

U.S. Department of Education
Washington, D.C. 20202-5335

APPLICATION FOR GRANTS
UNDER THE

Grants for Credit Enhancement for Charter School Facilities

CFDA # 84.354A

PR/Award # S354A230016

Grants.gov Tracking#: GRANT13924191

OMB No. 1810-0775, Expiration Date: 01/31/2026

Closing Date: Jun 26, 2023

PR/Award # S354A230016

TABLE OF CONTENTS

ABSTRACT NARRATIVE

PROJECT NARRATIVE

INTRODUCTION	1
I. QUALITY AND SIGNIFICANCE OF GRANT PROJECT DESIGN.....	4
SIGNIFICANCE.....	4
<i>DELIVERING PERMANENT FINANCING OPTIONS FOR START-UP AND EARLY-STAGE CHARTER SCHOOLS.....</i>	4
• <i>BHLF Loan Terms with and without Credit Enhancement, Under FFP with 2023 Award.....</i>	4
• <i>Methodology.....</i>	5
<i>REPLICABLE MODEL</i>	7
PROJECT GOALS, OBJECTIVES AND PERFORMANCE MEASURES AND TARGETS	8
PROJECT IMPLEMENTATION PLAN AND ACTIVITIES	11
<i>OVERVIEW.....</i>	12
<i>ESTABLISHING AND INVESTING FUNDS FROM THE RESERVE ACCOUNT</i>	12
<i>DEVELOPING/EXPANDING PARTNERSHIPS TO SUPPORT THE PROJECT.....</i>	12
<i>IDENTIFYING SCHOOLS FOR THE PROJECT.....</i>	13
• <i>Selection Criteria</i>	14
<i>PROVIDING TECHNICAL ASSISTANCE (TA).....</i>	16
<i>DETERMINING THE AMOUNT AND TYPE OF ASSISTANCE/FINANCING</i>	16
<i>LEVERAGING PERMANENT BOND FINANCING.....</i>	17
<i>COLLECTING, STORING AND REPORTING PERFORMANCE DATA</i>	18
<i>REPLICATING RESULTS</i>	18
TIMELINE FOR ACTIVITIES AND TRANSACTION FORECAST	18
• <i>Chart 2: Credit Enhancement (CE) Transaction Timeline and Forecast.....</i>	19
• <i>Chart 3: Credit Enhancement (CE) Leverage Forecast.....</i>	19
II. QUALITY OF PROJECT SERVICES.....	20
INVOLVING CHARTER SCHOOLS IN DEVELOPING THE GRANT PROJECT	20
COST EFFECTIVE PRODUCTS THAT INCREASE ACCESS TO FINANCING & BENEFIT SCHOOLS	23
• <i>Permanent Financing for Start-up and Early-Stage Schools.....</i>	23
• <i>Predevelopment loans</i>	23
• <i>Construction/Term Financing</i>	24
• <i>Leasehold Improvement Loans</i>	24
• <i>Acquisition Loans.....</i>	25
REASONABLE FEES & LENDING TERMS	25
• <i>Catalyzing Investment from Private Sector and Other lenders</i>	26
• <i>Targeting Schools with Greatest need for Flexible, Cost-Effective Facilities Financing</i>	27
• <i>Providing Technical Assistance that Reduces Cost and Burden and Benefits Schools.....</i>	28
REASONABLENESS OF GRANT PROJECT	28
III. CAPACITY TO IMPLEMENT PROPOSED PROJECT & EXPERTISE IN CAPITAL	
MARKETS FINANCING.....	29
AMOUNT AND QUALITY OF EXPERIENCE IN CARRYING-OUT PROPOSED ACTIVITIES	30
FINANCIAL STABILITY AND STRENGTH	32
• <i>Credit Rating</i>	32
• <i>Key Indicators of BHLF's Financial Stability and Strength (Summary Table)</i>	33
ABILITY TO PROTECT AGAINST UNWARRANTED FINANCIAL RISK IN LOAN UNDERWRITING, PORTFOLIO MONITORING AND	
FINANCIAL MANAGEMENT	33
• <i>Policies and Procedures: Underwriting Standards</i>	34
• <i>Policies and Procedures: Portfolio Monitoring.....</i>	35
• <i>Description of Portfolio Performance/Quality</i>	35
• <i>Policies and Procedures: Financial Management/Risk Mitigation</i>	35

EXPERTISE IN EDUCATION TO EVALUATE THE LIKELIHOOD OF SUCCESS OF A CHARTER SCHOOL	36
ABILITY TO PREVENT CONFLICTS OF INTEREST/STANDARDS OF CONDUCT	36
PAST PERFORMANCE IMPLEMENTING ED CREDIT ENHANCEMENT GRANTS	36
IV. QUALITY OF PROPOSED PERSONNEL	37
BHLF PROJECT TEAM’S CHARTER SCHOOL FACILITIES FINANCING AND EDUCATION EXPERIENCE	37
STAFFING PLAN	37
BHLF BOARD OF DIRECTORS	40

APPENDICES

- A. PROJECT PIPELINE
- B. LETTERS OF SUPPORT
- C. DATA COLLECTION
- D. CHARTER SCHOOL LAW RANKING
- E. POLICIES & PROCEDURES
- F. ORGANIZATIONAL CHART
- G. BOARD OF DIRECTORS
- H. APPLICABLE EXPERIENCE FINANCING CHARTER SCHOOLS
- I. PROJECT STAFFING CHART

BUDGET NARRATIVE ATTACHMENT FORM

TABLE 3: BUDGET FORMS
ED 524

OTHER ATTACHMENTS, INCLUDING REQUIRED ASSURANCES AND CERTIFICATIONS

- 1. TABLE 1: NON-GRANT FUNDS TO BE GENERATED
- 2. TABLE 2: APPLICANT ACTIVITY TABLE FOR THE MOST RECENTLY COMPLETED FISCAL YEAR
- 3. TABLE 4: RISK LEVELS OF CHARTER SCHOOLS SERVED
- 4. RESUMES & CURRICULUM VITAE
- 5. LOGIC MODEL
- 6. STANDARDS OF CONDUCT/CONFLICT OF INTEREST POLICY
- 7. CREDIT RATING REPORTS
- 8. AUDITED FINANCIAL STATEMENTS
- 9. ARTICLES OF INCORPORATION & BYLAWS
- 10. CASH FLOW PRO FORMA
- 11. MOST RECENT ANNUAL PERFORMANCE
- 12. IRS FORM 990
- 13. RESPONSE TO SECTION 427 GEPA GUIDANCE
- 14. TIMELINE

BlueHub Loan Fund’s Expanding Opportunity Through Quality Charter Schools Program—Grants for Credit Enhancement for Charter School Facilities – Narrative

Introduction

How BlueHub Loan Fund (BHLF) Will Use a '23 Award

BHLF, an affiliate of BlueHub Capital, requests a \$ [REDACTED] Department of Education (ED) credit enhancement award (Award). The Award will enable BHLF to pursue three primary goals:

1. Enhance the credit of a “pool” of start-up and early-stage schools to provide school borrowers with permanent, fixed-rate, financing with terms up to 40 years and interest rates similar to BBB- rated charter school bonds (see Section “Methodology” below for details on the financing structure);
2. Provide a replicable blueprint for implementation by other CDFIs; and
3. Focus on young schools serving low-income communities where higher percentages of students are low-income and perform below proficient on state assessments.

What identified needs of charter schools will be served by BHLF?

BHLF proposes to use its Award to fill the identified **need for long-term, fixed-rate, permanent financing options for start-up and early-stage charter schools**, primarily in low-income communities.

Young charter schools typically finance facilities through commercial real estate loans from banks or CDFI lenders. These bank and CDFI loans are generally limited to 5-10 years in duration and typically have interest rate reset at least every five years. In low-income communities, property values can appraise low making it difficult to meet loan-to-value requirements on bank loans. At the end of its initial loan term, the school is forced to seek a new financing to pay off the original loan.

Older charter schools with one or more successful renewals are able to obtain more advantageous permanent financing through public bond markets. Such permanent financing has the distinct advantage of locking in the interest rate and repayment schedule for the life of the debt with no forced refinancing. This eliminates the risk of rising interest rates, the risk of changes in market conditions (e.g., pullback in lending during a pandemic, lender adjustments to tax law changes, etc.), and the expense and staff burden of the refinancing process.

BHLF will help meet the need for long-term fixed-rate permanent financing by using its Award to generate [REDACTED] of permanent facility financing for young charter schools, and we will provide a blueprint for other CDFIs to replicate the financing structure and provide permanent financing for additional young charter schools.

