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U.S. Charter School Default Rate Up, but Sector Sound: Report.

NEW YORK — U.S. charter schools are defaulting on bonds at a rate of 3.3 percent, a level higher than that recorded three years ago but still not one which should concern investors, according to the co-publisher of a report made available on Tuesday.

Charter schools, held in a number of municipal bond funds, are public schools that operate independently and are an alternative to schools run by local school districts. They are publicly funded but use private-sector lenders to fund buildings.

Of the \$10.4 billion issued by charter schools, \$346.9 million, or 3.3 percent, has defaulted, according to the report by community financing organization the Local Initiatives Support Corporation (LISC) and Charter School Advisors. That compares to 2.7 percent recorded in a 2012 LISC report by the same author, CSA managing director Wendy Berry.

“I don’t think it should be concerning to investors if they’re looking at schools in the right way,” said Reena Abraham, LISC’s vice president of education programs.

“There is tons of growth in this sector. I think they should be asking the same questions that we have been asking around academic performance. A good school will not fail you.”

The data also showed an uptick in the default rate on the basis of the number of schools issuing bonds - with 5 percent of the 818 schools defaulting according to the 2015 report versus 3.8 percent of 583 recorded in 2012.

The schools defaulted mainly because the authorizer of the school did not renew their charter due to sub-par academic performance, the report said.

Michigan’s default rate of 12 percent was the highest amongst all states. Michigan was particularly active in issuing charter school bonds in the early years of charter school bond issuance - which began in 1998 - according to the report, when underwriting criteria had not evolved, it said.

The high default rate is also due to the state having mostly small, stand-alone schools that were less able to weather Michigan’s economic downturn and the associated effects of reduced education funding, the report said.

The study also said that some state programs were improving charter schools’ access to the bond market with state officials in Colorado, Utah and Texas developing programs to allow charter operators to get enhanced credit ratings.

By REUTERS

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(Reporting by Megan Davies; Editing by Andrew Hay)

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