings/facilities in which the school operates.
Total Current Square Footage over All Facilities	Indicate the square footage of the facility in which the school resides.
Square footage occupied by the school	Indicate the current square footage occupied by the school itself.
Construction Type	Indicate the kind of facility construction.
Facility Ownership	Select the facility ownership structure from the list below.

Operating Performance	
Data Field	Definition
Loan Number	A number that can be used to uniquely identify a loan within your portfolio of charter school loans
School Name	Indicate the school name for which the loan is used.
Is your organization the servicing agent for this loan?	Indicate whether you are the servicing agent for this loan. If not, you may skip all school information and only include information on the loan performance tab.
2008-09 Enrollment	Provide the total number of students enrolled at the school for 2008-09. Provide the enrollment used to calculate reimbursement, if applicable. Otherwise, use your best estimate of enrollment.

2007-08 Enrollment	Provide the total number of students enrolled at the school for 2007-08. Provide the enrollment used to calculate reimbursement, if applicable. Otherwise, use your best estimate of enrollment.
2006-07 Enrollment	Provide the total number of students enrolled at the school for 2006-07. Provide the enrollment used to calculate reimbursement, if applicable. Otherwise, use your best estimate of enrollment.
2008-09 ADA	Provide the total average daily attendance for 2008-09.
2007-08 ADA	Provide the total average daily attendance for 2007-08.
2006-07 ADA	Provide the total average daily attendance for 2006-07.
FY2009 Federal, State or Local Government Funding	Please provide the total funding received by the school from a government source. Include federal, state and local funding sources.
FY2009 Fundraising Revenue	Please provide the total revenue received from any school/community fundraising efforts.
FY2009 Other Funding	Please provide the total funding received from any other source beside government funding and fund-raising efforts.
Total FY2009 Funding	Total School Funding in FY2009 from all sources - equals sum of previous three fields and is calculated automatically. Revenues exclude any operating subsidies from a parent company or guarantor.
How is revenue funding calculated?	Indicate how revenue funding is calculated for the school using the list below.
If another revenue funding calculation method is used, please describe here	If "Other" is selected for previous field, describe here.
When does payment occur?	Indicate frequency of reimbursement payments using the list below.
If another timing of payment occurs, please describe	If "Other" is selected for previous field, describe here.
FY2009 Personnel Expenses	Provide the total amount spent in FY2009 for personnel as reported on the most recent 12-month audited financial statement.
FY2009 Debt Service and/or Lease Payments	Provide the total amount spent in FY2009 for debt service or lease payments as reported on the most recent 12-month audited financial statement.
FY2009 Capital Equipment, Maintenance & Utilities	Provide the total amount spent in FY2009 for capital equipment, maintenance, and utilities as reported on the most recent 12-month audited financial statement.
FY2009 Replacement Reserve Contribution	Provide the total FY2009 replacement reserve contribution as reported on the most recent 12-month audited financial statement.

FY2009 Other Expenses	Provide the total amount of other expenses for FY2009 as reported on the most recent 12-month audited financial statement.
FY2009 Total Operating Expenses	Calculated automatically
FY2009 Total Net Income	Calculated as FY2009 Total Revenue less FY2009 Total Operating Expenses.
FY2008 Total Net Income	Calculate as FY2008 Total Revenue less FY2008 Total Operating Expenses.
FY2007 Total Net Income	Calculate as FY2007 Total Revenue less FY2007 Total Operating Expenses.
FY2009 Cash and equivalents (unrestricted)	Indicate the total unrestricted cash and equivalents for FY2009 as reported on the most recent 12-month audited financial statement.
FY2009 Current Liabilities	Indicate the current liabilities for FY2009 as reported on the most recent 12-month audited financial statement.
FY2009 Total Liabilities	Indicate the total liabilities for FY2009 as reported on the most recent 12-month audited financial statement.
FY2009 Current Assets	Indicate the current assets for FY2009 as reported on the most recent 12-month audited financial statement.
FY2009 Total Assets	Indicate the total assets for FY2009 as reported on the most recent 12-month audited financial statement.
FY2009 Total Equity	Indicate the total equity for FY2009 as reported on the most recent 12-month audited financial statement.

Loan Performance	
Data Field	Definition
Loan Number	A number that can be used to uniquely identify a loan within your portfolio of charter school loans
School Name	Indicate the school name for which the loan is used.
Is your organization the servicing agent for this loan?	Indicate whether you are the servicing agent for this loan. If not, you may skip all school information and only include information on the loan performance tab.
Year Loan Originated (YYYY)	Indicate the calendar year in which the loan was originated (e.g. 1999).
Primary Loan Security	Indicate the type of loan security for this loan using the list below. If there are multiple securities, please provide the primary security type.