Why BHLF will Succeed in Achieving ED Goals/Objectives for Credit Enhancement

BHLF is uniquely positioned to successfully deploy this resource. We are a nonprofit Community Development Financial Institution (CDFI) with a focus on supporting opportunity in low-income communities, and particularly low-income communities of color. We specialize in financing community facilities projects, we have deep and trusting relationships with key stakeholders in the communities we serve, as well as with national funders and advocacy organizations that support low-income communities. As our 24 letters of support demonstrate, BHLF partnerships with commercial banks; philanthropy; private funders; local authorizers, districts, school operators and community partners; and charter school advocacy organizations are effective and positive. These relationships have helped BHLF support myriad successful charter school facilities projects. We have been financing charter schools for over 22 years and, to date, have lent over \$ [REDACTED] to support 87 loans benefitting 66 charter schools.

BHLF is particularly valued in the charter school lending market because we offer financing

that is more flexible and with better terms, rates, and fees than financing offered by commercial lenders and most CDFIs. In addition, few CDFIs have the ability to lend at the same scale as BHLF. Our strong balance sheet [REDACTED]

[REDACTED]

[REDACTED]

Further, through our network of local and national CDFIs, banks, and other lending partners, BHLF regularly brings in outside capital to ensure that charter school borrowers have all the capital they need for facilities projects. To date, BHLF charter school facilities financing has leveraged an additional \$ [REDACTED] of outside investment.

BHLF is partnering with Transparent Loan Fund, LLC (managed by Dwight Berg of Public Economics, Inc.), one of our long-term partners that we started working with on charter school facilities financing in 2003. Mr. Berg has served as municipal advisor for charter school borrowers of over \$ [REDACTED] of charter school financing, primarily long-term tax credit bonds and tax exempt bonds. Transparent Loan Fund will structure and manage the long-term permanent financing options delivered through FFP.

With support from ED, BHLF offers critical, flexible, cost-effective facilities financing that addresses the national need and increases the number and variety of charter schools assisted. We have received three ED Awards, (two in partnership with Nonprofit Finance Fund, NFF) totaling \$ [REDACTED]. We successfully deployed the initial two Awards to support 41 charter schools and create 15,608 charter school seats, with a total BHLF/NFF lending of \$ [REDACTED] and leveraging \$ [REDACTED] from outside funders. In 2022, we worked with ED to update our 2015 Performance Agreement, recommitting to expand on the impact achieved with that award. Since 2015, the year we first accessed ED Credit Enhancement to support charter school facility financing,

BHLF charter school lending has grown dramatically, from a total of \$ [REDACTED] in 2015 to make up one-third of our \$ [REDACTED] outstanding loan portfolio as of 3/31/23. All the schools we have financed have proven financially-sound, mission-driven investments. **All schools have repaid BlueHub and/or are in the process of doing so according to expectations.**

I. Quality and Significance of Grant Project Design

Significance

Delivering Permanent Financing Options for Start-up and Early-Stage Charter Schools

BHLF's Forever Financing Program will provide the same loan products made possible through its 2021 Award **plus a long-term, fixed-rate, permanent financing option for start-up and early-stage charter schools.** Illustrative comparison of offerings without any credit enhancement, with the 2021 Award, and with the requested '23 Award show that the borrower can fix their rate with no adjustments for up to 40 years, thereby eliminating uncertainty related to refinancing:

	Without Any Credit Enhancement	With 2021 CE Award	Proposed w. 2023 CE Award
Target Borrower	At least one charter renewal	Startups and Early Stage	Startups and Early Stage
School Selection and Approval	BlueHub	BlueHub	BlueHub
Loan To Value Ratio	Up to 80%	>100%	>100%
Loan Term	5-7 years	10 years	30-40 years
Amortization	20 years	30 years	30-40 years
Interest Rate	Resets in 5 years ~T+4.00%	Resets in 10 years ~T+3.00%	Fixed to 40 years

BHLF's Forever Financing Program will focus on schools that are: (a) start-ups (i.e. have not yet begun to serve students), and (b) early-stage (i.e. enrolled, but operating for three years or fewer and within their first charter), although mature and growing schools may also be supported. The younger schools are typically unable to obtain long-term, permanent bond financing, especially in low-income communities.

With a \$ [REDACTED] Award, BHLF expects to generate from [REDACTED] of permanent financing from non-Federal investment to finance charter school facilities, which is consistent with BHLF's track record for leveraging outside financing for charter facilities in past Awards in 2015, 2018 and 2021.

BHLF's '23 Award will focus on providing permanent financing options for start-up and early-stage schools, because they experience particular challenges accessing facilities financing, and supporting their growth is essential to increasing the number and variety of charter schools. We are currently experiencing increased demand from these types of schools. To date, BHLF has financed more than 30 start-up and early-stage schools and not had a single loan loss or default. This is because BHLF partners with quality operators to develop lending products that effectively support their growth and ED credit enhancements have supported this lending.

Methodology

The Forever Financing Program implementation is summarized as follows:

1. BHLF selects school, underwrites, and approves loan
2. Transparent Loan Fund advises schools about loan options, including then-current bond financing terms
3. School selects desired financing option (e.g., 35-year public bond offering)

4. Bonds issue (or other financing) closing is managed by Transparent Loan Fund and proceeds are loaned to the school (or its landlord)
5. BHLF guarantees the school's obligation until the later of: (i) first charter renewal, or (ii) 24 months after loan closing at which time the guarantee shall be released if the following conditions are met:
 - School has 45 Days Cash on Hand as of prior fiscal year end;
 - School meets 110% DSC for prior 2 consecutive fiscal years; and
 - School has not had a 60 day payment default in the past 24 months

A term sheet for an illustrative bond financing transaction provided by PNC Capital Markets transaction is included as Attachment 15.

This financing process is repeated, resulting in a group of charter school loans (a “loan pool”) which are all underwritten/approved by BHLF, and all initially guaranteed by BHLF, with BHLF's guarantees structured to be released (see point #5 above) to free up BHLF's balance sheet to support other transactions.

Financing is secured by mortgages and assignments of leases and rents, which is customary for most real estate financings. In order to provide sufficient security and creditworthiness for bondholders, additional collateral is provided in the form of cash or pledged loans that provide a “cushion” to protect the bondholders in the event of a default and interruption in payments from one or more of the charter school obligors. The additional collateral (“equity equivalent”) can be funded from USDE Credit Enhancement, private philanthropic funds, or any other available source. The equity requirement is negotiated with bondholders and set based on the level of equity required to obtain a BBB rating (S&P) on the public bond offering. The requested \$ [REDACTED] of '23 Award will be used as additional

collateral for a loan pool funding [REDACTED] of equity is not released when the BHLF guaranty is released.

The following key outcomes are provided:

- enables startup or early-stage charter school to obtain permanent, fixed-rate, 40-year financing;
- eliminates refinancing/balloon payment risk for both the school and the CDFI—both the charter school and CDFI lender would be negatively impacted if the charter school is unable to secure new loan
- as each guaranty is released, its credit risk is OFF BALANCE SHEET for the CDFI lender, so the CDFI lender balance sheet equity is less impacted than other permanent/direct lending programs;
- loan pool creditworthiness risk is enhanced to BBB rating using the '23 Credit Enhancement Award as additional collateral;
- charter schools get permanent financing as start-ups or early-stage schools due to the BHLF guarantee, and better rates and terms because of the '23 Credit Enhancement.

A Replicable Model for use by CDFIs to make major National impact on Charter School Facilities Financing for Younger and Non-rated Charter Schools

With CE Awards in 2015, 2018 and 2021, BHLF developed and offers innovative loan products structured to meet start-up, early-stage and growing schools' needs for low-cost, flexible capital on a national basis focusing on underserved markets.

The Forever Financing Program adds to these innovative loan products by offering up to 40-year, permanent, fixed rate financing. The permanent financing eliminates risk and uncertainty for the charter school and BHLF by eliminating interest rate risk—interest rate is fixed for the life of the loan—and by eliminating the possibility of balloon payment default—there is no more

balloon payment.

The proposed Forever Financing Program is a gamechanger for charter school borrowers and CDFI Lenders: (i) charter schools get access to permanent financing years earlier than currently available, and (ii) CDFI Lenders are able to offer their clients 40-year financing which only impacts their balance sheet for 2-5 years. Transparent Loan Fund believes that with four to eight participating CDFIs, the Forever Financing Program methodology could be used to permanently finance an average of \$ [REDACTED] of charter school facilities annually.

BHLF and Transparent Loan Fund will share lessons learned with other lenders and organizations by: (i) writing a whitepaper explaining the Forever Financing Program, (ii) holding at least one online workshop for interested CDFI Lenders, (iii) working one-on-one with at least two CDFI Lenders interested in implementing the Forever Financing Program, and (iv) presenting at one conference.

Project Goals, Objectives and Performance Measures and Targets

BHLF has developed a *Logic Model* (see Attachment 5) that specifies ambitious and reasonable Project goals and performance targets. We will meet all of these targets by the end of the 5-year Grant period.

