The HBCU Capital Financing Advisory Board

Meeting convened on Friday, January 20, 2012, at 10:15 a.m., at the U.S. Department of Education, 80 F Street, Northwest, Washington, D.C., before Dr. Norman Francis, Chairperson, and Elizabeth Mingione, Registered Professional Reporter and Notary Public.
APPEARANCES OF MEMBERS:

Dr. Lezli Baskerville, President and CEO
Dr. Norman Francis, President
Dr. Robert M. Franklin, President
Ms. Edith L. Bartley,
Dr. Adena Williams Loston, President
Dr. John S. Wilson, Jr., Executive Director
Dr. Dianne Boardley Suber, President
Mr. Johny C. Taylor, President & CEO
Dr. Eduardo M. Ochoa, Assistant Secretary
Dr. Debra Saunders-White, Deputy Assistant Secretary
DR. FRANCIS: I would like to call this meeting to order. I think we found a view here that looks like we've got a quorum, and so we can get started, and we'll have a roll call. I'll ask Mr. Watson to call the roll call please.

MR. WATSON: Lezli Baskerville.

MS. BASKERVILLE: Present.

MR. WATSON: Norman Francis.

DR. FRANCIS: Here.

MR. WATSON: Robert Franklin?

MR. WATSON: Edith Bartley for Dr. Lomax.

MS. BARTLEY: Present.

MR. WATSON: Adena Loston.

DR. LOSTON: Present.

MR. WATSON: Donald Reaves.

DR. REAVES: Present.

MR. WATSON: Trudie Reed? Dianne Boardley Suber.

MS. SUBER: Present.

MR. WATSON: Johnny Taylor.
MR. TAYLOR: I'm here.

MR. WATSON: John Wilson.

DR. WILSON: I'm here.

MR. WATSON: Chairman, we have a quorum.

DR. FRANCIS: Thank you very much. I want to welcome you all to this chilly weather here. I guess you have gotten used to it. Those of us from San Antonio and New Orleans, this sort of thing, we don't like this. We are going to get out of town as fast as we can, but I am really happy to welcome you. I was very worried. You know if you are ever traveling early in the morning trying to make a ten o'clock meeting and your plane is going to land at 9:30, you know, hope for a lot of good things: One, a good pilot, that's number 1, good wind, a tail wind and no snow. And it worked very well. I would have liked to have come in last night, but I should tell you I was MC'ing the investiture of a new African-American female as a federal judge for the Eastern District of New Orleans. And that was quite a fine affair.
Only thing that made me uncomfortable, they had all nine of the judges there, and they had the Court of Appeal judges there. We had enough judges there to hold court for the next year. So we did get out of court, and I didn't get convicted, so I'm in good shape this morning.

Well, this is always a very important meeting for us. We've had difficulty in the past trying to meet, you know, right on schedule. But when you get the type of people who are very much involved as you are, and try to put this together, it gets difficult. But Don and I have agreed that we will continue to do so. And we'll do what other organizations do. We hold a meeting in New Orleans. We never miss a quorum for any meeting I've ever heard if it's held in New Orleans.

DR. SUBER: Works for me.

DR. FRANCIS: Works still for you? Well, we are going to try. Now you get your schedules ready, but not at Mardi Gras. I might do it at Essence, and we might do it at Jazz Fest, but not at
Mardi Gras. But let's get started.

I guess I should be first to say welcome to our guests here. And I'm going to ask you, Dr. Ochoa, give us some remarks, as many as you want. And I want to also welcome Dr. Debbie Saunders White. Met her for the first time, Johnny, with the Secretary. She had just started, and didn't stop, I understand. But same thing with you I assume, Doctor. It's a new world.

And I thought I saw Leonard Haynes? There he is. Hi, Leonard. Leonard is a Louisiana boy, so he doesn't like this weather either, but he must be acclimated by now. It's all right.

But, Dr. Ochoa, welcome. And we wish you continued good health and good work for us.

DR. OCHOA: Thank you, Dr. Francis. It's a pleasure to be here today to meet with you and share a few remarks with you about the work that we are doing at the Department of Education.

I'm sure you are well aware of the President's 20/20 goal for once again becoming the
most educated nation in the world, which means raising
the college attainment levels of our nation
substantially. And it specifically means raising
substantially even, you know, closing the gap in the
college attainment levels of minority population,
Latinos, African-Americans and others.
And that's actually a very key aspect of
the overall goal. And in that quest institutions like
HBCUs and other minority-serving institutions have
unique advantages and insights because of their
experience in serving that population. So it's -- as
a group of institutions, you stand poised to play a
critical role in achieving this goal. And so it's
very important for this administration to pay
attention to your needs and support you in every way
we can.
There's also of course an even longer
legacy for HBCUs in particular because of the
historical role that they have played. And that's
another important aspect of the commitment of the
federal government to sporting these institutions.
The fiscal year 2012 budget was finally passed, in a manner of speaking. And it does provide for $367 million for loan and loan modifications for this program. And it allows for loans to both public and private HBCUs. So that's specifically going to be your focus in this board, and we are looking forward to your recommendations.

I want to recognize the good work of Don Watson in supporting you, and also want to also recognize Debra Saunders-White who I selected to join me in the Department as my deputy assistant secretary. And I'm very proud of her and the work that she's been doing. She has had quite an impact already in the higher education programs section of the office of post secondary education, which I head. And this has not gone unnoticed across the department, I must say. So we are really happy to have her with us.

DR. SUBER: So you are pleased with her work.

MR. OCHOA: Absolutely.
DR. WHITE: Go ahead and tell the story.

DR. SUBER: Then I can tell you that I raised her. So she is all that she is because I raised her.

MR. OCHOA: Thank you.

DR. FRANCIS: Those are some of the kindest words you'll ever get.

MR. OCHOA: Well, I don't have anything more specifically that I wanted to share with you but, you know, if you have any questions or comments you care to make for my benefit in the work that I do in the office, I'd be happy to hear about it before I surrender the podium.

DR. FRANCIS: Well, we are going to need your help going forward. We made a lot of recommendations last time we met. What was our batting score, Don? One out of five.

MR. WATSON: We did a little better than that, Mr. Chairman. Yes, three out of ten. So we are at 30 percent, but I'll get into more details about that.
DR. FRANCIS: All right. He's got his report because I've asked him to give back to us the reactions to the number of recommendations we made. We made a number of them, and some of them are very still alive and very important to the program, Doctor. And some of course we understand are going to be more difficult, particularly in this economic time, but there are some things that would be beneficial even fiscally both to the government and to the schools if we adopt them. And we did not get I guess one or two of them in the bill that we wanted, but we are going to talk about them today and more than likely put them back on the table. This won't hurt because we are coming to a time where we are going to be challenged, as you put it, in educating young people. But there are going to have to be not just resources which are money but resources in terms of buildings and capital and the rest because it is difficult for us to compete and then keep kids in school if we don't have those two things working together. You understand -- certainly
understand that.

And we also understand the difficult times, we understand the economic times and the like. I've been at this a long time, as you may know. And my problem is that in funding it is always difficult to get to the equity side of business. You know everybody knows that we fought for equality, but when things are not equal going in, putting equal amounts of water in unequal glasses, the glasses remain unequal.

So the only way you do it is put more in some glasses than others in order to do it equitably. And that doesn't mean putting it in there just for the sake of putting it in there, but if we are going to be able to compete, we've got to be able to compete in ways that the future is depending on us.

And we all as you put it have I guess all of the centuries that we've been in, and looks like centuries, I know it's one and a half, but we have done what a lot of other institutions have not done with much less than they. And I think we take pride
in saying that. But that is not to say that we don't understand the fiduciary responsibility we have for funding, the fiduciary responsibility we have as institutions for the country as a whole.

So when we talk about funds, we are talking about it to make, quote, the kind of goals the President wants. And I'll say it off the cuff. The way we are going now, we are not going to make those goal unless we rev it up and we have more money.

And I know for those of us who are presidents and a lot of people say we always talk about more money, more money, more money. Well, not all of these will need money, but most of them will.

So, I am happy you have come to be with us because we'd like your support. We'd like to be able to respond and help you where you think your support would be helpful as you become our speaker in places that we won't show up yet.

And that's part of what it is we do every day. We try to find those where we will have champions of the cause, where we won't be there but
they will know why they are championing it if we can collaborate it. And I do remember one of the main things in our July meeting with Secretary. It was communication, the fact that we and the Department must communicate and do so in a way that we understand our respective roles.

So I will be very happy you came, and stay as long as you want. You know your desk will be piled with e-mails and all when you get back, but it's the weekend and we spend the time on the weekends going through our e-mails. I am sure you do too.

MR. OCHOA: So you know I work best in a dialogical sort of mode as an academic, and I can't stop myself from, you know, reacting or sharing some more thoughts based on your remarks.

DR. FRANCIS: Please.

MR. OCHOA: We do have, I mean, I came to the Department from higher education. I was a provost at Sonoma State University, one of the campuses of the California State University. And I became very concerned about the fact that the President's 2020
goal seemed to be in a collision course with the realities of funding, particularly public higher education that was being defunded so drastically. And so this has been one of my concerns is trying to find some way to affect the public dialogue in this respect to try to sort of get real about the situation. And one thing that happened is that in dialogue with the American Council on Education, they have gone ahead and created a commission on educational attainment which really was a response to my plea for higher education to come together and develop a strategic vision for the country hoping to achieve these goals. And that commission is headed by President Dee from Ohio State, put a number of good people in it. And they are sort of in their quiet phase right now. They are developing white papers and generally gathering information, but eventually they will come out with some things that should impact the public debate on this. The other thing that I'm also sort of
embraced as my issue is the issue of productivity. In higher education universally we are a lot like the health care industry. We are very concerned with quality and always doing things better, but we don't necessarily watch the bottom line or have, certainly our faculty don't have as one of their objectives how to do things more efficiently. Unless something that as a sector we can no longer afford because precisely because the need for post-secondary education now is so much more widespread we have to play such a large role. So just like the health care industry is catering to growing need as populations extend, we are also catering to growing need. And we have to find a way to increase productivity.

So that's another area that I think is a common challenge both for HBCUs and for the rest of the sector.

DR. FRANCIS: Sure. Well, my only response, I couldn't agree with you more. And it's continuing to be a challenge. The only response I
would say to you is that in our sector I think what
our major challenge, we have been able to do so much
more with so little. But the time comes when you
can't continue to do that.

And that time is really now. But it
doesn't -- it's not an excuse to continue to do that.
And that's a real challenge. And that's our goal, you
know, is efficiency and effectiveness and serving the
people who come to us, students, and showing what
happens to them after they come and making sure that
they make progress and they complete their work.

I'll say it because I just come back from
Haiti on Friday. And it -- it was most depressing,
most depressing, because I look at where they were
before the earthquake, look at them now. And you look
at the youngsters who need to be educated.
And so if we don't -- they don't start
doing as fast as they can, that gap only widens. And
the efficiency, effectiveness and where the money is
going to come from is another story. But I guess I
would invite you all to go look, but I left there so
depressed. And I'm not normally -- I'm always upbeat and optimistic and the like but I'm really concerned about it.

So the point you make is that if we are going to make the President's goal, and our own goals, you are right, the efficiency thing, but we need help from faculty. As an administrator, that's a big challenge. How many hours you teach, how much time you are going to spend on it, time on task, and -- but we have faculties who they are there because they are not making big salaries, so they are committed and it's a matter of working.

I want to recognize Taylor.

MR. TAYLOR: Chair Francis, thank you.

Just had a quick question for you, Secretary. Do the commission that you described, do we have any HBCU presidents?

DR. FRANCIS: On the ACE.

MR. TAYLOR: On that commission?

DR. FRANCIS: I don't know. I have not -- this is the first time I'm hearing about it, but --
MR. TAYLOR: And so that's one of the things that I will comment is as we are looking at these 2020 goals and making these decisions, and you are saying you are relying on the presidents around the table and throughout our 105 university network, that we have some folks at the table who can bring the perspective, Chair Francis, that you are mentioning now.

So I think that is an area we should go back and revisit if it's not too late to have our voice heard at the table. We need to be there.

DR. FRANCIS: I'll send an e-mail to Molly Broad on Monday.

DR. SUBER: And also the 2020 goal may be lofty by your own admission. But even if you were to reduce it, the expectation that we would be the leading country in the world, I mean to come from 29 to the leading by 2020 I agree is a big leap, but even if you were to say we are going to be 13th in the world it does require in fact that you target and educate that population of people who will be the
And if you don't do that, that population of people are still going to be there. And so the question is if you don't educate them, then what are you going to do with them? Where do they -- where is the expenditure? Because they will be there. They will be real.

It seems to me that as we talk about the goal, that the reality of it is, is that if you think that education is the under girder for everything else, then that somewhere in a common sense kind of discussion that becomes a priority. And that given that, you know, the bumper sticker that says "thank a teacher," well you can apply that to just about any discipline that you want that at some point the educational foundation of a country is what sustains it.

And so I appreciate the concept that our institutions are major contributors to this goal, it's just a little hard for me to reconcile how if I'm really so important I am sustaining the major cut of
the process. And so, that's the only question I raise

is that I think whatever the goal is, we've still got
to move the population of people that we serve because
in 2020 they are going to be there.