Secondary Loan Security, if applicable	Please provide the secondary security type, if applicable, using the list below.
If this is a first lien, is there any subordinate debt for this school?	If this loan is in the first lien position, indicate if there is any additional subordinate debt.
If there is subordinate debt, please provide the names of any subordinate lenders	
If yes, how much subordinate debt is there?	If you indicated that there was subordinate debt for this loan, please provide the total dollar amount of subordinate debt that exists.
Borrower Type	Describe the borrower by selecting one of the options below.
If there is another borrower type, please describe here	If "Other" is selected for previous field, describe here.
Is the Borrower also the school operator?	Indicate if the borrower is also the school operator - in some cases the borrower is a landlord who charges rent to the school.
Total Original Loan Amount for The Loan Serviced by Your Organization	Provide the original total loan amount. Report the actual number. Do not reduce into units such as thousands or hundreds.
Amount financed by your organization	If this is a syndication/participation loan, indicate the amount of financing that was provided by your institution.
Current Loan Balance	Provide the loan balance from the lender's latest 12-month audited financial statement. Report the actual number. Do not reduce into units such as thousands or hundreds.
What was the total amount written off for this loan? If none, input zero.	
Loan Term (years)	Provide the loan term in years.
Amortization Term (months)	Provide the amortization term in months.
Type of Interest Rate	Select the type of interest rate from the list below.
Current Interest Rate	Provide the current interest rate.
What type of credit enhancement is there, if any? If none, please indicate.	
What is the amount of the credit enhancement?	
Is there a guarantee?	
Who is the primary guarantor?	Provide the type of guarantor from the list below. If there are multiple guarantors, please provide the primary type.
Who is the secondary guarantor, if applicable?	Provide the type of secondary guarantor from the list below, if applicable.

Has this loan been extended for less than 24 months?	Indicate if one or more extensions have been made for this loan. If the term of a single extension is less than 24 months, please include it here. If the term of a single "extension" is 24 months or more, please include it as a refinance.
Sum of all Extensions	If there have been one or more extensions (each of which individually is less than 24 months) please provide the sum of the terms over all extensions. For example, if you had one extension of 12 months and another of 18 months, the total would be 30 months and you would select the answer category "1 to 3 years."
Is this a refinance of an existing loan with a term of greater than 24 months?	Indicate if this loan is a refinance. If there has been an "extension" of 24 months or more, please include it here. If the term of a single "extension" is less than 24 months, please include it as an extension.
If yes, please provide the funds that were used to refinance the prior loan	
Total funding for construction, development or some other purpose	
LTV at underwriting	Provide the original loan to value ratio.
DSC at underwriting	Provide the original debt service coverage ratio. This calculation should be based on Senior only or Senior and sub if available. If the only available DSC at underwriting is a projected value, please provide this value below.
FY2009 DSC	Provide the current debt service coverage ratio as of the most recent audit.
Delinquency Status	Select the loan status from the list below.
How many times has the loan been 60 days or more delinquent over the life of the loan?	Indicate how many times the loan has been 60 days or more delinquent over the life of the loan.
Amount of Loan that is (or was) delinquent	Provide the current loan amount that is delinquent.

Additional School Information	
Data Field	Definition
Loan Number	A number that can be used to uniquely identify a loan within your portfolio of charter school loans
School Name	Indicate the school name for which the loan is used.

Is your organization the servicing agent for this loan?	Indicate whether you are the servicing agent for this loan. If not, you may skip all school information and only include information on the loan performance tab.
At underwriting, was there a financial expert on the board?	Indicate if there was a financial expert on the school's board of directors at the time the loan was underwritten.
At underwriting, was there a legal expert on the board?	Indicate if there was a legal expert on the school's board of directors at the time the loan was underwritten.
At underwriting, was there a real estate expert on the board?	Indicate if there was a real estate on the school's board of directors at the time the loan was underwritten.
At underwriting, was there a community representative on the board?	Indicate if there was a community representative on the school's board of directors at the time the loan was underwritten.
Assess the relative academic performance of the school using an existing rating or your best judgment (10 is excellent)	Assess the academic performance of the school relative to others in the school district on a scale of 1 to 10, where 10 is excellent. If such a rating exists in the state where that school resides, use that number - otherwise use your best judgment.
Did the school meet Adequate Yearly Progress requirements for 2008-09?	Indicate the academic performance of this charter school compared to all public schools in the district. This numerical ranking should be based on state ranking criteria. Put "n/a" if not applicable.
FY2009 % of school district population in charter schools	Provide the percent of the school district population that is serviced by this charter school.

Paid Off or Foreclosed Loans	
Data Field	Definition
Loan Number	A number that can be used to uniquely identify a loan within your portfolio of charter school loans
School Name	Indicate the school name for which the loan is used.
Loan Status	Select from the list below the reason for removal of this loan from the balance sheet.
If "Other" Loan Status Selected, Please Describe	
Charter Status at Foreclosure	What was the status of the school charter at the time of the foreclosure - answer only for foreclosed loans.
Primary Reason for School Failure	Indicate the key factor leading to school failure - answer only for foreclosed loans.
Date of foreclosure (MM/YYYY)	Provide the date of the foreclosure, if applicable.

