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How a charter school lender avoids the sector's pitfalls

By Keeley Webster

The Equitable School Revolving Fund, a major charter school lender with a zero-default record on nearly \$2 billion in loans, has two bond sales planned for 2026.

The fund has maintained its strong credit profile even as the industry has experienced headwinds from declining enrollment and federal policies, said Chief Executive Officer and founder Anand Kesavan, adding that its model shelters its investments.

"We are bespoke school investors," Kesavan said. "We are investing in 'that' school or in 'that' district, with those schools."

Equitable's bonds carry an A rating with a positive outlook from S&P Global Ratings.

In February, Siebert Williams Shank & Co, the lead manager, will price up to \$350 million through conduit issuer Arizona Industrial Development Authority. The sale will replenish the revolving fund used to provide loans to charter schools.

Then in August, it plans to price a multi-issuer transaction of \$250 million. The conduit issuer for that transaction has not been decided, Kesavan said. The fund has priced several transactions through AZIDA, but also through California Infrastructure and Economic Development Bank and Massachusetts Development Finance Agency.



Equitable Facilities Fund has provided funding to the Coral Academy of Science Las Vegas, a Nevada charter school. Students work on a project at the science and math-focused charter.

Equitable Facilities Fund

It also partnered with the state of Nevada and a non-profit to fund charter schools there in 2023.

This month, S&P assigned a stable outlook for the charter school sector in 2026, though the report highlights key financial and demographic pressure points that are increasing credit risk, particularly for smaller and lower-rated schools, said Jessica Wood, an S&P managing director and education sector lead.

S&P noted that schools at the

lower end of the ratings distribution are most likely to rely on their reserves to fill budgetary gaps and could experience ratings pressure.

ESRF's focus on high-quality underwriting and active portfolio management has allowed it to avoid defaults, Kesavan said, even while schools in the broader market have faced more pressure and challenges.

S&P's stable sector outlook is based on its rated portfolio; 84% of

its rated schools have a stable outlook. S&P rates about 360 charter school networks, equating to roughly 1,500 schools — a good portion of the over 8,000 charter schools nationally, Wood said.

While charter schools serve students in 45 states, Guam, Puerto Rico and Washington D.C., charter school bonds have only been issued for schools in 34 states and the District of Columbia, Wood said. S&P rates charter schools in 27 states and the district.

Charter schools receive government funding — typically the same per-pupil funding as traditional public schools — but don't receive property taxes, are more reliant on private donations and operate independently.

Despite having twice as many downgrades (26) as upgrades (14) in the rated universe — a typical trend for this sector — S&P's stable view is strongly supported by the continued solid fiscal health of the state governments that contribute funding, most of which aren't currently anticipating cuts to K-12 or charter school budgets, Wood said.

However, Wood said, the outlook is not without "pockets of pressure."

Covenant violations have risen across the sector, primarily driven by the expiration of federal emergency funding post-COVID-19, inflationary expenses, increased expenses for personnel like mental health advisors added during the pandemic and slowing increases in funding from year-to-year, she said.

None of the charter bonds S&P rates has had a payment default, she said.

"There has been a lot more pressure on charters in the unrated space — a lot more defaults and challenges," Wood said.

"There is a reason those bond issuances are unrated. They may be

smaller, single-site schools, or where enrollment is not as high," she said.

"We didn't have any schools in our rated universe default this year, but we did have some covenant violations," she said.

ESRF has issued roughly \$1.5 billion in bonds across six to seven issuances to support nearly \$2 billion in loans, with the remaining capital coming from philanthropy, Kesavan said.

Established in 2017, the Equitable Facilities Fund is a 501(c)(3) non-profit corporation created to make low-interest loans to public charter schools across the country. The Equitable Facilities Fund is the only member of the Equitable School Revolving Fund.

As part of its portfolio management, the fund offers best-practices training and seminars to schools and early intervention to manage issues if schools show signs of covenant violation, Kesavan said.

The fund has experienced no payment defaults or loan losses on its entire loan portfolio, a feat Kesavan attributed to its "active monitoring" and high-quality underwriting, which includes a year-long, bespoke diligence process for each school.

This disciplined approach and their status as a non-profit lender have enabled it to save their partner schools over \$300 million in interest costs, Kesavan said. The fund's focus is on high-performing charter schools, primarily in California and Texas, but it has provided loans totaling \$1.8 billion for 130,000 students across 24 states and in Washington D.C.

ESRF saves its partner schools money by providing below-market loan rates compared to what individual, lower-rated schools might pay on the open market, said David Stinfil, a managing director at Siebert Williams Shank.

The covenants set for loan participants are as strict as those found in single-school borrowings, Stinfil said, but they don't have to establish a reserve fund, which they might have to take out a loan for. ESRF is also able to sell debt at lower rates because investors respect the fund's due diligence, he said.

"If a single school goes to market, the investor would need to research how this asset will perform over 30 years, instead ESRF does the research and saves investors the time that would take," Stinfil said.

"That is the whole thesis for the fund," said Eugene Clark-Herrera, a partner with Orrick, Herrington & Sutcliffe and the fund's bond counsel. "As the quality of the pool rises, the pool can borrow at lower rates and be able to pass through savings."

The organization recently elevated long-tenured leaders Wendy Berry and Marc Wancer to partner.

ESRF has expanded to a team of 35 employees from just a handful of people, which included Berry and Wancer at the outset, and continues its mission to make the market more efficient for charter investors, Kesavan said.

Berry's work includes underwriting over \$500 million in loans, including some of the fund's most complex structures, and helping to build the monitoring systems that underpin ESRF's portfolio discipline, according to a release about the promotions.

Wancer has helped guide the organization from an early-stage concept to a national platform with more than 100 outstanding loans, according to the release. He is also responsible for sourcing loans and building ESRF's pipeline, working directly with partner schools as they move through the credit and underwriting process.