Goal #1: Expand Supply of Flexible, Low-Cost Capital for Charter School Facilities,

Especially in Underserved Markets

Measurable Objectives/Performance Targets

T1a. BHLF will leverage the '23 Award to generate ***at least*** \$ [REDACTED] to support the Project.

T1b BHLF will leverage its balance sheet by guaranteeing loans of start-up and early-stage schools for permanent bond financing

T1c. BHLF will leverage a \$ [REDACTED] Award at 7.7:1 to 11:1, attracting [REDACTED]

debt financing from private and non-Federal funders.

Goal #2: Increase the Number and Variety of Charter Schools; Effectively Meet Start-up and Early-Stage Schools Needs for Financing

Measurable Objectives/Performance Targets:

T2a. Over the 5-year award period, BHLF ED-supported charter school financing will support at least 10 charter schools.

T2b. This financing will support at least eight start-up or early-stage schools.

Goal #3: Offer favorable terms, rates, and fees that could not be offered w/o CE

Measurable Objectives/Performance Targets:

T3a. For every project supported with a '23 Award, BHLF will offer lower-than-market fees and rates. BHLF will:

- Charge a credit enhancement fee of [REDACTED] (ten basis points) per annum (such fees often exceed [REDACTED])
- Charge up to a [REDACTED] Guaranty Fee during the Guaranty Period; and
- Offer substantially lower than market long-term fixed interest rates for debt products that have a high-risk profile; i.e., targeting permanent long-term interest rates around [REDACTED] (as of submission date, including the guaranty fee) dropping to [REDACTED] after the guaranty is released and the guaranty fee is no longer charged.
- Offer prepayment options starting as soon as the 7th anniversary.

T3b. For every project supported with a '23 Award, BHLF will have terms that are more flexible and aligned with charter school needs than those provided by conventional lenders. BHLF will:

- Lend at or guaranty loans with loan-to-value ratios (LTVs) over 100% (provide up to 100% financing)

- Require no equity contribution from school borrowers
- For construction-to-permanent loans and leasehold improvement loans, offer terms of up to 40 years, amortization periods of up to 40 years, interest-only periods that extend beyond construction completion
- Offer interest-only periods up to 7 years to support early-stage schools or schools still ramping up enrollment
- Allow for debt service coverage ratios of 1.05x – 1.15x, much lower than typical debt-service coverage ratios for early-stage schools and schools ramping up enrollment. Provide fixed-rate financing for the term of the loan, up to 40 years, allowing schools to lock in low interest rates, and budget based on a fixed cost of debt.
- Have no prepayment penalty, allowing schools to refinance BHLF debt at whatever time is most optimal for the school
- Offer to fund all project financing so that schools do not need to arrange for a senior lender to fund a portion of their project

Goal #4: Provide TA for Large Scale Replication by CDFI lenders Nationwide

Measurable Objectives/Performance Targets:

T4a. BHLF and Transparent Loan Fund will publish a white paper describing the Forever Financing Program, school feedback, CDFI lender lessons learned, and “blueprint” for CDFI replication.

T4b. BHLF and Transparent Loan Fund will facilitate one CDFI lender webinar to discuss FFP with CDFI Lenders, talk through the FFP structure, and answer CDFI Lender questions.

T4c. BHLF and Transparent Loan Fund will present the FFP structure at one charter school or CDFI lender conference.

T4d. BHLF and Transparent Loan Fund will share documents and recommendations with two CDFI Lenders that are implementing FFP for their own clients.

These TA objectives will be delivered in addition to the '21 Award TA that will be provided to charter schools borrowing through the FFP.

Goal #5: Finance Facilities for Schools in Low-Income communities where High Percentages of Students Perform below Proficient on State Assessments

Measurable Objectives/Performance Targets:

At least 75% of the schools served through the Project will meet **both** of following criteria:

T.5a. They are in districts in which over 75% of the students served are low-income/eligible for free or reduced-price lunch,

T.5b. And, over 50% of the low-income student population performs below proficient on state ELA and/or math assessments

T.5c. At least 50% of the schools served through the Project will be located in states in the top half of NAPCS' and/or CER's 2022 charter school laws ranking and at least 10% of the schools served through the Project will be located in states in the top 10% of NAPCS' and/or CER's 2022 charter school laws ranking.

Project Implementation Plan and Activities

Overview

The proposed Project supports BHLF's charter school facility financing for new and growing charter schools in low-income districts nationally. Demand for this financing is evidenced by BHLF's growing pipeline of 34 charter school projects in need of facility financing for \$ [REDACTED] of projects. Demand for BHLF facilities financing is particularly acute for start-up and early-stage schools in the Southeast and Gulf, including Louisiana, Mississippi and Alabama which

were recently added to our CDFI Target Market. We also are seeing new and increasing demand from early-stage schools in South Carolina after we presented at a South Carolina Public Charter School District conference. Subsequently, four SC schools approached BHLF requesting financing, and one already is in our pipeline.

Activities – Establishing and Investing Funds from the Reserve Account

BHLF will invest a ‘23 Award and use funds as allowed under statute and authorized by the Secretary of Education. Our goal is to earn as close to current treasury yields as possible, depending on ED guidelines and the requirements of the lenders being guaranteed.

Activities – Developing/Expanding on Current Partnerships to Support the Project

BHLF will draw on and expand its network of over 250 charter school advocates, lending partners, municipal advisors, authorizers, education consultants, facility developers, policy experts, CDFIs, and CMOs and school operators to identify: a) underserved markets to target for the Project, b) high quality charter schools that have unmet facilities financing needs, c) local and national TA providers, and d) co-investors that support charter school facilities projects. Our partners also will help us e) understand best practices in charter school operations; community engagement and support for proposed projects; and local school financing needs and challenges. For more about direct BHLF partnerships with charter schools, see Section II and our letters of support in Appendix B.

Activities - Identifying Quality Charter Schools for the Project

Serving Charter Schools in States with Strong Charter School Laws

BHLF will continue to target charter school lending in underserved markets in states with strong charter school laws. When developing strategic plans for expansion, we review the National Alliance for Public Charter Schools (NAPCS)’s and Center for Education Reform

(CER)'s ranking of state public charter school laws and consult with national experts (Charter School Growth Fund, Ford Research Solutions and Tandem Learning Partners, etc.) to target markets with strong laws overall and that encourage the growth in both the number and variety of charter schools.

This strategy has been successful. 85.7% of the first 60 schools financed by BHLF are located in states that rank in the top half of NAPCS' and/or CER's 2022 charter school laws ranking, 22.9% (16 schools) are in the top 10. *Appendix D* shows state scores and rankings. We also successfully pursued this strategy to inform our strategic expansion into TN, which we supported with our '15 Award. TN was and remains ranked in the top ½ of states for strong charter school laws and, prior to BHLF investment, had limited resources for facilities projects. Since '17, BHLF financed 13 projects in TN, totaling \$ [REDACTED] of credit enhancement and leveraging \$ [REDACTED] in additional capital.

For our '21 Award, BHLF is targeting expansion in underserved markets in the Southeast and Gulf States, particularly start-up and early-stage schools in AL, LA, SC, and TX, as well as continuing to finance facilities in underserved markets across our national lending footprint. We are targeting AL, LA, SC, and TX for growth because they have demonstrated need, high quality operators, and strong charter school laws. In 2021, NAPCS ranked AL and LA top ten of states in terms of strong charter school laws and CER ranked TX and SC in its top ten in its 2021 Scorecard. AL, LA, SC and TX also received the highest possible ratings from NAPCS for encouraging charter school *variety*.

For our '23 Award, BHLF will focus on start-up and early-stage schools located in states with strong charter school laws.

Selecting Individual Schools (Selection Criteria)

BHLF is a pioneer among CDFIs for the nuanced, holistic assessment of charter schools we engage in before financing. Our selection criteria consider schools' a) likelihood of generating positive academic outcomes for students, b) governance and leadership capacity, c) ability to successfully manage real estate projects and d) ability to repay debt/financial strength.

We use qualitative and quantitative data to inform these assessments. We review enrollment, demographic, test score, and discipline data for schools and local districts and we disaggregate data by race and economic status; we conduct school visits where we interview staff and observe classrooms and school culture; and we attend board meetings and/or review board meeting notes. We also review school surveys of families, students, and/or staff. We supplement these assessments with feedback from outside experts, including charter school authorizers.