They are either going to be educated or
uneducated, which will have a rippling effect on this
nation and this world in ways I don't think people
have even begun to think about.

MR. OCHOA: Well, as you know we, the
Department of Education, we are not masters of our
fate when it comes to the budget.

DR. FRANCIS: Don't we know.

MR. OCHOA: So I couldn't agree more with
everything that you said, but that we are facing some
real constraints. And I should say in my call for
greater efficiency I am not suggesting that that's
all -- that that can by itself create the added
capacity that we need.

We obviously need for the trends that we
see in public support for higher education reversed.

But it's just that I don't see them even if we were to
have an impact on where those trends are going, it's not going to all by itself get us to where we need to. So we need to have both.

DR. FRANCIS: Right. Exactly. I would just recommend that when I'm ready to start this meeting, given your comments, Dr. Suber, the ETS produced a major research paper about four years ago called "The Perfect Storm." And I'd recommend to each of you to go on the web and read that. It fits that very well.

Dr. Ochoa will -- if you haven't seen it, you would appreciate that very much because it talks about exactly what you say. We are on a collision course.

Okay. All right. Lezli, I'll recognize you before we start.

DR. BASKERVILLE: Thank you, Mr. Chairman. I just wanted to add in terms of commending some reading, the Maryland Higher Education Equity in Excellence Case which is also the HBCU's case against the State of Maryland for equity and funding and
excellence provides a tremendous snapshot of the challenges but also the abilities of HBCUs to thrive and what we've done with so little. And I would encourage anyone, particularly you, sir, to look at it's called the Excellence, the Committee for Excellence and Equity in Higher Education versus the State of Maryland. And in it some of our current presidents and former presidents, the former Maryland president Earl Richardson testified. Current president David Wilson, president Morgan State testified; president of Bowie State testified, Mickey Burnim; President Avery at Coppin State. Their testimony is compelling and it is just a historical overview of what our institutions have been able to do with so little. And it gives a clear picture of I think the return on the investments, a paltry investment with huge returns. And this case is the first HBCU equity in excellence case to reach the courts in the last 30 years. And it's also going to establish the landscape for at least six or seven other states that have
actions that are in cue.

But it's an excellent overview. If you can't get it, our office has it. We'll be happy to send you not the entire transcript, but the testimony in particular of the presidents of the HBCUs that testified.

DR. FRANCIS: Very good.

MR. OCHOA: Thank you for that tip. Well, I'm going to leave in a few minutes, but I'm also going to leave with you here with Debra some of my card. So if anybody wants to reach me, you are welcome to do so.

DR. FRANCIS: Thanks so much for coming, Doctor. Dr. White do you wish to make some comments with us.

DR. WHITE: I just want to extend my appreciation to each and every one of you for your continued dedication to our community. I know that this is one of many boards that you serve on in your day-to-day commitment. I think that, you know, we struggled to find a day for this meeting, and I am
very delighted that coincidentally we happened to have
it on the eve of or on the fortnight really of the
Martin Luther King Day celebration.
So when we talk about our commitment to
service, what a wonderful time to be in Washington,
D.C. to ratify that. I must say that, you know, you
stand on many shoulders when you go through life. And
I've never been -- I haven't been in a public forum
like this, and I want to publicly acknowledge in my
appreciation to Dr. Dianne Boardley Suber. I've known
her since the 7th grade, so she's very correct.
DR. SUBER: Since she was in the 7th grade.
I was grown.
DR. WHITE: So I have known her since that
point in time in my life, and so I am -- I am evidence
of the work or product of the work that you labor in
each and every day. I'm here, Mr. Chairman, to
hopefully advance the agenda. You have 30 percent hit
rate.
It's ambitious to say that we are going to
have -- get to 100 percent, but I'm here so that I can
help support Don and --

DR. FRANCIS: Beautiful.

DR. WHITE: Dr. Haynes in their efforts so that our message is clear and your message is clear.

DR. FRANCIS: Thank you.

DR. WHITE: So I'm here to take on that advocacy role. And it is with extreme delight that I've been given this opportunity by Dr. Eduardo Ochoa.

DR. FRANCIS: We are happy to have you with us and happy to have Dr. Ochoa with us too. And but watch these -- last night I introduced what was supposed to be the senior senator from Louisiana, but with all those judges, I said the senior citizen.

(Laughter)

DR. FRANCIS: And Senator Mary Landrieu said to me if I had not gone to law school with her daddy, she would kick me out. But every now and then I was getting too far left preaching and get to meddling. She said don't do that again.

Thank you both for being here. You'll be with us for awhile.
DR. WHITE: Yes.

DR. FRANCIS: All right. We need to do the first thing and that is to -- you remember them, approve the minutes of our last meeting which really was July 30, 2010. I remember that was a hot date too. John?

MR. TAYLOR: So moved.

DR. FRANCIS: Got a second?

RESPONSE: Second.

DR. FRANCIS: Thank you. Any questions at all? In a few minutes executive director will go through details on that, but I looked at them and they looked very good, very clear as compared to reading the old transcript itself.

All those in favor of that motion please signify by saying "Aye."

RESPONSES: Aye.

DR. FRANCIS: Opposed? Motion is carried, and I would like now to turn it over to our distinguished executive director who has gotten a little help now and we are going to get some more, the
man that doesn't stop. He's like that little rabbit.

So, Don, it's all yours.

MR. WATSON: Thank you, Mr. Chairman.

Thank you, board members. I'm pleased to present my report to the board. It's an update, you all have it in your yellow packets.

The Secretary approved as you know the marketing sale of Barber Scotia. At this point the designated bond authority, the trustee and the bond authority's counsel have reviewed those documents, and those documents are now with the Department of Education's general counsel being reviewed.

Basically what's going on in that process, there's a marketing sale agreement. So Barber Scotia will receive this. Their counsel and review it. The board will look at it. They'll sign it and then we'll start to market the property.

And the reason we are going -- just to remind you why we are going that route instead of having a full-blown foreclosures. Foreclosing campus means that we have to provide security, insurance,
those sort of things that Barber Scotia itself is already providing. So it sort of cuts down the cost. And as you know, the cost of Barber Scotia eats into the escrow of the other borrowers in the program. So we try to keep the cost as low as possible by allowing us to go through this marketing sale process. That's the basic update on that piece.

Are there any questions from members of the board on that for further discussion.

DR. FRANCIS: Been going on a long time. Looks like it's coming to reasonable conclusion. How much time do you think left?

MR. WATSON: Well, the interesting part about this, we collateralized the entire campus. And campuses aren't real estate that are sold every day. In this market houses are being difficult to sell, so you have to imagine that it's going to be more difficult to sell an entire campus or parcels of that campus.

DR. SUBER: What is the selling price projected to be?
MR. WATSON: It's the market price.

DR. SUBER: Oh.

MR. WATSON: And that's why we had it for sale, just so we can actually get a market feel for it. Just to throw out a price wouldn't be fair to the University or the borrowers in the program, so we let the market dictate what will happen in that case.

DR. SUBER: And your time frame again is?

MR. WATSON: Well, general counsel should be finished their review I guess maybe the next 30 days or so, then once that happens, we'll actually I'll take a trip down to Barber Scotia so we can have a discussion about that. DBA, bond counsel, trustee will go down to Barber Scotia to have a discussion with them and their board about the next steps in the process.

Although they will default the school, there still needs to be some sensitivity to this and to the process. And then once they sign the document, it actually lists for sale and then individuals can start going through the process of making bids or...
offers on the property and things of that nature.

Most likely we'll ask -- require additional updated appraisal for the property.

DR. FRANCIS: Don, as one issue that comes to mind because it's in our packet, and I've been chanting this about four years, what about the escrow that was there in the group? Has it been depleted yet?

MR. WATSON: No, sir. The good thing about this escrow is that as you may recall that the program can now make a significantly -- a significant amount of loans. It's no longer -- four years ago we started the program it was $130 million outstanding. Now it's $150 million outstanding.

As institutions make loans, it's a way to add support. So Barber Scotia's portion of the debt service payment is being now -- the support of that is being paid by each institution escrow. So the escrows actually grown over time.

I think the escrow is about 17-18 million dollars at this point. And it grows as we make each
loan. So it's not that we can deplete it. At one
time we were in discussions with on be as to actually
paying off the Barber Scotia loan and just allowing
that process to take place.
That would have to have a deeper
conversation with all the institutions in the program
because they would actually have to agree that a
portion of their escrows would be lost until the
campus is sold. And they were not guaranteed that we
will recoup all of their escrow that went into the
sale.
DR. FRANCIS: So new borrowers' escrow go
into that pot from --
MR. WATSON: Every borrower.
DR. FRANCIS: So everybody's in the pool.
I thought only the tranche that came in at the time.
So it's broadened?
MR. WATSON: Yes. Yes. It's broadened by
statute. That's something that the higher education
dictates that every borrower gets a loan through the
program actually has to put five percent of their draw
into the pool.

DR. FRANCIS: I just had the misunderstanding, I thought if I came in with a tranche of five schools that our escrow was in that pool but everybody else who comes in -- see how that pool would grow. And I can see why I think we need to put that back on the agenda because I think it's, well, I've always felt it's a deterrent for schools to come into the loan program because you are coming in, putting in an escrow that you are saying for myself, but I am coming to all of you.

MR. WATSON: Right. And just to give a little explanation on this, if you --

DR. SUBER: I thought it was for the people who were already in. So it's everybody new.

MR. WATSON: Everyone who comes to the program. And just so you have an understanding of how the program works, just so you have an understanding how the program works, this is no different from any other bond issue we have. If you think about any other bond issue and most of you on campuses you have
gone through bond deals and you understand that
there's a reserve fee.

We call ours a pooled escrow. The norm reserve fee if you look at our five percent escrow,
it's much lower than the ten percent of your bond,
your total. Bond it's much less than 125 percent of maximum debt service. And those are standards in the regular market. So we are all always going to be lower.

Also just for any worst-case scenario, if you were to lose your entire escrow, add about a half a percent to your interest rate and we'll still be -- especially in this market we'll still beat anyone out there. So those kind of things you have to look at when you are looking at your overall bond cost.

And I will tell you there are some schools that had the same sort of concept where they don't want to be part of escrow. You have some other entities tell them, well, we can do better. They realized that they weren't doing better because of the overall effect of cost of borrowing, and they
ended upcoming back to the program.

So you have those things you sort of have to look at when looking at the program.

DR. FRANCIS: Yeah. You know we all know when you take out a bond you have got to put an escrow in. I just was, I'll admit, misunderstood the fact that it's like a big bond, and every time you get into it you are putting in your escrow, and your escrow is liable for everybody else's. That's a -- see when we -- each one of us does it, we are responsible for our own.

MR. WATSON: Exactly.

DR. FRANCIS: Now my famous Louisiana, it's we are not in Salito. We are separate. And I think -- I think our next step is to put it in again, see if we can get congressional authority to separate it out.

MR. WATSON: And I'll go into more detail because as you recall the board actually recommended that the department look at changing the escrow. So I'll go into more detail as we get responses to that.

And you'll see that's actually one of the
recommendations to keep going on that.

DR. FRANCIS: Okay.

MR. WATSON: So any more questions about the Barber Scotia and escrow?

DR. FRANCIS: Let's go down the line.

MR. WATSON: All right. I also want to report to the board that the program went through what's called a 1, 2, 3 risk assessment. And basically it's an internal assessment to the Department of Education that determines if there are any high-level risks for a program.

We wanted to go on that process. And basically what -- way the process works, someone will come in, ask me how the program works. I describe the program from beginning to end. Then they are looking at the controls inside the process.

We had a finding. That finding was that we have more control points in which they want -- there's a memorandum before the Secretary -- Assistant Secretary signs the letter of credit and the Secretary Certificate. Debra White Saunders looks at it, she
reviews it. There's sort of a sheet attached to it.

She approves it. It goes up to Dr. Ochoa for his signature.

And so I actually expanded that a little bit to include a little more information about the process and how the process worked. And just to say, that I actually reviewed the documents. I'm okay with it. And that's the sort of thing that we put in to close this finding.

So we are looking to close the finding, I guess the date is April, but I've already provided all the information and all the data so I just haven't provided -- do a closing memorandum to officially close the audit.

So we made the grade in the rest risk assessment or you've got to --

For me, no. I wish it was zero, but always thinking something's going to come up. And for that to be -- came up, I am pretty satisfied with that.

DR. FRANCIS: Okay.
DR. WHITE: It was a very minor.

DR. FRANCIS: Good.

DR. WHITE: Don isn't giving himself proper due in this regard. This was an internal assessment.

These are the kinds of things that the department looks at when we look at the viability of programs and our ability to manage the program. And, you know, you all are well aware of what auditors do.

And to come up with one minor finding like this where it just caused us to put better controls in place I think really bespeaks to Don's leadership.

DR. FRANCIS: Good. Well, that's very important to all of us because if you don't manage it right, and we are managing it correctly, you tend to lose it.

DR. WHITE: Exactly.

DR. FRANCIS: And so all of us know about auditors. I deal with them every day. And I have to keep my own books. Go ahead. Kind congratulations.

That's very important.

UNIDENTIFIED SPEAKER: Here, here.
MR. WATSON: Thank you. The next item to report is the Federal Advisory Committee. That actual statute that governs how this board runs and that sort of thing.