Current Building Status or Intended Building Status at the time of Sale	If you have not sold the building after foreclosure, please indicate the current status of the building. Or, if you have sold the building, indicate the intended use of the building at the time of the sale.
If school was sold, indicate date of sale (MM/YYYY)	If building status is sold, please provide the date of sale.
What was the gain or loss associated with the sale (not including write-offs)?	Should equal the amount of the sale minus the loan balance at the time of the sale.
What was the total amount written off for this loan? If none, input zero.	Provide the total amount written off for this loan at any time during its existence. Should be a positive number.
Takeout source	Indicate the source of funds for the "takeout" of the loan.
Takeout Date (MM/YYYY)	Indicate the date of takeout.
If "Other" please explain	
If "Term Loan", please specify the source	If the Takeout source is "Term Loan" please provide the source of the term loan.
If refinanced, did you rely on credit enhancement or guarantee for your repayment?	If the loan was refinanced, indicate if a guarantee or credit enhancement played any role in the refinancing.
Prior to repayment, was this loan extended for a total of six months or more?	Only include extensions totaling 6 months or more.
Total Length of Extensions	If there were one or more extensions, please provide the total length of time covered by all extensions.
Is School Part of a Multi-School Organization?	Indicate if this school is part of a larger organization of affiliated schools.
How Many Schools are in this Family of Schools? Indicate "1" if it is a Single School	
City	Provide the city in which the main campus of the school is located.
State	Provide the state in which the main campus of the school is located.
Zip Code	Provide the zip code in which the main campus of the school is located.
Location Type	Indicate whether the school is located in a suburban, urban, or rural area.
Year School Opened (YYYY)	Provide the calendar year in which the school opened (i.e. year in which school began servicing students).

Year Loan Originated (YYYY)	Indicate the calendar year in which the loan was originated (e.g. 1999).
Borrower Type	Describe the borrower by selecting one of the options below.
If there is another borrower type, please describe here	If "Other" is selected for previous field, describe here.
Was the Borrower also the school operator?	Indicate if the borrower is the entity who actually operates the school
Total Original Loan Amount	Provide the original loan amount. Report the actual number. Do not reduce into units such as thousands or hundreds.
Loan Balance at repayment or foreclosure	Provide the loan balance at the time of foreclosure or at the time of loan repayment. If the loan was fully amortized, please indicate "0".
Did this loan finance any pre-development activities?	Indicate whether the loan financed any pre-development activities. Answer yes even if other activities were financed.
Did this loan finance any acquisition activities?	Indicate whether the loan financed any acquisition activities. Answer yes even if other activities were financed.
Did this loan finance any construction activities?	Indicate whether the loan financed any construction activities. Answer yes even if other activities were financed.
Was this a mini-perm loan (up to 7 years) or perm loan (7 years+)?	Indicate whether the loan is a mini-perm (up to 7 years) or a perm loan (7+ years). If it started as mini-perm and converted to a perm loan, you should consider it a perm loan. If neither situation pertains, please indicate "Neither."
Loan to total development cost ratio	Provide the Loan to total development cost ratio based on the original appraisal.
LTV at payoff or foreclosure	Provide the loan to value ratio upon loan completion.
Original DSC	Provide the original debt service coverage ratio. This calculation should be based on Senior only or Senior and sub if available. If the only available DSC at underwriting is a projected value, please provide this value below.
DSC at payoff or foreclosure	Provide the debt service coverage ratio upon loan completion.

Endnotes

[1] The full data consists of 464 loans; however, original loan amount was not provided for 34 of the loans.

[2] http://www.uscharterschools.org/pub/uscs_docs/o/index.htm

[3] The Center for Education Reform. National Charter School and Enrollment Statistics 2009. – November 2009 http://www.edreform.com/_upload/CER_charter_numbers.pdf http://www.edreform.com/Fast_Facts/K12_Facts/

[4] The Center for Education Reform. CHARTER SCHOOL GROWTH OVER TEN YEARS. – November 2009 http://www.edreform.com/_upload/CER_charter_numbers.pdf http://www.edreform.com/Fast_Facts/K12_Facts/

[5] The Center for Education Reform K-12 Facts http://www.edreform.com/Fast_Facts/K12_Facts/

[6] There were another 34 loans supplied for which original loan amount was not reported

[7] http://www.cdfifund.gov/what_we_do/programs_id.asp?programid=5 The New Markets Tax Credit (NMTC) Program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs).

[8] US Department of Education "ELEMENTARY & SECONDARY EDUCATION: Subpart 2 — Credit Enhancement Initiatives To Assist Charter School Facility Acquisition, Construction, and Renovation" http://www2.ed.gov/policy/elsec/leg/esea02/pg63.html

[9] States map to regions as defined by the United States Census Bureau

[10] Source for the number of charter schools in the region is the Center for Education Reform - National Charter School and Enrollment Statistics 2010, October 2010 http://www.edreform.com/_upload/CER_charter_numbers.pdf

A Decade of Results: Charter School Loan & Operating Performance

Prepared for the Low Income Investment Fund, The Reinvestment Fund and Raza Development Fund
by the Quantitative Economics and Statistics Practice of Ernst & Young LLP