Selection Criterion #1 - Likelihood of Generating Positive Academic Outcomes for All Students

BHLF assesses a variety of practices associated with positive student outcomes. All schools eligible for BHLF financing must pass our impact screen, which includes questions about students and families served, recruitment, and family engagement. Our assessment also considers the use of culturally relevant curricula, strategies for nurturing students' social and emotional growth, and discipline practices. We also assess academic supports provided. We also review staff credentials and experience, retention rates, and the representativeness of staff. For schools that have been established long enough to have meaningful test results, we consider assessments of student ELA, math, and science growth and proficiency. We consider results in the aggregate; and disaggregated by grade, race, and economic status; and performance trends over time and make aggregate and disaggregated comparisons to district. When appropriate, we consider college acceptance and persistence. We also assess student attendance and retention.

Selection Criterion #2 - Governance and Leadership Capacity

BHLF assesses the capacity of school leadership and boards of directors. We look for management teams with demonstrated ability to successfully run and oversee growing schools while also managing a facilities project. We consider leaderships' experience in finance and budgeting, school administration, curriculum development, and performance measurement.

We seek schools with leaders who are alumni of BES (formerly Building Excellent Schools), Freedom Fellows Initiative (targeting emerging educational leaders of color), and/or who are local educators with related experience starting up and/or running successful schools. We also assess board capacity and engagement. BHLF looks for schools that have a diverse set of skills on their boards, including education, finance, real estate, law, human resources, and marketing. We also prioritize schools where boards have meaningful parent and community representation.

Selection Criterion #3 - Ability Successfully to Manage Real Estate/Facilities Projects

BHLF analyzes the degree and quality of planning that schools have engaged in, the appropriateness of the project financing, and the capacity of the key development team members (General Contractor, Architect, Engineers, Owners Representative). We provided technical assistance to assure successful project completion and when needed, we recommend development consultants. Poorly planned or executed facility projects can jeopardize schools' long-term viability.

Selection Criterion #4 - Ability to Successfully Repay Debt/Financial Strength and Capacity

BHLF considers schools' financial strength. BHLF assesses historical financials and operating projections. We stress-test assumptions about enrollment, revenue, salaries, and occupancy costs, and analyze debt service coverage and liquidity ratios. This analysis ensures that financed schools can manage through changing operating conditions. We assess the impact of project financing on schools' operations and financial stability, and whether schools have appropriate financial teams

in place. We also work with schools to prepare them to be finance ready and to properly monitor their finances to proactively avoid financial trouble.

Activities –Providing Technical Assistance (TA)

BHLF provides or facilitates TA to borrowers and prospective applicants in conjunction with its '21 Award. As part of its '23 Award, BHLF plans to provide CDFI lender TA with the goal of helping replicate and scale up the FFP program to play a major role in financing for start-up, early-stage, and nonrated charter schools. TA will include publishing a white paper on the FFP, meeting with CDFI lenders that are implementing FFP for their clients, and presenting on FFP via webinars and conferences.

Activities – Determining the Amount and Type of Assistance BHLF will Provide

If BHLF determines that a school is ready to receive facilities financing, we partner with school leaders to determine the project financing structure. Together, we finalize debt amounts and terms (interest rate, amortization and maturity, interest only periods, etc.) and structure BHLF debt in ways that supports school growth and prosperity. With the proposed Forever Financing Program our partner Transparent Loan Fund, a registered municipal advisor, will provide bond financing options for the school's consideration.

Activities – Leveraging Permanent Bond Financing

By pooling charter school obligations and funding loans with proceeds of a public bond offering, BHLF will provide start-up and early-stage charter schools with access to capital that would not be available without the '23 Award. BHLF will leverage '23 Award proceeds 7.7 times to 11 times to provide [REDACTED] of permanent facilities financing (See *Chart 3 below* for leverage assumptions and calculation for FFP and other lending options). This leverage ratio is reasonable or conservative based on BHLF past performance on prior ED Awards and

based on feedback from our municipal advisor and capital markets underwriting partners. By July 2021, BHLF had originated lending used credit enhancement from its '15 and '18 Awards to leverage private capital at a ratio of 18:1.

Activities –Collecting, Storing and Reporting Relevant Performance Data

BHLF's four-star, policy plus AERIS impact rating (the highest) indicates that BHLF has "effective processes and systems that track output and outcome data on an ongoing basis." Assessment of ED program and project-specific performance measures requires BHLF to collect both community-level data and school/project level data. Data will be collected in a manner consistent with BHLF's regular data collection and reporting. BHLF first gathers data during the application and underwriting processes and continues until the loan is repaid and credit enhancement is no longer required. We source this data from: 1) documents and materials submitted by borrowers, 2) reliable public data sources 3) site visits, and 4) third parties, which include authorizers and funders. More detail on the data sources and collection schedule are described in *Appendix C*. All related data will be stored in BHLF's Management Information System: Salesforce. This enables BHLF to generate reports to document the impact of both of individual loans and of the Project in the aggregate.

Activities - Replicating Results

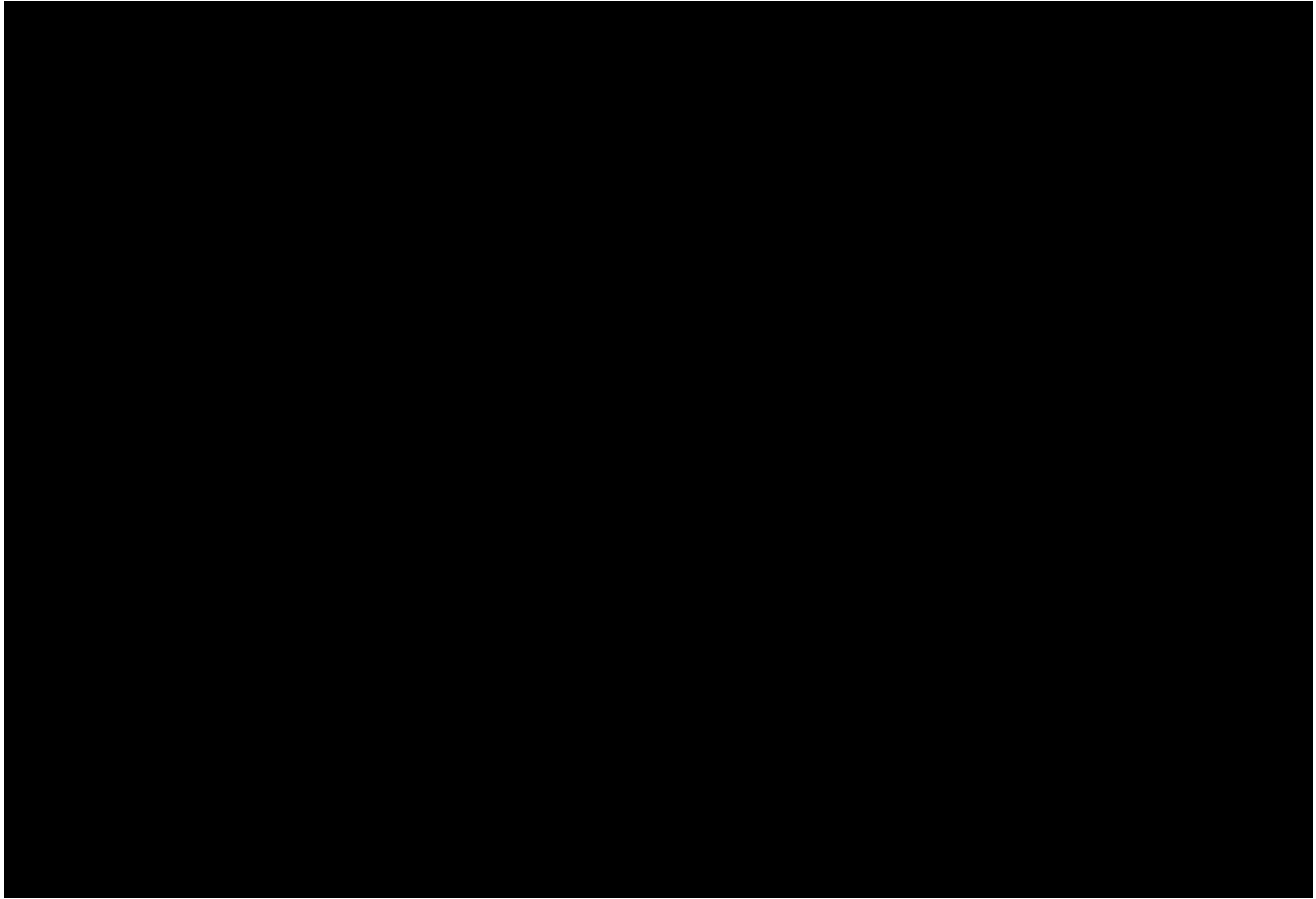
BHLF will replicate results achieved with a '23 Award and earlier ED Awards as we expand to provide permanent financing for facilities projects to young schools in new and underserved markets across the country. Our proposed approach to implementing a new '23 Award is to expand the financing options available to our borrowers through the Forever Financing Program while continuing to offer the products created with our earlier ED Awards. BHLF will continue to target markets with high quality operators, strong charter school laws, capital constraints, and

demonstrated need for school choice; to work with consultants to analyze local market need; and to cultivate relationships with key local stakeholders. We pursued this strategy successfully as we led our and NFF's expansion into TN in '17 (where BHLF now has invested \$ [REDACTED] to support 13 schools) and we are implementing it as we expand into AL, LA, TX and SC.