Every year, that's during October, I have to go in and update the report basically to find what the cost of the program to run the board, what the board -- who the board members are, what the board recommendations are, how many of those recommendations were accepted by the department, how many were not.

And so a pretty simple report, doesn't require a lot of things.

Whatever we do here, we just basically report that there and Dr. Ochoa signs off from that and that goes to GSA to be reported to Congress. So it's not a good or bad sort of report but it's just something that we do annually and just want you to know that that's something that happens.

Also you all received the updated charter that also dictates how the board runs and how the board make up the funds of the board that sort of
thing. Secretary Duncan approved that through 2014, so I believe I sent you all a copy of that last year when that went out. So I just wanted to get you updated a little. That won't happen again for another year.

I just want to report that I've been helping the College Housing Facility Loan Program. Mark Somerville is in the audience. He actually runs that program. We took a trip down to Richmond to the Federal Reserve to have a better partnership between the Federal Reserve and the department when it comes to running the program and that kind of thing to get a better understanding of what the Federal Reserve can help us to improve the program, what we can do to help the Federal Reserve manage their program.

I think it was a pretty successful meeting. We were there all day, accomplished a lot. We came out with a lot to do, and so but it was an important meeting that needed to be had. And we have some follow-up to do, but it's coming along pretty good.

DR. FRANCIS: You do any reporting to the
Federal Reserve Board or just that for communications and so forth, you know, the relationship?

MR. WATSON: Not for me, it's not a Capital Finance function. I was there simply to assist, but there's no report per say to --

DR. FRANCIS: It's a matter of keeping the relationship that they know what we are and what we are doing basically.

MR. WATSON: Exactly. And basically what the Federal Reserve position was, they actually acted as a servicer in a sense. They collect the payments and send out payment notices. What we discovered was that they wanted also more input from the department. If something goes on with the loan, they wanted to have our input as to how it should be handled and those sort of things. So that was the bulk of our discussion to get some understanding of what they needed from us and what we needed from them to, again, improve customer service to borrowers.

And it's not just chapter program is not just for HBCUs, it was what I call a predecessor to
Capital Finance because it was college housing facility loan. And HBCUs are participants all I guess there's tons of a variety of institutions that actually participate in that program.

DR. FRANCIS: Good. Keep in good touch.

MR. WATSON: Also -- yes?

DR. BASKERVILLE: I'm sorry. Finish your report first. Thank you.

MR. WATSON: Also Morris Brown is a member of board of that portfolio. They have sent in a request to ask for us to look at relieving some of their debt of the chapter, some of the chapter debt for an amount. The department has some discussion about that and is still having some discussion about that proposal.

DR. BASKERVILLE: So I really was just going to ask are you at liberty to discuss with us or do you know what will be your recommendations regarding Morris Brown.

MR. WATSON: No. There's internal discussion within the department but a resolution has
not been made. Of course there are negotiations back
and forth, so I am sure there will be back and forth
with Morris Brown and Department personnel.

DR. BASKERVILLE: Thank you.

MR. WATSON: Any more questions on that
issue?

DR. WHITE: Can you give a date when you
think that you will be able to have Morris Brown's
request resolved?

MR. WATSON: Most likely can't give a date
today. And again because it involves general counsel,
Department of Justice, because they are actually
asking for the department to sort of forgive a debt.
And that becomes sort of an issue outside of just the
realm of Department of Education.

The department has to write a
recommendation, Justice has to accept it, that sort of
thing. So we probably can do something I'm guessing
maybe 90 days because it's not just Department of
Education, but we have to involve outside
institutions. And there's some back and forth with
the university I'm sure.

DR. WILSON: And what is the size of Morris Brown?

MR. WATSON: If I remember, it's close to two million dollars.

DR. SUBER: And this back and forth doesn't have any input in terms of recommendation or anything.

MR. WATSON: No. The chapter program actually stopped making loans I believe in -- I'm looking at Mark, '90 --


MR. WATSON: 1993? So it's been a long active program, so.

DR. SUBER: So this evolved afterwards, not as an extension of it.

MR. WATSON: Right.

DR. SUBER: Okay.

MR. WATSON: Yes. The history of these programs before Capital Finance there were three what I call predecessor programs, but they all actually provided some kind of construction facility loan. So
that's why I mentioned that they were predecessors to
the cap finance program.

DR. FRANCIS: Okay. Program activities?

MR. WATSON: This part of the report just
gives you sort of an idea of what's been going on.

There's a small table there that shows in FY 2010 we
provided $178 million in loans to six institutions,
five privates, one public. In FY 2011 we did 178
million as well to three institutions, one private,
two publics.

And if you remember, 2011 was an
interesting year because we only had money for public
HBCUs at the time. There was no money for privates.
FY 2012 as Dr. Ochoa mentioned, there's $376 million
available for loans and modification, loan
modification.

And just to give you an overview, most of
time you see the budget for cap finance it will give
you some figure, 20 some odd million dollars. And I
think it's important to note that even if individuals,
if someone gives you 20 bucks and you can come out
with $178, it's a great investment.

These are loans being repaid, so it's a very different concept from a grant. You put 20 million in and you have 178 million. And in the case of FY 2012, $367 million. That's a great return on investment for the taxpayer.

DR. FRANCIS: And this 367 million that has just been put in by the Congress, there's a sunset on that September 30 this year, right?

MR. WATSON: Yes, sir.

DR. FRANCIS: And it will go back in and ask for some more.

MR. WATSON: Yes, sir.

DR. FRANCIS: And show how well we are doing on the ROI and then we get more.

MR. WATSON: Something similar to that.

This was -- and again some of my report get more in detail inside the board's recommendations to the Department.

This $367 million is part of the President's FY 2012 budget. So with anything in the
2012 budget, it actually deadline is September 30.

Cap finance, we try to complete loans at least at the
earliest we would like to do it September 15.

Sometimes things come up every year and to
the week after that, but generally we like to make our
last loan way before September 30.

DR. FRANCIS: You may be getting at this
but -- and I don't remember what our recommendations
were. I know in last -- in the minutes as well, we
asked to move the ceiling because we had reached it.

MR. WATSON: Yeah.

DR. FRANCIS: And we did get that in. Of
course that wasn't part of that, but to be able to
keep on top of this, you know, a new battle begins for
FY 13.

MR. WATSON: Yes.

DR. FRANCIS: Right. And in the mood and
the environment there is now, we want to make sure
that we ask for more, if we using more. And that's,
you know, we don't want anybody say you are asking for
it but you are not using it.
MR. WATSON: Right.

DR. FRANCIS: And we don't want to go ask for something if we know it's not possible. I think one of the virtues of this program even in the cutting time is the fact that it is a loan program. It's not a grant.

MR. WATSON: Exactly.

DR. FRANCIS: That the Congress isn't -- I'm just speculating that say, well, we have put it in because they borrowed money, they are going to pay it back. And I think what we want to be sensitive to is what it is we should be asking coming in '13.

And this may not be the time. I don't know if any of us have thought about what it ought to be because right now we've got to make sure we spend the 367.

MR. WATSON: And just to give you a little insight, the subsidy amount hasn't changed at all.

The subsidy amount has been 20.3 million, 20.5 million dollars. The subsidy amount hasn't changed in three years. What actually changed was the actual amount to
lend.

Now the actual amount to lend changes because it depends on whether the number of publics, the number of privates and that sort of thing. So that comes into play. And that's why the number has moved from 178, we were in sort of a --

DR. FRANCIS: Standstill.

MR. WATSON: a standstill in FY 2011, so that's why it was still 178. But the President's FY 2011 budget actually had the amount of $278 million. So that number changes based on the number of public and private institutions we think we are going to be able to lend to in any particular fiscal year.

So next year, if the applications come in and interest in the program is significantly more publics and we can close those publics, then that number will be much higher than 367. If we are the public's won't -- we have less publics and more privates, then that number sort of shrinks. And that's why we have to make sure what we ask for doesn't come into play by the amount of money that we
spend in a year. It comes into play by the kinds of schools.

In budget service and I, we have the Department of Education budget service and I, we have a tight communications stream. We already had some communications about what's going to happen in 2012, what's going to happen in 2013, and what I'm thinking is going to happen in 2014 based on the interest in the program. Our interest in the program is more than a billion dollars of public and private HBCUs, but that time frame there's things involved in closing the loan that need to happen in some cases.

The surveys that need to happen, and again we are facing this September 30 deadline. So if you are not ready to close, we have to move onto the next one and then pick you up in the following fiscal year. So those kind of things sort of take place. And I have those discussions with budget service, and that's why we have these numbers the way they are.

DR. FRANCIS: And you are going to discuss either now or later this business of -- that's in our
package that if you are not ready, whether you are
public or private, or if you run out of requests for
publics, that you can go to the private side or vice
versa.

MR. WATSON: Well, currently that's not the
case, but --

DR. FRANCIS: But I recommended that.

MR. WATSON: Right. The board recommended
that in the case. Because right now we are up against
the $1.1 billion. So at the end of this year we would
exceed that $1.1 billion. So next year the Congress
will have to put in another line item that says
Capital Finance program can lend X amount of dollars
based on $20.5 million in subsidy.

If that doesn't happen, then we are in a
standstill. That's why the board had recommended last
time that the cap -- statutory cap rate did not exist,
have it in the President's budget, but the statutory
cap was raised from 1.1 billion to 1.8 billion.

And as some of you may recall the Congress,
actually, John and I went on the Hill and the Congress
actually suggested that the amount could be much higher than that. So the Congress was willing to do more than what the board did, but I think because of the economic times something may have occurred where it's just a line item now in the appropriations bill rather than making a statutory change.

DR. FRANCIS: Go ahead, Edith.

MS. BARTLEY: But the language in the FY 12 budget, can you just explain what that does provide permissible use the way that it's written?

MR. WATSON: Yes. What it actually does allow me to go above the -- before I talk about Capital Finance, just talk about appropriation language of statute in general.

The appropriation -- the statute can have one thing, but the appropriation line always trumps the statute. So in the case of cap finance, we are at 1.1 billion. So the first $100 million in loans that we put out, or first $150 million we put out, we are already over the cap.

So, what the appropriation bill does is
allow us to irregardless of the statute, what the
statute says, allow us to do $367 million. And again,
and I keep stressing modifications and making loans,
because the language didn't just say making loans. It
says loans and modifications.

And so with that, the language also
provided that we can actually make loans to public or
priors irregardless of what the statute says. And so
again without thinking about a one-third, two-third
split or those kind of things that we can make loans
to the public or private as the institutions come
through to close the loans.

Now, I must admit now our portfolio -- at
one point the portfolio was a little lopsided where
there were more publics than privates with the dollar
amounts, but now the portfolio is actually coming more
into line to be with the statute one-third, two-third
split.

DR. FRANCIS: So we could go over the cap?

MR. WATSON: This year we will exceed the
cap.
DR. FRANCIS: We would. Okay.

MR. WATSON: So next year either the
President's budget would have to have another
provision like it had this year to provide $20 million
cap finance it, provide X payment of dollars in loans;
or the statute need to be raised.

DR. WILSON: And I should add that the
right people in government are well aware of this, and
I think safe to say we have them poised to do the
right thing.

DR. SUBER: The deadline for applying is
September 30?

MR. WATSON: Oh, no, please don't apply
September 30. The folks here that works with me will
tell you we wish to close the loan in three weeks.
They always smile at me, but generally we can close
the loan from four to six weeks depending on what the
real estate looks like, what the collateral package
is.

But the sooner you get your packet -- you
know a lot of folks have a tendency to think when you
get your application in, if you are number 1, if you
put your application in today and someone else puts it
in tomorrow, then the person who puts it in today is
going to be ahead of the person who puts it in

tomorrow. But it's first ready to close.

So you put your application today, and
literally we are pretty quick and pretty fast at it.
But, again, it's not just the designated bond
authority, the trustee, the bond council and the
school. We are also partnered with Federal Finance
Inspector of Treasury. And the same attorneys who
actually work with us on Capital Finance deals are
also working on the other deals.

For instance, last year they were working
on the debt ceiling, so we had to get in, and we fit
in. So we sort of try to have a call with the school,
their council, their financial advisor, get an
understanding of what their time frame would be. And
then I'll coordinate dates with the Department of
Education's general counsel, the federal financing
bank.
And for me folks will tell you if it's a
holiday, I close, but so if your application is in,
we'll work the application and get everything we need
to support the application. And we can make something
happen. But again it's first ready to close.

DR. SUBER: Till the money run out.

MR. WATSON: Till the money run out September.

DR. SUBER: September 30. Okay.

MR. WATSON: And I don't like to do September 30 because the way -- if we close September 30, and just give you a little more insight of how the process works, if we -- I like to do a two-day closing, what we call a pre-closing. That's when the trustee, the DBA and the school all sign the documents, sign their documents.

By the time they sign their documents, then I can actually go to Dr. Ochoa and Deb and have them look at the letter of credit and those sort of things, have a meeting with Dr. Ochoa to request those things of them and then he signs that. I take that then over
to -- walk that to the general counsel's office. They have to write an opinion, a legal opinion on the validity of the loan documents and then the deal in and of itself.