We also will encourage broadscale replication by evaluating the Project and providing charter school practitioners, CDFIs, and advocacy organizations with information and guidance about the innovative financing products we developed with an Award. We will share learnings with current national and regional charter support organizations, such as New Schools for Baton Rouge, New Schools for Alabama, Charter School Growth Fund, as well as CDFIs interested in supporting charters, but not experienced enough to implement permanent bond financing for their charter school borrowers.

Timeline for Activities and Transaction Forecast

A timeline describing BHLF's plans for engaging in the abovementioned activities is included as *Attachment 14* to this application. Charts 2 and 3 below provides specific details about how and when we will deploy a '23 Award and about projected leverage of the Award. For purposes of the timeline, "Year 1" will start upon receipt by BHLF of proceeds constituting the full amount of the Award.



II. Quality of Project Services

Involving Charter Schools in Developing the Grant Project

The loan products BHLF offered with prior ED Awards and will offer using a '23 Award reflect BHLF's 20 years of experience successfully partnering with charter schools on facilities projects, our intentional outreach to start-up and early-stage schools, and feedback from current and prospective charter school borrowers and other partners. Since receiving our first ED Award in '15, BHLF has spoken with and gotten input from over 250 schools, 12 funders, 20 authorizers, 15 state associations, and numerous other charter support organizations. BHLF responsiveness to operators' needs is reflected in the enthusiastic endorsement we receive from them and other and lending partners. 24 of these partners provided letters of support endorsing BHLF and the loan products proposed for a '23 Award (see Appendix B). BHLF has previously been applauded for its work with comments that demonstrate how BHLF stands out among mission-driven facilities financiers, such as: "BlueHub is unequivocally, the standout leader among CDFI's lending to charter schools. They are a sophisticated lender who understands the complexities of charter school finance – from early-stage, single site schools to charter management organizations with multiple campuses – and they are able to work through any and all challenges that arise. BlueHub consistently delivers on their commitment to develop terms outside of standard underwriting in order to find the best structure for our school clients." "BlueHub's mission-alignment, creativity, diligence and understanding of the needs of a new school in a new environment were all unique factors that differentiate it from other CDFI lenders."

Through targeted outreach to school operators, BHLF learned that *demand* for flexible and low-cost facilities financing is *acute for start-up and early-stage schools*, because they *do not*

have required equity and have not yet reached full enrollment. These operators also lament *lenders' reluctance to lend to schools that have not gone through a charter renewal* and/or to provide *leasehold improvement loans*. Many operators also report that *short amortization periods* are problematic, particularly for new schools still ramping up enrollment. Finally, borrowers regularly share challenges accessing the full *amount of capital they need for facilities projects*.

Operators also note that demand for flexible facilities financing is especially high in low-income markets in the Southeast and Gulf. Operators in these Regions, such as Memphis Business Academy, Resurgence Hall Charter School, Crescent City Charter School, Gestalt Community Schools, and Mobile Area Education Foundation (MAEF) Public Charter Schools, report that their areas are *underserved by local banks*, and that other CDFIs are unwilling or unable to lend at the scale or with the terms necessary to meet demand in the Region.

BHLF Loan Offerings Address Needs Charter Schools Identified & Benefit Schools

BHLF has incorporated the needs charter schools articulate into our cost-effective lending products; the flexible terms we offer are specifically targeted to meet the needs and challenges operators have identified. And the Forever Financing Program is providing a new, permanent financing option not previously available to younger charter schools. We are prioritizing use of a '23 Award specifically to support early-stage and start-up schools in response to operators' reports limited financing availability for those types of schools. Please see Section I and Chart 1 for BHLF Loan Product Summary.

Cost-Effective Products that Increase Access to Financing & Benefit Schools

1. Permanent Financing for Start-up and Early-Stage Schools

Most young charter schools settle for short-term (typically under five years) bridge

loans or construction loans to complete and begin occupancy of facilities that they plan to use for more than 40+ years (see “2. Construction/Term Financing” paragraph, below). BHLF does NOT currently offer long-term loans, and only began offering 10-year loans in conjunction with a prior CE Award. With the '23 Award, BHLF will be able to facilitate access to tax exempt bond financing with reasonable fixed rates and terms up to 40 years. This will be a first of its kind program demonstrating the methodology for CDFI lenders to partner with private bondholders to finance these projects with fixed interest rates and 100% financing (no LTV limitation).

2. Predevelopment Loans

Facility projects require significant expenditures during predevelopment to establish feasibility, obtain site control and move to construction. Few charters have sufficient equity to invest in the predevelopment process and most for-profit lenders will not make these high-risk loans. ED-supported BHLF Project loan products address this challenge. BHLF’s credit-enhanced predevelopment terms are more flexible than conventional sources with interest payments capitalized for the life of the loan, so that borrowers can conserve their resources. BHLF offers this product on an unsecured basis with no equity requirements. E.g., BHLF offered predevelopment financing to support KIPP Academy-Lynn (KAL). KAL’s construction financing package was so delayed that it threatened to derail the construction schedule of a critically needed facility. KLA did not have funds to keep the project moving, and conventional lenders were unable to make a loan due to a high LTV and uncommitted take-out sources. BHLF provided a \$ [REDACTED] loan that enabled KLA to acquire land, complete site work and stay on schedule.

3. Construction /Term Financing.

Many charter schools need financing for construction or renovation of facilities they own, but they struggle to generate the required school equity contributions or appraised property values needed to attract conventional capital. Others are viewed as too risky to finance because they have not yet reached stabilized enrollment or successfully renewed their charter. With its '21 Award, BHLF is providing flexible construction/term debt with LTVs that exceed 100%, providing senior lenders with a mitigant for minimal school equity and/or low, single-purpose real estate collateral values and thus catalyzing their financing. *E.g.*, Freedom Prep in TN was seeking to acquire and renovate a property for its early-stage elementary school. The acquisition and renovation cost was \$ [REDACTED] and the school had \$ [REDACTED] to put toward the project ([REDACTED] equity). With an as-complete appraised value of \$ [REDACTED] Freedom Prep needed financing with an [REDACTED] LTV. To address the collateral gap, BHLF co-financed a \$ [REDACTED] subordinate loan, backed by ED credit enhancement, which facilitated a \$ [REDACTED] LTV senior loan from Pinnacle Bank.

4. Leasehold Improvement Loans

Start-up and early-stage schools frequently lease spaces that require improvements. These schools also have constrained cash flow because they have not reached full enrollment, and lease and tenant improvement costs are high relative to revenue. Further, leasehold loans offer limited collateral which makes them unappealing to bank lenders. With the Award, BHLF will offer leasehold improvement loans, senior or subordinate, with flexible terms that meet the facilities financing needs of new and start-up schools as they grow and ultimately meet enrollment targets and build a sustainable revenue base. *E.g.*, To add space for their middle school, MAEF Public Charter Schools in AL undertook a \$ [REDACTED] leasehold renovation project. MAEF was unable to

attract traditional bank debt for this project. BlueHub assembled and led a team of lenders and, supported by our '18 Award, lent the full amount needed despite the [REDACTED] LTV.

5. Acquisition Loans

BHLF will provide schools with acquisition loans up to or exceeding [REDACTED] LTV with support from a '21 Award. *E.g.*, Purpose Prep in Nashville, TN wanted to acquire for their leased facility because the purchase price was increasing rapidly. The property's value was \$ [REDACTED] and the financing needed resulted in a [REDACTED] LTV. With our '15 Award, BHLF co-financed a \$ [REDACTED] subordinate loan, which helped attract a \$ [REDACTED] senior loan from a commercial bank at [REDACTED] LTV. Without BHLF credit-enhanced financing, Purpose Prep would not have been able to afford to purchase its facility.

Reasonable Fees and Lending Terms

An Award reduces lending risk which results in better terms for borrowers, as reflected in BHLF's flexible and cost-effective Project loan pricing and terms (*See Chart 1*). Charter schools receiving credit enhancement will benefit from:

- **Interest rates** fixed at loan closing that are set *at or below market rates* based on a risk-adjusted pricing model; OR a [REDACTED] Guaranty Fee during the FFP initial short-term Guaranty Period to deliver advantageous pricing on early-stage low-cost long-term permanent financing plus a [REDACTED] annual credit enhancement fee for the life of the loan
- **Low [REDACTED] origination fee** that may be capitalized into the loan amount, so a school does not have to pay out of pocket.
- **Reasonable third-party fees** for legal, appraisal, and environmental reports.
- **No cost for BHLF required academic assessments.**
- **No prepayment penalties.**

BHLF will minimize use of the Award for BHLF operating expenses and maximize its use by charter schools. BHLF will use the [REDACTED] fee allowed to support the administration of the Project. Expenses above the [REDACTED] will be borne by BHLF and are not included in the program budget. The [REDACTED] origination fee and interest or fees collected on loans originated or facilitated cover BHLF's cost of funds, staff costs and overhead associated with underwriting, closing, and monitoring for each loan. Closing costs and cost of funds (interest, trustee, etc.) for BHLF debt and senior debt will be repaid monthly by the charter school, consistent with real estate financing standards.

Catalyzing Investment from Private Sector and non-Federal lenders

All BHLF Project loan products are designed to solve the challenge that charter schools have attracting capital so that schools can fund the full cost of facilities projects. By taking on subordinate lending positions, meeting schools' need for suitable facilities while they grow and stabilize, embracing the riskiest parts of deals, BHLF ED-supported lending "de-risks" investment for banks and other funders so that they are willing to co-finance key projects. This de-risking is an important feature of the Forever Financing Program: the BHLF guaranty absorbs risk before schools have a charter renewal after which credit risk is absorbed by the '23 Award—at all times the bondholders view the investment as equivalent to a BBB rated credit. E.g., in 2017, BHLF was asked by Gestalt Community Schools (GCS) to provide \$ [REDACTED] to secure a commercial plaza that housed their high school and had vacant space for their growing elementary school. BHLF reached out to a local bank and offered it the senior position in the loan which they took, at [REDACTED] LTV which enabled them to provide GCS a very low interest rate. BHLF provided \$ [REDACTED] subordinate debt. BHLF assembled and led a subordinate lending team of CDFIs and engaged GCS to engage a strong development consultant for the project. If the

proposed Forever Financing Project had been available at the time, BHLF could have offered GCS a permanent bond financing option with very low fixed rate up to 40 years term. We believe that GCS would have benefitted from the FFP option had it been available.

Targeting Schools with Great Need for Flexible, Cost-Effective Facilities Financing

BHLF's partnerships with and experience financing charter schools informed the type of charter schools BHLF will support through the Project. Our charter school partners indicated that it is particularly difficult for *start-up and early-stage schools* to access the capital they need for facilities. Our charter school partners also report that it is particularly difficult for all types of *schools in low-income economically and racially segregated communities* to obtain facilities financing. These often are districts in which other public schools are under-performing and where charter schools offer critical choice and opportunity. Newer schools in these communities may not have the equity or track record required to lease and fit out space or to acquire real estate and construct facilities. These schools are typically viewed as risky by banks because of their locations in districts that have long struggled to improve academic performance; because they have little spare capital to put towards facility projects; because they often lack extensive fundraising capacity and the real estate values cannot support the actual project costs and debt required. Bank lenders are uncertain about these schools' ability to meet enrollment targets, achieve charter renewal, and develop additional cash reserves for debt service. Even mature schools have difficulty accessing financing because these communities are areas where historic disinvestment has resulted in under-valuation of real estate and collateral.

Technical Assistance (TA) that will Facilitate Replication of the Forever Financing Program and Make Permanent Financing Available to More Start-up and Early-Stage Schools

By launching this first of its kind permanent financing program, BHLF will demonstrate the efficacy of our FFP methodology at helping early-stage and unrated charter schools obtain permanent bond financing. In order to maximize the impact of the FFP, BHLF will offer the following:

1. Publish a white paper describing the Forever Financing Program, school feedback, CDFI lender lessons learned, and “blueprint” for CDFI replication.
2. Facilitate one CDFI lender webinar to discuss FFP with CDFI Lenders, talk through the FFP structure, answer CDFI Lender questions.
3. Present the FFP structure at one charter school or CDFI conference.
4. Share documents and recommendations with 2 CDFI Lenders that are implementing FFP for their own clients.

Reasonableness of Grant Project

BHLF projects that a [REDACTED] of bond financing (average 9.2X leverage) from other private-sector and non-Federal funders for 10-15 charter schools over the next five years. These estimates are conservative based on our current pipeline

[REDACTED]

collaborative’s expansion into the Southeast and Gulf, which are a focus for our ’21 Award. In addition, the depth of BHLF relationships with operators and charter school support

organizations in these regions gives us confidence that we will be able to achieve performance targets related to growth in those areas and to serving newer schools.

III. Capacity to Implement Proposed Project & Expertise in Capital Markets Financing

BHLF has demonstrated capacity necessary to implement the Project. BHLF has 39 years' experience providing flexible, low-cost capital for facilities projects sited in and serving low-income communities and predominantly communities of color. Since inception, BHLF has [REDACTED] r charter schools, affordable housing, childcare and early education facilities, community health centers, facilities that house youth services organizations and other nonprofits. We are well-respected by private sector financing partners, investors, and community organizations for our flexible underwriting, risk tolerance, creative financing structures, and track record. We have a seasoned team and time-tested processes to effectively underwrite and close loans, and to monitor complex projects with elevated risk profiles. We have an "A / Stable" Credit Rating from S&P Global Ratings. BHLF also successfully has deployed two ED Credit Enhancement Awards in partnership with Nonprofit [REDACTED]

Transparent Loan Fund manager Dwight Berg of Public Economics is the partner tasked with managing the bond financing or other long-term, permanent financing under the FFP. Mr. Berg has been structuring complex municipal financing and advising charter schools on bond issuance since 2001, including over [REDACTED] of bond and debt financing for 21 different charter schools. Dwight Berg is also familiar with the risk pool rating methodologies used by S&P, Moodys, and Fitch credit rating agencies which will be applied to determine the rating of

bond transactions in the FFP. Mr. Berg is a registered municipal advisor representative with a Series 50 license and a registered municipal advisor principal with a Series 54 license.

Capacity Factors

Factor #1 - Amount and Quality of Experience in Carrying out Proposed Activities

BHLF has two decades of experience partnering with charter schools and *providing loan products such as those proposed for the Project* and *leveraging financing* from private-sector lending institutions to ensure that charter school facilities projects have all of the capital required. To date, BHLF has pro [REDACTED] in financing for 66 charter schools and Public Economics, Inc. has structured over [REDACTED] bond/debt financing for 21 charter schools, including many complex tax credit bond financings.

Experience offering debt with the flexible, cost-effective features proposed for the Project

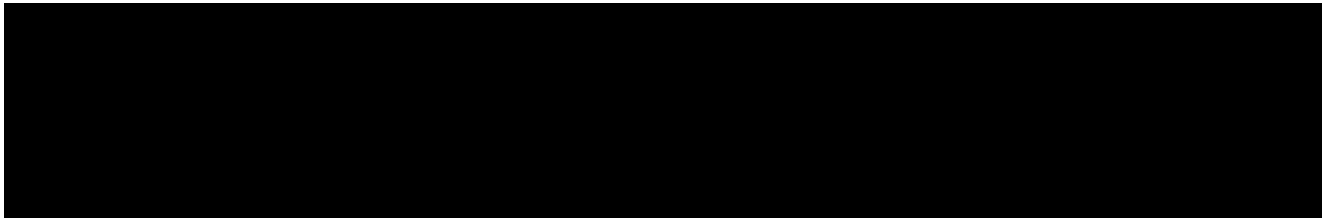
BHLF was founded to offer loan products with flexible features to benefit low-income communities. In '15, when BHLF received our 1st Credit Enhancement, we refined our standard loan products to include terms and features targeted to meet charter schools' needs, such as LTVs over 100%, below-market interest rates, and extended interest-only and amortization periods. Over the past six years, we have enhanced these offerings further to include features particularly important to early-stage and start-up charter schools.

Public Economics, Inc. founded its charter school municipal advising business to help charter schools access federal tax credit bonds in 2001, with a first-of-its-kind Qualified Zone Academy Bond transaction for MATCH Charter Public School in Boston. Using QZABs, other federal tax credit bonds, and federally tax exempt bonds, PEI has helped create markets for different types of complex charter school financing structured for over 22 years.

Experience providing technical assistance (TA) to CDFI Lenders

BHLF provides comprehensive TA to current and prospective borrowers to assist them in accessing our financing. We help them to determine whether they are ready to engage in facilities projects; connect them to facilities and operations experts; provide assistance with budgeting; and catalyze financing from outside funders. We have been providing charter school operators with this kind of TA for over 20 years; the caliber and volume of BHLF's TA has contributed to our reputation as a true and supportive partner to our borrowers which has supported our ability to grow and sustain charter lending volume. To date, BHLF has provided technical assistance to more than 100 charter schools.