And then from that standpoint the second day is the actual closing day. That's when the federal financing bank, their folks have to sign, bring the signed bonds. Our general counsel bring their letter of credit. And on the fourth day that's when we actually deliver the money, so first time you get money in that.

So I like to say it's a four-day process.

And that's to close, but there's a process leading to that that we need to do.

MR. WATSON: On the fifth day what?
DR. SUBER: You rest.

(Laughter)

DR. WILSON: He doesn't know what that is.
DR. SUBER: I get that. I'm getting that.

Rest, you know when there's, you know, rest, no
MR. WATSON: No. Dr. Francis calls me a one-on paper hanger.

DR. FRANCIS: That's right. Few people don't know what that means, but he knows now what that means. But my continuing concern is what Don is explaining is the work he does and insight and all, but I feel I have a responsibility. My Congress person asked me, Do you have enough money in the APC Capital Finance program? I want to say no. I want the Congress to know that this is important. He's doing a great job, but he can't do it if his glass is empty. And so he can't go argue about that. That's not his business, but it is our business and our responsibility.

I sat next to the Congressman last night. How are things going. Okay. We need money. And she's effective. She's on the appropriations committee. So I want to know when I should get in the ball game. When do I go play.

And I think we've got to play all the time.
We've got to say that program is very important. It's making a great contribution. But this congress lady or Mister, whenever you see this come up in the Secretary's budget because he believes that this is good, support it, you know. I think that's our responsibility, not yours.

MR. WATSON: Right. And I will say I hear from Thurgood Marshall and NAFTA and UNCF as to how the President budget looks. So there's sort of a tandem working there.

DR. FRANCIS: Sure.

MR. WATSON: Sitting on this board helps them sort of understand what the needs are and articulate that.

DR. FRANCIS: I want to make sure we understand the balance of power. And he's -- he's got his responsibilities and we've got ours. And you all make sure you communicate and we communicate. And that was the message at that meeting.

We communicate and as an advisory committee, we give our advice to the Secretary. He may not feel that
that's something we should or he can do, but he needs to know what it is, and then we take it from that point on. We do the heavy lifting.

DR. SUBER: It would seem that on the face of things that this initiative is consistent with the concept of capacity building and self-sustaining and that it would garner a greater level of consideration because of that. I don't know what the default rate is or any of that other than the two or three schools that we know about. But I would think that if there's a fairly decent track record of institutions borrowing and paying back on time, that we could conceivably argue that this is a, quote, unquote, no-cost benefit to our institutions targeted for long-term sustainability.

MR. WATSON: Dr. Suber, you are actually -- it's interesting now the conversation is moving because you are overflowing into recommendations into other parts of this. And just to sort of give a little insight, I talk about cap finance, I talk about cap finance in ways that either we are creating jobs,
sustaining jobs, and not just that but we also
effectively not just at the university level but also
in the local level, state level and national.

DR. SUBER: Right.

MR. WATSON: You know, again I can never
emphasize enough when Congress gives $20 million and
the return you have, and they look at it as if it's
loans being paid back, that sort of thing, but there's
a residual behind those loans that go out into the
community. So that's why there's other things being
recommended as well by the board.

DR. FRANCIS: And that's why I think the
Congress would be more apt to do more for it because
it helps the economy, it helps everybody in a way.
But that's the case we make when we go. Okay.

We going to get to where we brought you
already. We got you ahead of your report, but we'll
understand it better now when you get to it.

MR. WATSON: The rest of the report just
gives more detail about where the money went, that
sort of thing. How many -- the range of students that
will be served, the range of loan amounts, that sort of thing. There's 10 active construction projects now on campuses.

And just to know that there aren't -- when we make loans there aren't just construction projects. There are construction to refinance the combination of the two. But, again as I said before, there's about a billion dollars of interest in the program, but again we can't make a billion dollars of loans in one year because of the restrictions of the Congress with the subsidy. That's the bulk of -- that's the bulk of my report.

DR. FRANCIS: Any others questions? You will be coming back to give us an update, so we'll hold those questions, although we've gotten into that. But you have on here setting dates for future board meetings. And that's all of our best interests.

Is there a better time for schedules? You know just looking at this table and our advisory committee, just seems there's no good time ever, but you have to try to find the best and the least
obstructive time for our schedules.

September while we have our -- yeah, not on the White House initiative but we have our other, quote, meetings of our association. September and October are big times for colleges and universities. And then of course with the White House initiative that adds to the schedule.

I'm open. I know Don is open because we really want to try to get at least one if not two meetings depending how things are shaping up because we, again, communication is so important. We want to be able to advise the Secretary if we find there are things that he needs to know and he wants to know or things that he may want to know of us in terms of things that are coming up. But anybody has an idea what's the best time?

MR. WATSON: I do, Mr. Chairman.

DR. FRANCIS: You do. Good.

MR. WATSON: If no board members have any, I do.

DR. FRANCIS: We'll follow the leader.
MR. WATSON: Before I get into that though

I want to recognize Mark Somerville who assisted me in cap finance.

DR. FRANCIS: Why don't you come sit up here where we can see you and you can see us. There's a seat right up here. He's been trying to see what we are doing up here. Think we are playing cards up here the way we are talking about money shifting here, money shifting there. Thank you.

So what's your recommendation?

MR. WATSON: Well, I have two dates.

Looking at the table, all the presidents here will be at SATS, so I'm thinking Tuesday, the Tuesday of SATS.

DR. FRANCIS: First week in December.

MR. WATSON: First week in December. That way we are almost guaranteed to have a quorum. The second time -- and that will be the first time in the fiscal year.

Another meeting we can actually attach ourselves to is the Monday before the Friday after the White House initiative. In between those times I
think we can attach ourselves to meetings with Thurgood Marshall and NAFU or UNCF. So that way we coordinate the schedules, we can probably -- things that you have planned, we can sort of meet somewhere in the middle and take advantage of some of your events and that way we can sort maximize the presence that's going to be there.

Half of the presence here are public, half are private. And so we can sort of maximize it that way.

DR. FRANCIS: The SATS one is a good one.

Lezli, how did you all do -- how do you get in the SATS and say we need to get some time? The President's day is the Tuesday of course. And the evening maybe -- I don't know if they schedule anything for President's --

DR. SUBER: Why don't we do it the day before and do it on that Monday?

MR. WATSON: That's perfectly fine, of course.

DR. FRANCIS: Well, yes, we would have to
find out from Bell whether she as anything.

MR. WATSON: I'm not saying SATS, I'm not necessarily saying be part of SATS. I'm saying take advantage of us being at SATS so the Department of education can actually facilitate, find a space just like we did here in this department facility. We can do the same thing.

It doesn't have to be part of SATS, but it can just be because you are going to fly in any way, we can take advantage of that and be there anyway and have the meeting.

DR. BASKERVILLE: You can actually have a meeting as a part of the SATS meeting they have slots during the meal hours, so you can have two hours saved between -- or a few hours between 11:00 and 2:00. You can have hours in the morning. Their conference is designed that way. And I will be happy to work the with the appropriate person on your team.

DR. FRANCIS: That's what I was trying to get at. That's why I was asking you how you do it.

You know there's a slot that I think they do it for
the reason we are doing it.

DR. BASKERVILLE: Yes.

DR. FRANCIS: There are a lot of people who know that they are going to get presidents and other people at SATS and because you better be there coming up, and they allow for an opening like in the evening, maybe not a Monday evening. We might want to -- we might want to -- if you are going to get that Dianne, at the next morning.

MR. WATSON: Well, Mr. Chairman, is it probable that we can actually just take a vote of whether SATS or -- amongst the board members. For me, I'm flexible.

DR. FRANCIS: No. I think the board members would like to put as many things where they are as humanly possible, and SATS is a good one because you have got some leverage with SATS.

DR. REAVES: Makes sense. You are already there.

MR. WATSON: I just see faces. I'm recognizing faces.
DR. LOSTON: I was going to say --

DR. SUBER: -- Monday afternoon that people

on the board who don't want to stay at SATS but fly in

Monday, meet Monday afternoon, fly out Monday night

and then the rest of us that are going to stay could

stay. I mean we could put it in between 11:00 and

2:00, whatever, that might work. But I think if you

made it a separate day it makes it more flexible for

the people who aren't going to be there for the SATS

correction or meeting.

MR. WATSON: I'm fine but whatever the

board decides.

DR. FRANCIS: Lezli?

DR. BASKERVILLE: I'd just note that the

only challenge with that is that the members who are

not part of SATS, and I don't know if there are any

board members who are not part of SATS, but those are

the middle states and other accrediting bodies, they

meet at the same time, so they wouldn't be able to be

there.

MR. WATSON: And I said I'm looking at this
board because we have one -- everyone who is present

sitting on this board is a member of SATS. And we

have six, and that's we are just one left from a

quorum.

DR. BASKERVILLE: Okay.

MR. WATSON: Well, we have six. And if all

six shows up, that is a quorum. So I think that's a

perfect time. If the board composition was a little

different, I would suggest we do the same, switch off

SATS and switch off.

DR. FRANCIS: Well, I think we could agree

on your premise that we'll meet at SATS. The question

is whether it's a Monday night or the Tuesday when all

the presidents are there. And we may want to make a

call to SATS and see where they are scheduling, where

there would be some openings in those one or two days.

I think you -- if you get past Tuesday,

folks are ready to go home Wednesday. So you have got

to stay in that ballpark. Don't order Saturday.

DR. REAVES: They end officially at noon

Tuesday, don't they?
DR. FRANCIS: No. They -- Tuesday morning is when they make their report and the Monday is the president's day.

DR. REAVES: Right. But they are done at noon on -- the whole thing is over at noon on Tuesday.

DR. FRANCIS: Exactly.

DR. REAVES: So there's Tuesday afternoon.

DR. FRANCIS: That's a possibility, yes, although you have got people who can't pick up their papers fast enough once they learn they are not on probation or they have made it and so they head out that afternoon, make sure nothing changes.

MR. WATSON: The other piece of this, the structure of the board can be very different. Instead of what we are going through here, this full agenda what we are going through here, it could be more presidents could be there, it could more of an inquiry of what -- ask questions of the board. How do we improve capital financing on college campuses and what are the needs, so that way we can get real time, real life information at that point.
So we can sort of change the structure of that and just have some -- I can give some report that's, you know, a little less of what we are doing here. But it also provides enough time to see what's going on with the CR and get updates like that as well.

DR. FRANCIS: Okay.

MR. WATSON: Sort of changes the structure of the meeting.

DR. FRANCIS: That's real time.

MR. WATSON: Yeah. It changes the structure of the meeting.

DR. FRANCIS: Okay. SATS was one. What was your second one?

MR. WATSON: The Monday or Friday following before or after the White House initiative meeting in September.

DR. FRANCIS: Okay. The Monday after?

DR. WILSON: We have our board meeting right afterwards, but it could happen.

MR. WATSON: Well, I think this time I
thought it started on Tuesday.

DR. WILSON: Right. Right. So before is good.

MR. WATSON: Your meeting is Thursday.

DR. WILSON: So before is good.

MR. WATSON: Your board meeting is on Thursday, right?

DR. WILSON: Yes. Which would be right after the conference.

MR. WATSON: Right. So I was suggesting Friday.

DR. WILSON: Okay. So you are saying after the board meeting.

MR. WATSON: Right.

DR. WILSON: Okay.

MR. WATSON: Right.

DR. FRANCIS: You all work that out.

DR. SUBER: Don't keep us -- don't keep us Friday after another meeting.

DR. FRANCIS: And you are on the board.

DR. SUBER: Yes.
MR. WATSON: Well, the other alternative literally is coordinating with Thurgood Marshall, NAFU and UNCF for one of the meetings they had there. We've actually done one with NAFU. It was a good show. A lot of people showed up, so the public could attend. We actually had a call-in number at that point so the public could actually call in. And I was talking to Karen Aikens who also works in the White House liaison for the committee management, and there may be some flexibility where we could be one place and set up a room for the public to be -- the public could be here like they are now. And we could be someplace else having a discussion because what the public is going to do afterwards is just give us comments of what -- give us comments. So there's no actually board-public interactions. So again we could be a little more creative, a little more flexible on how these things operate.

DR. SUBER: Why don't you work out the best case scenario and send us three choices.
DR. FRANCIS: And we'll check off and see what's best. UNCF, I saw my schedule. Tuesday to Friday. That's a long time.

DR. REAVES: So are you looking for one meeting or two?

DR. FRANCIS: We'd like to do two.

MR. WATSON: We'd like to do two, but again if we can get one settled, then we can fit one in.

The Chairman alluded to earlier that everyone likes New Orleans. So again we had a meeting in New Orleans and that was well attended.

We have a quorum there and the big issue of the board is to make sure we have a quorum. And again, as I said, we can make provisions for the public to attend by again having a room, the board actually being recorded here, say in Washington; the public can be here and the board can be someplace else that. Way there's not -- the public wants to come to New Orleans and they can't afford to, they can also stay here and watch and listen to the meeting that way.
DR. FRANCIS: Okay. Well, I think you have got the options. And let's see what you can work out because you've got two and some other ones. For the folks like I came in this cold weather, don't bring them to New Orleans in August.

DR. BASKERVILLE: That's right.

MR. WATSON: I was in New Orleans in January once and the chairman offered me his coat because I didn't have one.