Experience leveraging additional financing for charter schools



Valley Prep Schools, a diverse-by-design CMO in RI. Our loans supported 4 school facilities and leveraged financing of \$ [REDACTED] This network now serves 2,800 students annually.

Experience creating loan products that can be replicated to meet national need.

BHLF has experience replicating innovative financing products that are customized to meet the needs of new, early-stage and growing charter schools. The low-cost, flexible loan products being offered with our '21 Award are an expansion and replication of products we developed with our '15 and '18 Awards. With a '23 Award, we will further expand the flexible options available to our charter school borrowers, and work to share this new model with CDFI peers.. We deployed prior ED Awards in a similar manner, using the credit enhancement to provide subordinate debt; acquisition, construction, and leasehold improvement loans; and are excited to offer a new long-

term fixed rate option for borrowers. We have fully deployed our 2015 and 2018 Awards and have met all performance requirements. We are actively deploying our joint 2021 Award.

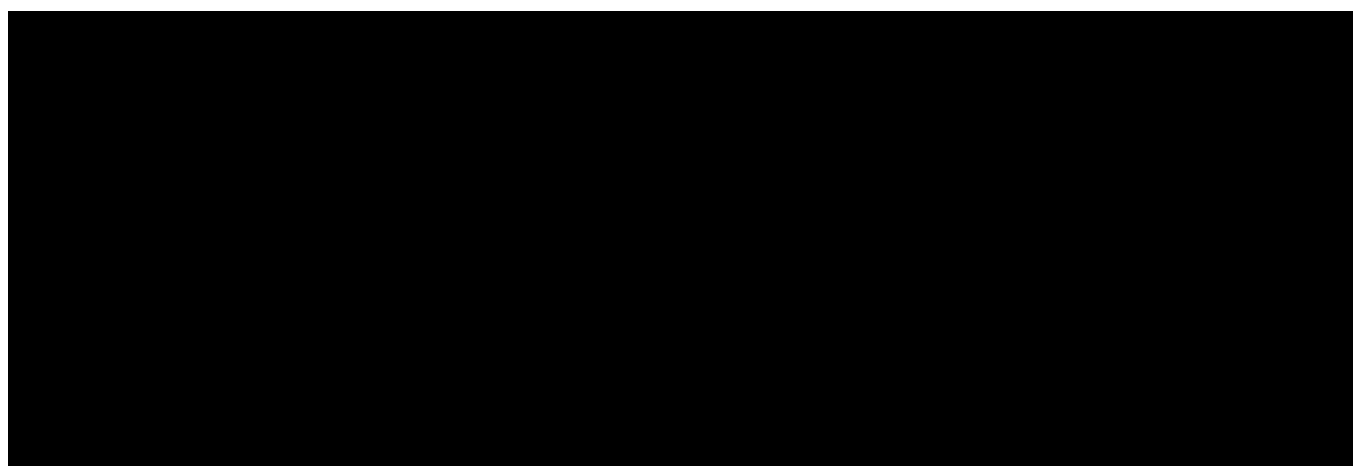
Factor #2 - Financial Stability and Strength

BHLF has the **financial track record, resources, and balance sheet strength necessary** to carry out the proposed Project. Our financial strength comes from our self-sufficient lending operations, contributed sources (primarily the CDFI Fund) and the strength and stability of our parent organization, BlueHub Capital (BHC).

Credit Rating: BHLF is rated A/ Stable by S&P Global Ratings, indicating strong credit worthiness. S&P cited financial position, effective portfolio management, and excellent loan health, noting our “lean business model” and “strong history of loan performance.” See *Attachment 7*.

BHLF has been 100% self-sufficient since 2005 and has generated operating surpluses averaging over \$ [REDACTED] for the past five years. Our capital structure is stable with assets consisting of cash and equivalents and loans payable (for e.g., loans to charter schools); liabilities are predominantly financing-related loans from banks and socially-oriented lenders.

We do not need to raise additional loan capital to deploy a '23 Award under the Forever Financing Program or under our existing charter school lending program. Our bank investors include JP Morgan Chase, Wells Fargo, Bank of America, TD Bank, Eastern Bank, Citizens Bank – to name a few. As of 3/31/23 we had cash and current availability under our bank facilities of over \$ [REDACTED] Attachments 8 and 12 contain audited financial statements and Form 990s respectively Key indicators of BHLF’s financial stability and strength as of FYE22 are summarized below and:



*Portfolio-at-Risk is defined as loans that are: 90+ days delinquent, on non-accrual, classified as trouble debt restructures (TDR), or real-estate owned (REO)

**BHLF investors require a [REDACTED] minimum Loan Loss Reserve, despite much stronger portfolio performance.

Factor #3 - Ability to Protect Against Unwarranted Financial Risk in Loan Underwriting, Portfolio Monitoring and Financial Management

BHLF has never experienced a loan loss or charge off in its charter school loan portfolio (87 loans totaling \$ [REDACTED] nor have we ever called on an ED Credit Enhancement Guarantee. In 39 years of lending, BHLF's cumulative loan loss rate across all sectors is below [REDACTED] of total principal loaned (with [REDACTED] loan loss rate in the charter school sector). BHLF successfully protects against financial risk through rigorous underwriting, active portfolio monitoring and close financial management. BHLF has formal, written, Board-of-Directors-approved policies that manage risk, including credit policies and underwriting and portfolio management guidelines. BHLF also has policies that mitigate key financial management risk, including cash management, investing, liquidity, and asset-liability matching policies. Loan policies and procedures have been in existence since BHLF was first established. The Board reviews and

updates these guidelines annually. BHLF's loan underwriting, monitoring and financial management policies and procedures are included as *Appendix E*.

Policies and Procedures - Underwriting Standards

BHLF's lending is governed by formal, board-approved credit policy guidelines that mitigate risk. BHLF also has an external Loan Committee to approve loans larger than \$[REDACTED] and all members of the Loan Committee have expertise in community development and commercial lending. Six out of ten committee members have expertise in charter school financing, operations, and/or school facilities construction. In addition, BHLF has a charter school underwriting supplement that provides guidance for assessing the credit worthiness of charter schools and that specifies criteria for approving and managing ED Guarantees see Appendix E.

As part of underwriting, lenders assess potential charter school borrowers' schools and operations: governance; leadership and organizational capacity (particularly with respect to engaging in a facilities project); financial health and systems for financial oversight; enrollment trends/demand for seats; pedagogical approach; academic performance and track record; and ability to effectively serve low-income and BIPOC students. BHLF requests current and historical audited financial statements, financial projections, cash flow projections, project budgets, board and management lists with bios, corporate documents, and detailed information on school funding sources. We perform a detailed assessment of the proposed facilities project and consider demand; financing need and need for credit enhancement; and project strength, financial condition, repayment sources and long-term sustainability. Our underwriting process includes independent research, at least one site visit and conversations with senior management and other key stakeholders including authorizers.

Policies and Procedures - Portfolio Monitoring

BHLF monitors all charter school loans by conducting annual reviews that assess borrowers' financial health, potential credit risks, enrollment, and academic performance; and by conducting annual loan covenant tests and collateral reviews. BHLF also uses a tiered Loan Risk Rating System to identify and manage portfolio risk. This System assesses individual transaction risk and cumulative portfolio risk, shapes BHLF's loan monitoring schedule, and helps BHLF determine appropriate levels of loan-loss reserves. BHLF's Board of Directors and Loan Committee evaluate and approve BHLF's Loan Risk Rating System annually and they review portfolio quality quarterly. BHLF portfolio monitoring staff review strong credits annually and weaker credits at least quarterly. BHLF holds weekly internal meetings to strategize about how to address delinquent loans, plan for upcoming maturities, and support borrowers who have potential of compromised credit quality.

Description of Portfolio Performance/Quality

BHLF's strong credit, underwriting and portfolio management policies has resulted in a long history of excellent portfolio performance. Evidence of BHLF's ability to protect against unwarranted risk in its charter school portfolio includes BHLF's historical write-off rate of [REDACTED] of total cumulative charter school lending. Despite the fact that BHLF often supports early-stage charter schools and charter schools with limited equity, we have not experienced any debt loss with our charter school borrowers. All of our charter school borrowers have an Acceptable Risk Rating and are paying as agreed.

Policies and Procedures - Financial Management/Risk Mitigation

BHLF has written policies and practices to mitigate against financial management risk, including cash management, investment policies, and liquidity management. See Appendix E.

-Likely Reserve Account Investments: BHLF currently invests ED Reserve Account cash in a segregated account at Eastern Bank. To deploy Award proceeds in support of debt originated by third-party lenders, we will adhere to ED guidelines while meeting the requirements of lenders.