DR. FRANCIS: He didn't know it got cold in New Orleans either, you hit January. And he wanted to catch a cold. And I would be blamed for that and have the federal government sue me, some of that running that top workers in the government, not had a cold. You gave me my coat back though, didn't you.

MR. WATSON: Actually I couldn't fit into it.

DR. FRANCIS: All right. We are moving on.

MR. WATSON: Now I'm going to update you on the board's recommendations and what came out of the board recommendations from the last meeting.
DR. FRANCIS: Okay. There we go.

MR. WATSON: As you can see from what's in front of you, what we actually did at the department, we actually looked at each of the board recommendations. We looked at costs associated with and the feasibility of many of the recommendations.

The Department actually in eliminating the pooled escrow the board recommended that -- sorry.

The board recommended that the department eliminate the pooled escrow or modify it in such a way in which it would no longer be pooled. The department looked at that recommendation, actually agreed with that recommendation and had placed that recommendation into the Pell Protection Act.

We worked to get it done. However, it didn't pass on the Hill, so that language did not go in on the Hill. As you see from data there, if we were sort of at a percentage add-on, if you add -- you see the options there. If you left the escrow as it is and no longer pooled it, it would be almost $280 million to implement that sort of program.
And again the concept of everything I'm talking in dollars, remember the subsidy of the current federal program is only $20 million. So keep that in mind as we talk about these options.

If you add 0.25 percent to the current interest rate and unpool it, that would be 200, almost 300 million dollars. If we add a half percent to that, that would be a half a billion dollars.

And again you see these numbers, when you look at these numbers, you will see these numbers as being something that you eliminate the pool escrow altogether or just add a add-on, it becomes something very interesting and a high cost.

But what we ended up doing from the department standpoint, we said we would actually give borrowers a choice. You could actually have a percentage add-on, and we couldn't figure out what that actual percentage would be that would not increase borrowing costs so much and create such a huge cost for the government. So we left that piece blank.
But what we were going to offer, borrowers could either stay in the pooled escrow or they can choose to go out of the pooled escrow by paying a higher fee, by paying an additional fee. And again we couldn't figure out what that fee was in the short period of time we had to put this in the Pell Protection Act.

Any questions about that? And again that's the pooled escrow, I know we had a lot of conversation around that earlier, but if you want to get a little more detail in that, I'm willing to do that as well.

DR. REAVES: So going forward what's likely to happen to the pooled escrow?

MR. WATSON: Currently the pooled escrow is still operating as --

DR. REAVES: I know you are still operating, but the next cycle what happens?

MR. WATSON: Well, in the next set of recommendations, the board will recommend the department continue its process, because again the department was in favor of changing the pool or giving
options to the pool. It didn't make it through Congress, and so we'll continue that sort of process from the department because again the department did approve -- did support that initiative. So we'll have to team support it, but again it will take a statutory change and Congress --

DR. REAVES: So you are going to try it again.

DR. FRANCIS: Yes. I think we've got to keep trying.

MR. WATSON: It's something the board will keep recommending, so that way it stays on the radar of the department and Congress.

DR. FRANCIS: Because you are very knowledgeable about this, and you have done very well at it, what is the constructive alternative to the cost of eliminating the pool on the Secretary side and what it would cost the schools. I mean where is the middle ground where we go -- we both go away happy? Is there a middle ground? There may not be, but we know that the -- what this chart says, they
have money and there's going to be all kind of red
flags. Is there something that -- I'll call it
constructive alternative where both sides could agree
that we could eliminate it if we do this?

MR. WATSON: I think there is.

DR. FRANCIS: Okay.

MR. WATSON: But, again, I can't give you a
particular number because I haven't ran the analysis
for that but I think --

DR. FRANCIS: What would be an approach to
ti.

MR. WATSON: The approach would be to
take -- I've sort of done some of this when I first
came to the program because I heard this pooled
escrow, the JEO did a report on pooled escrow as one
of the issues. And I took a look at this pooled
escrow piece, and part of it was to add a percentage
add-on.

Just to go back a little on the actual
options, one of the options was to add a percentage
add-on and a fee. Percentage add-on, schools would
not get that. The fee you would get back.

And the percentage add-on would be used by

the department to pay any default. But, again, it

sort of keeps the cost at that level. And you have to

remember cap finance, there's no risk premiums

attached to this. Schools are borrowing at Treasury

plus 22-and-a-half basis points.

And just to sort of give you an idea of

what that basis point looks like, the majority of that

basis points come back to the department to help keep

down the subsidy rate. So it doesn't go back -- FFB
doesn't want, federal financing bank doesn't want it.

They allow it to come back to the department to help

us get the subsidy rate down so we can continue to

charge rates at the Treasury.

So you have to look at things like that.

And the escrow is actually part of that piece that

helps keep the subsidy down. And again as the subsidy

rate increases, you know, you can see as the subsidy

rate increases, so does the subsidy, I mean, so does

cost of the actual dollar subsidy amount. So as the
percentage increases, the dollar amount increases as

well.

DR. WILSON: Let me just add to that, Don,
because we kind of scrubbed this pretty hard. And the
perception that we encountered on the Hill and
elsewhere is, actually, we have allies on the Hill on
this, but eventually we made our way to the perception
that this is a very good deal. Okay.

This entire program is a very good deal for
HBCUs. You cannot find this anywhere else in the
marketplace. This factor that we are dealing with now
with the escrow is where some of the risk gets shared
and borne by the HBCUs as a counterbalance to the very
good deal we are getting.

So it's likely that if we broach this
again, there is going to be a move made, okay, well,
if the risk is not borne there, then where is it going
to be born. So we are not dealing with this, we are
going to be dealing with something else.

Again you can't find rates like this and
nor can you find details like this on the rest of the
deals that Don is doing. And that's why even those
HBCUs have tried elsewhere, they come back to this. I
believe this is the perceived burden that we have to
bear for the good deal that we have and that if we
shift it elsewhere we'll be dealing with what else.
That's not to say we shouldn't try.

DR. FRANCIS: No. No. What I'm hearing as
-- what I am hearing you say, Don, is it could work if
we did -- if what we did as some of us have when we
went to the open market, not in this, where you buy
insurance to cover you for your defaults.

MR. WATSON: Well, and that's --

DR. FRANCIS: That's what this is heading
to, but it would add to the -- add to your cost for
the HBCU. But then you have to make a decision as to
whether or not what you would be paying for that
insurance that you are going to pay is better than
what's in the bond market.

And I just tell you there's some financial
institutions out there -- how long it's going to last,
I don't know, but the banks have got a lot of money,
MR. WATSON: And just let me give a little
more -- Dr. Francis brought up insurance. You go into
this three ways but you go through a traditional deal.
And I'm talking to Dr. Francis because he always talks
about the escrows, but I sort of approach the escrow
in a way, I describe it like this.
You go into a regular deal, you may have to
buy insurance. It's pretty tough to buy insurance in
this market. The other thing, you have to have a
reserve fee. You can choose which one you want that
-- our escrow to be, you want it to be your insurance
because the Secretary -- that's what you are paying
for, the Secretary's letter of credit.
So if you are not rated at all, you are
actually getting -- and I'm going to give you an
example of a deal we did. We did Texas Southern
University, and I think we closed them at six-point --
I mean 2.6 and some change. I believe Yale did the
same deal. And guess who had the better deal. Guess
who had the better deal. Texas Southern University.

And I'm saying that to sort of give the idea that you can look at it as paying for insurance or you can look at it as paying your reserve fee in the regular market, but choose one. Because you don't have to pay both the cap finances.

MR. TAYLOR: Don, shouldn't we look at this as a benefit for the HBCU, the institutions collectively because there's no question that for those of the presidents around the table who have great finances and can go into the market, they might be able to get competitive rates, but then it leaves the other institutions that aren't so comfortably positioned unable to compete.

So when I look at this, in some ways it is the better financially positioned HBCU somewhat supporting it. That's what a pool does by definition. And so there are some added costs, but if we don't, then the 10 or 12 who have it together are going to be fine, but then there are going to be a large group of the HBCUs who might be not able to go the market and
satisfy.

MR. WATSON: Right. And what we recently discovered is that, you know, I don't sort of gauge HBCUs in being one way or the other, but to me they are all customers and I want all the business from all the HBCUs.

So, but what I will say is that if you pick an institution and say they can go into the market, they already have debt. And I guarantee we refinance their debt, they are going to file debt savings. We don't do deals, I don't care who you are, we don't do a deal unless there's going to be some gain to the university and building that capacity, however the university defines billing capacity.

And again when you start thinking about the escrow you start thinking about -- and I like to sort of taunt that whether you look at loan volume, the number of borrowers, the dollar amount of portfolio, whoever less than one percent default rate. And no other institution in -- lending institution that I know of could actually taunt the other one percent
default rate, less than one percent default rate.

So we talk about the pool escrow. You are paying for that insurance, or you are paying for reserve fee but you are not paying for both. And what I was actually doing in making the suggestion initially and having a fee and a add-on was to put your rate where the regular market would be because -- and provide the choice.

And only when you provide the choice, and I believe when you provide that choice individuals in every school that comes to the program, you have an attorney and you have a financial advisor. When your financial advisor does that analysis, I guarantee they are going to come out and see us being cheaper because again if you add 50 basis points to it, especially refinancing debt, we refinancing your debt, there's going to be some savings there someplace.

If we are building something on your campus, we are going to be competitive. And again I like to see, although this is a government program, I like to see us as being a lender and being competitive
with the other people out there who are trying to get
the business of HBCU. So we have to be competitive
but again providing that choice, I think once doing an
analysis, I think we'll come out better.

DR. FRANCIS: And that's something you ran
in the report. Now is there a middle ground where you
say I think in here you make the choice.

MR. WATSON: Exactly.

DR. FRANCIS: The institution makes the
choice. And I think that's always important. I mean
your point is you want the whole to be helped, but at
the same time if there is a way where any one, two or
three or four schools say I'm ready to do it this way;
I think we need to run the numbers as well on that
because I think that's your recommendation.

Stay with it as it is, or go to a different
percentage of you paying more in order to get out.

Because that's --

MR. WATSON: Exactly.

DR. FRANCIS: And I think that's important.

And I don't think anybody, Johnny, would be hurt in
the big scene of things if you made and let them make that choice.

When I first came into this, there were not institutions making loans to the degree that they are making now. Don has done a good job and we have changed a number of things, but I think a borrower ought to have a choice of what kind of medicine he or she wants to take. And that's -- that's what you thought I said.

If you want to have the Secretary being your -- your activate your collateral, here's how it works, and you'll beat the market most of the time.

But I don't -- maybe I'm wrong, but as long as things are going now, there are banks are flush with money.

I don't know if the rest of you know this, but they look flush with money and they are willing to do big deals, big deals.

MR. TAYLOR: I'm echoing Dr. Wilson's comments. That's what we heard. We went out on the Hill as well and had some conversations. They sort of said the same thing. You do have that as an option if
you think you can do better, the market is that option for you.

So this is an option for the HBCU community that's unique like any other. And if you don't like the pooling factor then go to the market and do it, and then you don't have to participate in it. And they would argue, and this is what we heard on both sides of the table, that there is an option. It's called the market.

And go out there, and to Don's point most people go out there and realize notwithstanding all that money out there and all the deals they are willing to do, they come back.

DR. FRANCIS: But, Johnny, you let them have the choice.

MR. TAYLOR: Oh, no, I agree.

DR. FRANCIS: And that's what's important because believe me the pooling side is --

MR. TAYLOR: It's down.

DR. FRANCIS: -- problems. And I think that, well, let's put it this way. The government in
this program is a bank. And they are competing with
the outside and they are competing well. And they are
not having the, quote, the losses that you have in the
big market.

But the government's not going to be a
billion dollar bank if they continue to do it this way
and have losses, but this program does not have
losses. And I guess the point I'm making on this is
that in order to get more money from the Congress, we
have to sell the case that you just made.

And this is a good deal for the schools,
and the loss percentages is very low. But at the same
time, there may be schools that are going out that
would come in if you got rid of the pool and they are
willing to pay. It's how much are you willing to pay
to get out of the pool. I mean that's plain and
simple.

DR. WILSON: With all due respect, I don't
think it's quite that simple. And I think we should
just explore this and explore the options and come
back.
DR. FRANCIS: Well, no, that's what I'm asking. I'm saying I'm going to stay on this as long as I sit on this committee, that if you can get out of the pooling and find a constructive way, but I haven't heard the constructive way yet, but you have got to look at it.

MR. WATSON: And again the draft language that was put in the Pell Protection Act, Department of Office of Managing Budget put in the Pell Protection act actually provided the option. You can stay in the pool or you can be part of this non-pool piece.

It's not there. It didn't go, didn't make it to the Congress. The department supported it, but when the Pell Protection Act went up to the Congress in that draft language, they take the language from up there, it didn't get pulled until the --

DR. WILSON: It's there as a proposal.

It's not like we have to come up with something new in that regard, so the option of -- and opt out for a (inaudible) is already in the proposal cycle. And we can keep working on it.
DR. FRANCIS: It's got to be making the case that's good for both sides. And the Congress of course wants -- wants cutting right now. It doesn't want to invest in a program that's going to be a loss leader.

But mine is simply look at it. Give me the choice. Because I'll go outside if I think I don't want to take the risk of going in with folks who are going to eat my escrow.

MR. WATSON: Right. And the other side of that, putting those options on the table that I just spoke about, they have to be cost neutral or they won't go anywhere. So we have to look at the cost. So it can't cost the government anymore than it would cost the government if they stayed -- can't cost any more -- it can cost less, of course, but it can't cost any more. It has to, you know, be less or stay the same.

MR. TAYLOR: So can't you just come up with what the number is? I think what's where you are going. What is the number -- what would the cost
interest to the government and then come back to the
schools and say, Dr. Francis, here's the number. The
add-on is X, and then we just know what it is. Will
that satisfy it?

MR. WATSON: Well, a couple of things with
that. I could run the numbers, but I'm not the
official estimator of any costs for the federal
government. That's going to be. Department's budget
service, I can work with them and we can come up with
a number, but again one B as has to be the one that
says this is cost neutral and this is what the
administration is going to put forth because it's cost
neutral.

So, again, we worked with them before that.

And the time frame -- again it's up to the board to
continue pushing this thing because I think we have
maybe a week or so before the Hill was actually going
to take action on the Pell Protection Act. So we
worked on B in a speedy fashion to sort of get
something in there and provide flexibility for the
department to come in and find out what that number
DR. FRANCIS: We sitting as a committee to advise the Secretary. So our advice is not mandatory, but we ought to say what it is from our perspective. That's all. And see if we can help both the institutions and the government.

MR. WATSON: And note the department as I said again, the department supported this initiative. So it's not something the department didn't support. It just didn't make it all the way through from draft to the Hill.

So the proposal is actually there. The language is there. It just didn't move forward and make it up on the Hill.

DR. FRANCIS: All right. We still going to stay on pooling and escrow.

DR. WILSON: We got it.

MR. WATSON: Want to talk about it some more?


DR. FRANCIS: The fact is we are not giving
up on it. The more information you have, the better decision you make.

MR. WATSON: Exactly. Exactly. The other thing that the board recommended for an increase in subsidy levels from 20.5 million to 30 million dollars. As I mentioned earlier, the administration kept the subsidy at 20.5 million instead of increasing it. Again increasing the subsidy level won't necessarily increase the dollar amount.

It depends on the flow of public and private and how long our plan can remain in the fiscal year. We also -- this is the proposal where when you get close to that cap the public-private split really comes into play. And generally it takes a longer period to go through a public closing than a private closing because there are several layers you have to go through.

And so what we come to when we get to a fiscal year, comes close to a fiscal year, you have money sitting out there for public HBCUs that can't be used, but you have private sitting on the sidelines.
So instead of letting it sit and go to waste, for example, we can just move forward. And that's why it's important to have appropriation bill language that you can use the funds for public or private irregardless of the statute.

But again the department supported that in the President's budget. That would support it in FY 2012. As I mentioned earlier, the loans can be made with regard to the split so public and privates can receive funding.

The other piece, the board recommended that the statutory limit be raised from 1.1 billion to 1.8 billion dollars. The actual statutory language did not take place, but in effect we are -- we have the same effect by the President budget allowing us to go above the limit. So we in effect we have the same thing.

And again I will mention to this board in FY 13 the same thing needs to happen. The President's budget, there needs to be a subsidy level so that we can move forward. Otherwise there won't be any
capacity to make loans.

So either you need the subsidy always stay in place with the President's budget, or you need statutory limit raised.

MS. BARTLEY: Should the board consider proposing that this be raised even beyond the 1.8 because there were conversations that went on with Congressmen Clyburn's office and they were willing to support as high as over two billion limit so that we don't have to keep making that case for the next few years.

MR. WATSON: It's the board's decision. If the board wants to put this forth, put forth this recommendation, again it's the board's decision.

DR. FRANCIS: Yeah, but we have to continue to make the recommendation to keep our subsidy in. So we ought to affirm that, and the Chair will accept if we want to do these now and it be the time to do it, take the board's recommendation to the Secretary that we continue to support the subsidy side.

Now, the raising the limit is another
issue, but we asked for one-eighth the last time and
didn't get it, but we got the flexibility to go over
it in the President's budget, right.

MR. WATSON: Right.

DR. FRANCIS: Okay. So it's -- what's the
advisor's recommendation, number 1, from listening to
you, Don, we would recommend that they -- we continue
the subsidy level for, well, actually it's going to be
2013, right.

MR. WATSON: Yes.

DR. FRANCIS: 2013. And the question is
should we go to two billion dollars. It's sort of
tied in one way. You said earlier we didn't get the
first but we got it because we were able to go over
the limit.

MR. WATSON: Right. And just to go a
little further on the importance of raising the cap,
instead of waiting for the President's budget is that
to continue resolution we are waiting for President's
budget and say we are going to continue the
resolution. And I can't predict when but, for
example, for 20 -- this is 2013, we are in a continued resolution state until July.

If there's no -- if there's a statutory limit, then we continue to make the loans at the same previous level. If there's no statutory limit, then we are stuck until our actual budget is passed. I think that's what Edith was alluding to in increasing the statute.

DR. REAVES: So it makes sense to increase. DR. FRANCIS: In order to protect ourselves right? What's the pleasure of the board?

DR. REAVES: I make a motion that we do increase the limit.

DR. FRANCIS: Okay. DR. BASKERVILLE: Second.

DR. FRANCIS: To two billion? Second?

DR. WILSON: Same number though? You should --

DR. REAVES: To two billion dollars.

DR. FRANCIS: Yeah, two billion. Do you want to add the fact also that we asked that it also
include the subsidy.

MR. WATSON: Yes. I have that here.

DR. FRANCIS: So we make the second except that it will be raise the limit to two billion but continue the subsidy as well as it is.

DR. BASKERVILLE: Yes.

DR. FRANCIS: Okay. Any questions on that?

All those in favor please signify with saying Aye.

RESPONSES: Aye.

DR. FRANCIS: Opposed?

(No Response)

DR. FRANCIS: Motion is carried. That was easy. But it's important to have the flexibility because you don't know what the Congress will or will not do. But I think this is a good program. And so if we are in that mode, let's be as reasonable as we can. We are not asking for three billion, we are just asking for two billion. Chump change.

MR. WATSON: And again with that two billion there's no actual cost until Congress provide the subsidy.
DR. FRANCIS: Absolutely. Exactly.

MR. WATSON: So, to give an example, if they were to put 20 trillion in there, it doesn't matter. They control what's going out by the subsidy amount, so.

DR. FRANCIS: Okay. What else we can ask for?

(Laughter)

DR. FRANCIS: I'll keep you going. You tell me the numbers and let's see where we go. And all of this is good when you make the case that it is not going to be a cost. But we are not going to be reckless about it. So we are were we now?

We got the subsidy, we got the level increase.

MR. WATSON: Now we are at the point of the board's recommendations that were not included in the 2012 budget, bottom of page 2.

DR. FRANCIS: No, three.

MR. WATSON: Bottom of page 2, the creation of a direct grant program. The board recommended that
that would be a $15 million program. The subsidy calls for a grant program is exactly what at the amount of the grant is.

So that subsidy would have been $15 million to create such a demonstration program. And again that grant program was supposed to allow HBCUs to get in a position to be ready to borrow from the program.

But again it costs 15 million and the current subsidy is 20 million, so.

The other piece that was not in the President's budget was to, as you see here, some people call it a pre-payment penalty. I call it a bond premiums because they can be a bond premium or a discount.

DR. REAVES: Some people call it more than that, if you remember.

MR. WATSON: I remember.

DR. BASKERVILLE: Can I ask a question on the $15 million direct grant program before we leave that?

MR. WATSON: Yes.
DR. BASKERVILLE: It would come up with an offset for the 15 million, would the department consider it?

MR. WATSON: Yes. But remember to offset that the only subsidy the program gets now is the subsidy to make loans. So if you was to offset, say, let's just say you -- seven-and-a-half million, that means the amount of subsidy made available to make the loans would be decreased by seven-and-a-half million.

DR. BASKERVILLE: So the offset would have to come from this program or we can make a recommendation for an offset elsewhere within the department's budget?

MR. WATSON: I'm sure you can make the recommendation. I'm not sure how that would work out but --

DR. BASKERVILLE: Okay.

MR. WATSON: The board can make the recommendation to the Secretary and -- if it likes, but I think that's again it's the board's --

DR. FRANCIS: One of the problems with
this, we were trying to accommodate needs of schools about -- if I remember seven to ten schools. And as you read this, we knew that it didn't belong in the HBCU capital because it wasn't a loan.

MR. WATSON: Right.

DR. FRANCIS: It was outside the arena.

And as my memory serves me, we were asked to look at that. By Representative Clyburn. And we put it in, and he would try to do what he could. And he couldn't get it done because, well, he had to -- it had to stand on its own bucket. It couldn't be in the capital program because it wasn't a loan program.

We could put it back in again, but again we'll be told the same thing. You can recommend it, but it's none of your business in a way because it's outside of your scope. And, again, it's very important monies that the schools who wish to participate do need. But it's going to have to be carried by somebody like the representative because it's going to be kicked -- the Secretary would just on its face would say, well, it's not in the loan Capital
Finance program.

And I remember that very well. That was two years ago at least, at least two years ago. We had a long discussion about that too.

So if indeed there -- how best to say this, if there are and if the Representative Clyburn wants to do this again, I'm not sure we've heard from him, because he was very helpful to us in the program itself and said we would support that but, he needed to have some recommendation of how he could help the schools that needed to get in the program but needed money that they couldn't take out of the operation. I mean as simple as that.

And we put it in, but it was not accepted.

So do you do it again. The likelihood of getting it done is going to rely not on our case for the loan capital program because it isn't in there. It's going to have to be outside of it which somebody in the Congress will take it up.

So I'm not so sure this is the same kind of let's do it again as we are doing the rest of those.
This doesn't look like it's one that's like, well, I'm not going to give any examples because I might not be fair to the people, but it's asking for something that doesn't belong in this program. And if Representative Clyburn asked us to do it, or anybody else asked us to do it, we'd be happy to consider it. But we've done it before. And I'm just saying this even as an administrator, that's not under our authority.

It's like we say let's increase Pell grants. Yeah. That's fine. But that's in another ballpark. Okay.

DR. LOSTON: I have a question. If an institution is needing a grant to qualify to be able to participate in this capital financing opportunity, is that viewed favorably when you are looking at their financials?

MR. WATSON: Actually it's not -- if a school was to get this grant just like anyone, else it doesn't mean that they are going to get a cap financing loan. This grant was to put them in a case in a situation to help them prepare themselves. So if
they needed --

DR. WILSON: There's no guarantees.

MR. WATSON: Right.

DR. LOSTON: But then when you began to look at their financial capabilities and their stability, if they need a grant to even strategically position themselves to apply?

MR. WATSON: Just --

DR. LOSTON: See if you can just say more about that so I can understand.

MR. WATSON: Without getting into so much detail --

DR. FRANCIS: It's all the questions we asked in Atlanta three years ago.

MR. WATSON: Without getting into much detail about it, it's like getting a one-time infusion at your school of five million dollars. This is not a one-year program. This is a loan. So you need to be able to sustain that debt sort of not just pay it in one year but pay it potentially.

So wouldn't look at this as being sort of a
substantial piece. If you get a one-time infusion of
cash, that doesn't mean that one-time infusion is
going to allow you to survive forever. So this is
something that will help you get there.

But we are actually looking to long-term
finance. We don't look at your finances for today,
yesterday, next year. We have to look at your finance
over the long term because, again, the loan period is
extended beyond a year. So we have to look at this so
it wouldn't -- if you get this grant you mean to help
you out?

DR. WILSON: No. I think she -- what does
that say about your loan readiness that you need that
kind of help.

DR. SUBER: Is it like borrowing the down
payment to buy a house?

MR. WATSON: No. No.

(Unintelligible, too many speakers).

DR. BASKERVILLE: There's no direct nexus
between the two. It was to enable institutions that
needed to try and strengthen their infrastructure,
strengthen their business, but it's not directly linked to the loan.

DR. BARTLEY: Right.

DR. BASKERVILLE: So they would do that and hopefully put themselves in a stronger position.

Maybe with this program --

MS. BARTLEY: For a larger project.

DR. BASKERVILLE: -- but for some other programs, but it was a strengthening and readiness, not directly linked at all to this.

DR. LOSTON: I hear the response I still just ask --

DR. WILSON: The question is very logical.

DR. REAVES: But it's a fine line.

DR. LOSTON: Fine line.

DR. REAVES: It's a fine line in some instances.

DR. BASKERVILLE: It's not really a fine line. It would look on the books like any other grant that you would get. So if your institution had a grant for technology, if you had a tops grant in that...
year and do got another ten grants, there's no direct relationship between those grants and this loan pool grant.

MR. WATSON: And just -- I don't look at your Title 3 grant because you can't pay me debt service with your Title 3 grant. I look at this the same way. You can't pay your debt service with that.

So just Title 3 I guess you sort of, you know, because better understanding how Title 3 works, but you know if you got $20 million from Title 3 every year, it doesn't make a difference to me because you can't pay me your debt service out of that $20 million.

MR. TAYLOR: It just -- and maybe I'm understanding her question differently, but I think her question is very simple, not at all about the amount of money that you will get from this program.