-Additional Risk Mitigation Strategies: BHLF mitigates risk of the overall portfolio through **diversification** (geography, loan purpose, and repayment structure) and by quarterly examination of loan risk ratings and loan loss reserves, portfolio concentration risk, and portfolio trends. Additionally, BHLF limits its lending as follows: no more than [REDACTED] of its capital to any one Sponsor, no more than [REDACTED] of its total capital to any one Project. BHLF also reduces risk by conducting monthly internal reviews of **financial reporting/statements** to assess activity and to compare performance against budget. On a quarterly basis, financial statements are reviewed at the board level, and distributed to investors and stakeholders. Additionally, BHLF is in compliance with all applicable rules, regulations, and covenants, and performs audits and files the Single Audit (formerly the A-133) annually with no significant deficiencies or material weaknesses cited.

-Staffing: BHLF has a CFO who manages a 4-person finance/compliance department that is responsible for compliance with the aforementioned policies as well as compliance reporting to federal and other funders.

Factor #4 - Expertise in Education to Evaluate the Likelihood of Success of a Charter School

BHLF has 20 years of expertise in education lending that positions us well to evaluate the likelihood of charter schools' ability to successfully 1) finance and complete facilities projects and 2) achieve enrollment targets and operate schools that support students' academic growth and proficiency and social and emotional well-being. To date, BHLF and affiliates have provided \$ [REDACTED] in debt and NMTC allocation to 66 charter schools and leveraged over \$ [REDACTED] from

outside, private sector and non-Federally funded sources. Our loan loss rate on those financing, [REDACTED] illustrates our ability to select high quality schools that are able to successfully repay our debt, as does the fact that [REDACTED] of these schools remain in operation and are achieving projected enrollment and results.

Factor #5 - Ability to Prevent Conflicts of Interest - Standards of Conduct

BHLF has clear standards of conduct that require disclosure of direct and indirect financial or other interests, mandate disinterested decision-making and indicate corrective actions to be taken in case of violation. These standards are delineated in BHLF's Conflict of Interest Policy, which describes how BHLF prevents conflicts of interest by employees and board members in decision making roles. This Policy provides guidance regarding when it is necessary to disclose conflicts (i.e. duty to disclose), procedures for addressing conflicts of interest, and consequences for staff/Board members who fail to disclose conflicts of interest. It also requires BHLF Board Members and staff in decision-making roles to review and complete conflict of interest disclosure statements annually. These policies have been in effect since '09 and BlueHub's CFO and Director of Impact and Compliance currently oversee this policy, and related reporting and compliance. For the complete policy and sample statements, see *Attachment 6*.

Factor #6 - Past Performance Implementing ED Credit Enhancement Grants

BHLF has received three ED Credit Enhancement Awards, an \$[REDACTED] Award in '15, a \$[REDACTED] Award in '18, and a \$12MM Award in '21. We applied for and deployed the first two Awards in partnership with NFF. *The most recent annual performance reports from these grants are included in Attachment 11.* We are successfully deploying these Awards on schedule, complying with all reporting requirements, and meeting or exceeded all targets specified in performance agreements. As noted above, we have successfully deployed two Awards totaling

\$ [REDACTED] and are actively engaged in deploying our third award (20210) while working to close it. Leveraged capital came from non-Federal and private sector funders, including BHLF and NFF, and it has created more than 15,000 charter school seats. *See Appendix H for a list of all schools served, amount credit enhancement and BHLF financing received, financing leveraged, etc.*

IV. Quality of Proposed Personnel

BHLF Project Team's Charter School Facilities Financing and Education Experience

The proposed core implementation team includes 14 staff who, collectively, have over 160 years' experience financing charter school facilities. They have experience financing charter schools at both commercial banks and CDFIs; consulting in real estate development; and/or teaching at, serving on boards of, and/or evaluating charter schools. This team will be supported by BHLF's Board of Directors, Loan Committee, Senior Project Advisors and Consultants. See Appendix I, BHLF's Project Staffing Plan, and Attachment 4, Staff Resumes.

Staffing Plan

Project Director, Kathryn McHugh

Kathryn McHugh, Senior Vice President of Commercial Lending, will serve as Project Director. Kathryn will help identify and cultivate markets for the Project; develop relationships with regional CMOs, local operators, and charter support organizations; and lead or oversee project loan origination, underwriting, and financing efforts. She also will supervise other lending staff supporting the Project. This role is a continuation of her engagement on three prior ED Credit Enhancement Awards.

Kathryn has more than 20 years of experience in community development finance. She is BHLF's in-house charter school expert and lead lender, having closed over 40 charter school facilities financing projects. Kathryn presents regularly on innovations she has developed to

encourage the replication of cost-effective, flexible charter school facilities financing strategies. She co-chairs the steering committee of the National Charter School Lenders Coalition and co-represents BHLF in the CDFI Collaborative on Racial Equity in Education.

Kathryn has a well-established reputation for the depth and impact of the technical assistance she provides and for creating financing products aligned with charter school operators' needs. Kathryn also is respected and trusted in the CDFI and finance industries, as evidenced by the fact that she regularly brings in other partners to finance charter school facilities projects. Kathryn has a Master's in Public Policy with a focus on community development.

Project Supervisor, Michael Nilles

Michael Nilles, BHLF Interim President, will have ultimate responsibility for project implementation and quality. Michael has 25 years of experience sourcing, underwriting, and monitoring community facilities projects, as well as several years of experience overseeing community development financing staff. Michael is a national expert in financing products that support nonprofit operators' needs for flexible, patient capital that catalyze financing from private-sector funders. Michael is responsible for raising capital to support BHLF's charter school lending and has been actively engaged in BHLF's charter school lending activity throughout deployment of three prior ED Credit Enhancement Projects. He has a Master's in Public and Private Management from Yale University.

Lenders

BHLF has three Vice Presidents of Commercial Lending – Ena Kumar, Elisabeth Davis and Johvanna Sampson – who will support the Project. Ena Kumar joined BHLF in 2022 from LISC Charter School Financing with prior experience at Nonprofit Finance Fund. Johvanna Sampson has over 15 years of experience lending for community facilities projects nationally, with a

strong focus on AL and LA. Elisabeth Davis has been with BHLF for nine years focused on a broad spectrum of assets classes including charter schools. All have Master's Degrees in Business Administration and are experienced in structuring complex transactions for charter schools that involve other sources such as Tax Exempt Bonds, New Markets Tax Credits, Qualified Zone Academy Bonds, and Qualified School Construction Bonds.

Portfolio Managers

Arunabha Chakravarty, BHLF's Senior Vice President of Portfolio Management, and his team of five analysts and construction management staff will oversee portfolio monitoring and loan servicing. They will assess risk and adjust loan loss reserves as needed. Arunabha joined BHLF in 2022 and has prior experience in portfolio management at LISC.

Grant Reporting, Impact and Data Collection Support

Emily Kaminsky, BlueHub's Director of Impact and Compliance, will ensure that ED compliance reporting is completed accurately and on-time. Emily has been serving in this capacity on an expanding basis at BHLF for seven years, and she has effectively supported BHLF's prior Credit Enhancement Awards. Emily also will ensure that BHLF complies with the Performance Agreement, and supported by Ariana Mattice-Lybrand, Impact and Operations Analyst, that BHLF accurately tracks and reports on performance measures that speak to its success in achieving targeted goals for the Project.

BHLF Board of Directors

BHLF is governed by an 11-member Board of Directors. This Board has been involved in developing, implementing, and monitoring BHLFs charter school facilities financing for over 20 years and oversees BHLF deployment of all Federal Awards. DeWitt Jones, BHC's Executive Vice President, has Board-level oversight regarding BHLF's Charter School lending. In addition

to having 35 years of community facilities financing experience, he served as the Board Chair and a Trustee of Boston Day and Evening Academy, a public charter high school serving overage students. He has a Master's from Harvard Kennedy School.

Senior Advisors, Loan Committee, and Consultants

BHLF charter school facilities lending also is overseen by a 10-member external Loan Committee and is supported by other Senior Advisors and consultants. These include experts in geographic regions targeted, as well as in education and charter school facilities financing.

Two Loan Committee Members, David Stolow and Jennifer Pinck, have over 25 years' experience in school curriculum, and development and school facility construction, respectively. In addition, Norah McVeigh has 20+ years charter school facilities financing experience.

BHLF also will continue to engage Ford Research Solutions and Tandem Learning Partners as consultants who perform landscape analyses of new lending markets and help BHLF cultivate relationships with high performing charter school operators. Jim Ford, President of Ford Research Solutions, has 30 years' experience in charter schools, including serving as the primary author of Washington DC's charter school law and as the Charter School Program Director for Raza Development Fund. William Haft, Director of Tandem Learning Partners, has served as the Associate Director and Vice President for Authorizer Development at the National Association of Charter School Authorizers and has decades of experience supporting the growth of high-quality charter schools.