If you got a million dollar grant, she's not asking you is that million dollars, if it's five million does that make a difference.

She's saying as the person who runs this program, do you look at them and say, My gosh, if you
need a million dollars, do you have the ability and is this a negative indicator as you are looking at whether or not to grant them the money from this fund. That -- is that the question?

DR. LOSTON: That's it.

MR. TAYLOR: The amount doesn't matter.

It's a balance sheet.

MR. WATSON: Right. And I guess I'm in a catch-22. And I'm in a catch-22 because we have schools who have similar situations, and without sort of naming schools and putting them in a situation, if you don't qualify for loan on the ability to repay that loan, then you can't get a loan. It's a loan. It's not a grant.

So if you can't -- I'm trying to find a way to say this.

DR. SUBER: Just say it.

DR. FRANCIS: The worthiness of the institution to get a loan is dependent upon their ability to pay it back. And when the -- this was presented in Atlanta, what, four years ago, Don, we
were in Atlanta.

MR. WATSON: Four years ago.

DR. FRANCIS: Four years ago. And it came back again in 2010 because we had another meeting, but it came back. And the argument from the board as well was we are a loan committee. And we are not a operational committee. We don't -- we don't make loans for operations.

So you can't get it as a loan. But you can get it as a grant, but you have got to go over here across the street and get it. And somebody's got to champion it across the street as something as a special service, so --

DR. SUBER: Well, why would we put it in as recommendation from the capital financing board? That -- I wasn't here when the decision was made, but why would -- why would we do that?

DR. FRANCIS: Well, we didn't. That -- and I'll answer that because I was there. You get old enough, it all comes back again.

Representative Clyburn, we went to him to
support the loan program. And he said, Look, I've got

institutions in my district and I want to help. And

we said, well, what can we do.

And we kid about it and said, well, we
can't make it as a loan, but we will do it as a
courtesy and a respect for the representative and make

it as a grant. And we did.

DR. SUBER: So is there a criteria for the

expectation because the bullet points address

financial well-being or financial status of an

institution.

MR. WATSON: That --

DR. FRANCIS: Yes.

DR. SUBER: So if it's not tied to the

financial process?

DR. FRANCIS: It wouldn't fly even in here

if you were coming with that kind of a portfolio, you

know. I say this all the time in the SBA, the SBA

would ask you so much that if you could answer those

questions, you didn't need a loan.

DR. SUBER: So this was just an appropriate
1 political thing to do, but there is no real
2 positioning of advocacy from this board.
3                      DR. WILSON: And is the short answer, Don,
4 the short answer to your question is no. It does not,
5 okay, can we just say that the answer is no. It does
6 not regard negatively an institution that has gotten a
7 grant in order to leverage to get a loan.
8                      It does not factor that in. That's the
9 answer to the question.
10                      DR. WHITE: Can I also say on the Title 3
11 side do we have this capability. And Don is
12 absolutely correct. His decisions in terms of credit
13 worthiness and what we are able to do on the loan
14 side, I would like to tell you that both sides of the
15 house are talking to each other, but they are not.
16 They are treated -- and he has to remind me often that
17 I have a loan portfolio as well as a grant portfolio,
18 but they are maintained very separately.
19                      DR. FRANCIS: This was a little conundrum.
20 Didn't belong here, but we were helping out in case of
21 a fly on the wings of --
DR. LOSTON: I'm good.

DR. FRANCIS: Mr. Clyburn.

DR. SUBER: I have the letter of reality.

DR. FRANCIS: So that one I don't think deserves us to go back again because it was so clear, and we don't have a -- anybody asking us to carry that on. That was all. Okay.

You have got 15 million dollars back in your loan program.

MR. WATSON: The next representation that wasn't in the President's budget was the exemption to exempt HBCUs from a bond premium or discount. All the discount is here, support in mind folks there's a discount feature to this as well.

One, this isn't privy to other Department of Education. This is a Treasury issue. It's no matter if it's Capital Finance or some other entity that's not HBCU. If you have taxable bonds, doesn't make a whole provision.

And doesn't make a whole provision applies not to just HBCUs but anyone in the market. There's...
examples where you have schools who had to pay to make whole provisions but there are also examples of schools who actually received a discount. So the Treasury of course wasn't willing to support this. From a department standpoint, to get past this, every school has the ability to buy a call option. That call option would allow that school to call their loan in to be paid at any point in time between the period of the call. Again, schools have that option. This option schools don't choose because it's more expensive than running the risk of going with the market when you want to refinance. And you are paying something up front, it's like insurance. You are paying something up front in case you need it, but it's expensive. The other option, just like the escrow, the other option they don't utilize this option; they go with the option of taking to prepay at the market. And so when you take that option, there's a penalty attached to it if the interest rates in the market are
lower than the interest rates on your loan. And it's the opposite, it's the opposite with the discount, so.

DR. REAVES: So the answer is no.

MR. WATSON: Yes.

DR. REAVES: Right.

MR. WATSON: Yes. Everything I'm talking about now was not supported in the budget, but I am just going through them if you have questions if you want to talk about them in more detail, we can. The other options were to reduce interest rates in two areas: One, for stem-related buildings. When you are financing and refinancing stem-related buildings for new construction, and the other piece was reduce interest rates for periods of construction or renovation. And the concept of time, reducing interest rates during construction and renovation because most of the time those facilities aren't earning any money when they are dormitories and student unions and things of that nature. And the ability to pay back the debt service is based upon those fees as to the tax of those.
The stem piece was a good idea because the we are trying to encourage individuals to go into the stem field so they have up-to-date facilities and things of that nature. You are sort of encouraging individuals to go into the stem field, encouraging institutions to build their stem portfolios on their campuses. But that too have costs attached to it.

Look on page 4 you'll see the cost of that.

The interest rate was at one percent, capital one percent. We are near $167 million a year in subsidy. If it's capped at 2 percent, it's $110 million in subsidy, at 4 percent, it's $30 million in subsidy.

So you have those sort of things in play.

And you as you see we talk about subsidy rate for the program, again I want to remind you we only get 20 million. So these things cost several time more than what we actually get in actual subsidy.

MR. TAYLOR: So these things are the ones you are going over now didn't even make it too, they just -- the Secretary couldn't support them; is that the point?
MR. WATSON: Right.

DR. FRANCIS: It was scored to show that they wouldn't make sense.

MR. WATSON: And again as I noted, these things were not scored by the official scoring for the administration comes from the Office of Management and Budget. This was done with office of Post-Secondary Education and the Department of Education Budget Service Office.

MR. TAYLOR: Got it.

DR. FRANCIS: So, the question is do we put this back in again or do we have some other more pressing priorities that we put in rather than this. Because we'd be taking -- we'd be taking money out of the subsidy if we pass, so, you know.

MR. WATSON: These dollar amounts exceed the subsidy by 50 percent in one case and --

DR. FRANCIS: Right.

MR. WATSON: -- 300 percent in another case.

DR. SUBER: Is there an argument to be made
by separating them out by just, I mean, just in terms of moving them forward again and just addressing the renovation and construction of stem buildings as opposed the request for lower interest rate during the period of construction of new construction?

MR. WATSON: The cost would be the same regardless. So whether we looked at them separately, we looked at them on their own merit, they were submitted as two. I have them here as one because the cost is the same for both of them, but they were actually looked at on the separate merit, on each merit of each recommendations.

DR. SUBER: Did they go in as reduced interest rates in two specific instances and then --

MR. WATSON: No. They went in as reduced interest --

DR. SUBER: -- different recommendations.

MR. WATSON: -- rates for stem-related buildings and reduced interest rates for --

DR. SUBER: And neither one of them were -- okay.
MR. WATSON: No.

DR. REAVES: I have a question. And kind of in response to the chairman's question whether we put anything else in. Is it the case that anything that we put in will be netted against the subsidy question is number is 1. And the follow-up question is is there anything more important than the subsidy?

MR. WATSON: Well, I have to answer that question to Deb. I mean that's more of a political thing, what's more important to the Administration from that standpoint. But from the --

DR. REAVES: From our perspective.

MR. WATSON: Oh, from the board, well, you are on the campuses every day. And I tell presidents this every day. I may do cap finance, but I never ran an institution. And so it's your decision as to what is more important and how you frame that important argument because it's on your campus.

If you are actually, you know, we were as FISK a few years back and they were a FISK had talked about how many of their physicists went on to get
master's -- master's and doctorate degrees at other places, and how they accounted for a certain number of physicists, half the American physicists in the nation.

So the concept behind the stem piece was if you can do this in your current facilities that haven't been updated in X amount of years, then what could you produce in modern-day facilities. So that was the sort of concept behind it, but again --

DR. REAVES: There's a trade-off.

MR. WATSON: You have the programs there on your campuses and there's a cost trade-off. And not to say -- and I say that we have $20 million in subsidy because once you to compare to what we get today to what we need to continue to make loans and to provide these new provisions.

And so if we look at capital interest rate at two percent for stem-related buildings, for example, in FY 2013 instead of asking for 20 million we need to ask for 330 million of subsidy; 20 million to sustain the same loans and another $110 million for
and you know it's because of the economy, so.

DR. REAVES: Right. Right.

DR. FRANCIS: And the question is -- a

germane question is, you know, is there something more

that we would get if we were fighting for than this

which will be reducing the whole pot. And I want to

spend a few minutes once he finishes to see if there

are other things that we know about in the program

that will enhance the program for HBCU, because that's

our bottom line is what can we do to enhance the

programs that we haven't put in the pot yet.

We've got run-in, but I think we need to

spend some time on that with the board. But I

don't -- I don't think from what you have just

reported if we put that back in it will not be --

calculus isn't going to work because it's going to

take money away from something that want to hold as an

escrow.

MR. WATSON: Yeah.

DR. FRANCIS: Something that, you know, we

have as subsidies.
MR. WATSON: It could. I mean when a new policy comes in place whether -- and I want you to sort of understand this. This is not just in the concept of cap finance. And I try to think globally about all of our education funding.

So when you think of the funding, if you think about what Title 3 gets and what cap finance is getting, for example, you look at that and you start to compare those dollars. Now where is the extra $110 million coming from. So you add the, you know, 85 to 20. That's 105. If we ask for 5 million more for a program that doesn't even include Title 3 dollars, so.

DR. WILSON: But let me just comment that I think it is probably smart to think outside the box on this one. I understand the numbers, but stem is such a priority with this department and this administration generally that it could conceivably be received as a supplemental initiative rather than substitutional.

So I would reconsider at least the stem piece and perhaps send that forward with some
out-of-the-box thinking, not thinking that it would be substitutional for the pool.

DR. SUBER: That was the basis of why -- or what I was wondering is that if you can make the argument, because it's consistent with the agenda of not only this administration, but many of our state legislators, and stem is the direction now, that it's a different entity than asking for reduced interest rate for any construction on your campus, that's student affairs or dormitories.

It really does have a different sense. And coupled with the capital financing program, an institution that takes out a loan for the purpose of building a stem facility increases its capacity to -- to raise the standard of the structure, Number 1, and to be a part of the agenda. And Donald didn't finish his thought, and I wouldn't presume to move it forward where I thought he was going was --

DR. WILSON: He thought he finished it.

DR. SUBER: Well, where I thought he was
going was is there any reason to persist if in fact

there's a priority here for the board. And what I

would argue is that maybe it's advantageous to give

people options to cut I guess is what I'm saying, that

if you advance two very definitively noteworthy and

significant agendas that are consistent with the

overall agenda, it makes it more difficult to cut them

simply because it doesn't seem to fit.

But if you are, then you don't hurt

yourself in the process because it gives people the

satisfaction of saying, yeah, well, we are not going

to give you that interest on that stem but we are

going to leave your subsidy in place.

DR. REAVES: That's kind of where I was

going, but John's comments kind of make that point

moot if you send this stuff up as add-ons, not

substitutional but incremental funding, then the

question I had is moot because what I asked is does

everything that you submit get netted against the

subsidy.

DR. SUBER: Right.
DR. WILSON: And that's why I trumped it.

DR. REAVES: Right.

DR. WILSON: Not necessarily is it.

DR. REAVES: Not necessarily.

DR. WILSON: Depends on what it is.

DR. SUBER: Right.

DR. FRANCIS: But in the global sense what we try to avoid is not do anything that's not hitting at our major priorities like Pell grants and Title 3, meaning that if you are going to move into that arena where they say, well, we'll give you that but we can take it off of -- don't want to go that way.

DR. WILSON: No.

SPEAKER: We want to be very careful, Mr. Chairman. You are absolutely right.

DR. FRANCIS: I mean if these come back to the problems you asked in the first question, and those are our priorities, and we did very well by this past month or whatever right before Christmas. It's a Christmas present and the like. But it -- I must confess that how I feel and Thurgood Marshall and UNCF
managed a very fine educational canvassing to say to
the Congress that these are our priorities and we'd
like you to maintain them. And that worked.
And we will continue to do that because I
think that's where you -- that's where we help each
other in a sense.
DR. REAVES: Right.
DR. FRANCIS: Help where we shouldn't be
burdening over here, where there is a program here
that's a priority that can't be funded. That's the
best of all the worlds. And we made that choice
because I think if we'd have put too much in that
wagon, we might not have gotten to priorities.
Okay, Don?
DR. BASKERVILLE: So would a motion be in
order to take -- lift from this the stem piece and
repackage it and resubmit it as a supplemental?
DR. FRANCIS: What would it be like? How
would you phrase it?
DR. BASKERVILLE: Would it be appropriate
to do that, to try and put it back in, lift the stem
component from it.

DR. FRANCIS: Oh, well, he -- I think maybe
I got it wrong. It's going to come out the same way
from the calculations, right?

MR. WATSON: The calculations are the same
way, but I think what I understood the board is saying
that stem is a priority for the board. And as a
priority for the board, it should go back in no matter
how it comes out as one percent interest rate, how it
comes out, but something reduced for stem cell
building should be there.

DR. FRANCIS: Specific.

DR. WHITE: But it should be an additive
type of initiative as opposed to being funded at the
expense of.

DR. BASKERVILLE: Right.

DR. WHITE: The current programs. I want
to be very clear because John and I have perspective
of the conversations that are in play here, that I
want to be clear in terms of what the board is
recommending.
DR. WILSON: That language has to be clear.

It's supplemental versus substitution has to be clear.

DR. WHITE: Correct.

DR. FRANCIS: Exactly. Well, I'd certainly entertain for this board the motion that you would -- the board would be recommending to the Secretary to use as a supplemental part of funding the stem side, which is a part of the, quote, administration's, one of the administration's major priorities in other program.

So that certainly doesn't hurt as a recommendation as long as it's not bleeding off of something else.

Do you want to make that a motion, Lezli?

DR. BASKERVILLE: Yes, sir. So moved to the Chairman.

DR. FRANCIS: Don got it. So in order for somebody to make a second to it, it really is bringing it back in, separating it out and saying it's supplemental as again it's a part of the whole.

That's basically what I heard. Is that right?
DR. BASKERVILLE: Correct.

MR. WATSON: Yes, sir. I'll agree with that piece over there to make sure I get the whole gist of all the conversations.

DR. BASKERVILLE: Can I have a second?

DR. FRANCIS: And we'll put all the language that's supposed to be put in there right so that there's no miscommunication. I don't want there to be any miscommunications.

DR. REAVES: I second the motion.

DR. FRANCIS: I thought you would. All right. No further discussions? All those in favor please signify by saying Aye.

RESPONSES: Aye.

DR. FRANCIS: Opposed?

(No Response)

DR. FRANCIS: Motion is carried. All right, Don, where are we? We at the end of everything we got turned down on.

MS. BARTLEY: No, with staff.

DR. FRANCIS: One more? Oh, Don can't talk
about that one, but staff, oh, that's part of the --

oh, welcome. You are part of what we asked for. But

we are happy you are helping my one long paper hanger.

And we will come back later on and see if we can get

another.

As this program goes, you know, we are in a

big investment banking business. And we've got to

make these loans. You have got to have people working

them. And I'm happy to hear that that is a response

to what our recommendation was, right, Don?

MS. BARTLEY: Well, the recommendation

actually was turned down for a full-time health. It

was not accepted.

DR. FRANCIS: It was the last page.

MS. BARTLEY: Yeah. Our recommendation for

some type of full-time health was not.

MR. WATSON: I think they want to clarify.

DR. WHITE: Let me clarify. Your

recommendation was made to the Secretary. And while

the Secretary has -- the Office of Higher Education

Program has the authority to make this decision.
So what we were able to do was reassign a permanent staff member to help Don. So your recommendation was 50 percent realized in terms of one full-time person coming over to help Don. So that was a permanent assignment made at the Deputy Assistant Secretary level.

MS. BARTLEY: So was it that this individual is coming full-time to help on this program or is it that a part of this program is added to that individual's larger portfolio?

DR. WHITE: This is his full-time, no, it is not additive. We reassigned and understood the spirit in which the recommendation was made, understood what Don's workload was and acknowledged that some assistance was absolutely needed. So we made the assignment.

So while the Secretary -- the Secretary delegates that authority at -- to the deputy level, we were able to accommodate that at the deputy level.

MR. WATSON: And just to clarify, these responsibility made prior to their coming on board.
DR. WHITE: Right.

MR. WATSON: And again, budget service looks at this, they score it, and that's how it works out.

DR. WHITE: So there were not any additional dollars added to the budget to accommodate the request, which is what the budget service analyzes it for. We just determined that the requirements within this program necessitated additional resources, and we were able to make that assignment given the budget that we currently have.

DR. FRANCIS: Go ahead.

MR. TAYLOR: So, just one person. What about the request for two?

DR. WHITE: I've only been here six months, Johnny, so give me a chance to get my feet firmly on the ground.

MR. TAYLOR: It says the dock, you know, you all are working to facilitate it. Are we?

DR. WHITE: We are evaluating it.

Absolutely. But you -- and really what we are really
looking for is you asked for two personnel. And the what we have is the technical expertise on the analytical side to help in the management and development of the loan portfolio. But Don has no support staff.

And so the help to facilitate is also bringing an additional person on to help on the administrative side. And that is our plan. That's what we have on the table. Again, those are delegated authorities at the deputy level. It's just the execution of that.

I will just share you we had a thousand applicants for that job. So we are just working through those details as we speak, but that is our plan.

MS. BARTLEY: Okay.

MR. WATSON: Not a thousand applications for my job.

(Laughter)

DR. WHITE: For the support job. So that's how we've isolated your request: One for an analyst
and one for administrative support. So I will

hopefully be able to report -- or Don will be able to

report at the December meeting that this request was

fully realized.

DR. FRANCIS: So we would not be out of

line sending a message being grateful for the support

in response to our proposal, leaving open the fact

that as he makes more money we may have to add more

go. We'll make that evaluation when it comes.

All right. That's unanimous.

All right. Because we can't run this

program, and I'm saying with great -- you can't nickel

and dime this kind of a program, you know. You'll

collapse on your face and then you say, ah, look at

what you did. You didn't do it right.

Okay. Any other comment? Go ahead,

Johnny.

MR. TAYLOR: I just think it's important to

say this though, and that is that we are asking him to

triple the number of participants in this program.

And so six months to get administrative help and, you
know, it's just a bit much. I'm taking the fact that
you all had six months, but I think it needs to be
said that that needs to be fulfilled.
He can't be as effective as he can be if we
don't just get that filled. It cannot take that long.
I assure you having run HR functions with support
staff, even with --

MS. BARTLEY: We are talking about a year.
MR. TAYLOR: But I'm just saying, so, for
the record, if he has to give away $387 million by
September, then he cannot be as effective as he can be
if he's doing administrative work. So while we thank
them for that support, the record needs to be clear
that we need to move quickly.

So I don't want to just walk away and say
thank you.

DR. FRANCIS: No. No. I understand that.

And I think the message is that I think what the
assistant is saying is that we've made one move. And
we are saying that we know that we'll need to continue
to make these moves if we are going to run the
program.

We keep asking for money, and you keep making loans, you know, you are going to have to evaluate your staffing.

DR. WILSON: And she said that Don will be able to report in December that someone's on. That person may come on in March, you know. The person may come on in February.

DR. WHITE: Oh, I'm hopeful that we can close this within the next 30 to 45 days. I'm very hopeful about this. And Don's absolutely correct. We've done the evaluation. We know what we need.

The hardest hire, quite frankly, was someone with the analytical skills that could complement Don. So that was the most difficult hire.

And I'm not trying to make excuses when I say that it's indeed a challenge.

I want you to be very much aware that it is indeed a priority. We understand the value of this program and will allocate the necessary resources.

Embedded in all of this is we've changed our
facilities, we've got Don some more space. I mean
there are some things that were not in your request
that in our evaluation of the program we know -- we
knew we needed to make a stronger investment not just
in the human capital but also in facilities and other
support mechanisms which we have completed.

But I hear you. It is with all deliberate
speed.

MR. TAYLOR: Thank you.

DR. FRANCIS: I think in the spirit that
this has happened, we are grateful for it. I don't
think you should leave without that. At the same
time, as an advisory board you always have that
fiduciary responsibility to say to the Secretary this
is what we think ought to happen.

Would it happen or not? That's not our
call. We hope it will. And we've made some progress.

And that's all we do.

Okay, Don, what was next.

MR. WATSON: I'm going to talk about the
new recommendations for the board.
DR. FRANCIS: Tax credits.

MR. WATSON: Okay.

DR. FRANCIS: The first one is new market tax credits you are going to talk about?

MR. WATSON: The first one is new market tax credits. In the last two years or so there are several institutions that had loans with the program whereas they can use new market tax credits to actually leverage cap finance dollars.

And the short answer to that, and I've been trying to think strategically over time without actually having Congress make any legislative changes, but our statute acts prohibits any HBCU from lending money to anyone and in a concept of, well, let me ask this question.

Should I go in a little more detail on new market tax credits?

DR. FRANCIS: Why don't you lay the foundation for the new market because you have got to be able to explain how it may not work.

MR. WATSON: Okay. New market tax credits
is a program that is run by Department of Treasury, and it was established to allow investment in low-income communities. The way they do that investment, you have investors who give money to a CDE, a community development entity. That entity then in turn lends the money to an institution to build in that low-income community.

And that's sort of the high-level short piece of it. And that's really where the angst of the program comes in because with the Capital Finance program, the borrower has to be the HBCU. It can't be any other entity but the HBCU. The other piece of this is that the HBCU cannot lend its money to an entity for anything. So those are two of our issues. Those are two basic issues there. The other issue is that during the new market tax credit have what they call a 7-year -- 7-year period on which the investor can claim 39 tax credits. The rules for that also stipulate that the project that is being billed cannot be encumbered. So
you can't use that as collateral. So the cap finance program, if we build it, we want to use that as collateral. So what I'm actually looking for the board here to do is to sort of ask the Department to explore the feasibility of us doing this a little -- little more, because new market tax credit isn't something that everybody has expertise in.

So I think we need to explore it more. Our general counsel needs to explore it more, and then come back to the board with a more definitive recommendation as to how we should proceed forward.

I can tell you from this standpoint the obstacles are going to be the HBCU can only be the borrower. And the HBCU cannot lend the money to CDE or invest the money that we give them to a CDE, community development entity.

DR. FRANCIS: So what you are saying is that what needs to go further is the evaluation and all the discussions about new market tax credits as it relates to the HBCU Capital Finance program. Is there a question of two government agencies trying to not do
the same thing, but to leverage the capital it has,

and can you leverage one with federal money on the

other side under the rules of each passed by the

Congress.

And it seems like -- certainly I don't know

as you are talking about this what are the, quote,

limitations of the HBCU capital programs to be

leveraging another government program like new market.

MR. WATSON: Well, it's done today. It's

done today and -- it's done today.

DR. FRANCIS: In other institutions.

MR. WATSON: Well, and just to use Capital

Finance in other federal dollars, Title 3 for example

you have some schools that take Title 3 and they may

want to update their campuses with wireless

technology. Well it may be a building that we are

going to do renovations in. So it's not that we are

not necessarily going to pay for that piece but we'll

pay for the hardware.

You have some examples of campuses that use

some of that Title 3 money to do renovations, but we
didn't do renovations in that building. We did work in other buildings on campus. So there's a concept we sort of use the monies simultaneously, but it's actually -- and to give an example, a school may to want for example build a $10 million building.

Say, okay, Don we want to borrow five million from you and take five million under new market tax credits.

Well, the school can do this one of two ways. They can actually say, okay, we don't want to use Capital Finance. We are going to take our own money and invest it in a CDE, which of course cap finance has no issue with. But if you want to use cap finance money, you can't put our money into community development entity because that's not a eligible project. It's not a eligible use of the capital financing funds.

So that's the big piece of this. That's the big piece of it. Our statute prohibits the borrower of the HBCU capital financing from being any other entity except the HBCU. I mean explicitly
states define who the eligible borrower is, and the
eligible borrower is the HBCU.
So that's the big -- that's probably the
biggest issue. And the other issue -- and we went
through some of this with our general counsel as if
the HBCU was to say, okay, create its own CDE and be
the solely owner of that CDE. And it still wasn't
eligible because that money has to flow through the
CDE. And you can't take the federal to dollar and put
it and leverage it and make more money or create more
dollars, if you will.

DR. FRANCIS: But the bottom line is that
in any of these circumstances the HBCU has to be the
entity that borrows the money.
MR. WATSON: Right. Under the current law.
DR. FRANCIS: Right. And so if the board
accepts this recommendation, what you are saying is
you'd like to explore with the Secretary whether we
can allow the financing of eligible projects from
eligible HBCUs with funds from new tax credits and
HBCU finance programs.
MR. WATSON: Yes. And what I want to do is have deeper conversation with the Office of General Counsel and Budget Service to come up with distinct recommendations or -- because again you can't get around it without a statutory change, but we need to be more --

DR. FRANCIS: To be clear about what it is your asking for.

MR. WATSON: Be clear to what we are asking and how we are going to proceed with and if there are any issues we will have with collateral, us not being able to incur collateral which we are taking part of the finance.

DR. FRANCIS: So what I'm summarizing -- you can feel it for myself and maybe the board, the thread that runs through this entire regulation and the current Congressional legislation is it has to be the HBCU that's the common thread. It can't have another entity borrowing under this program. It has to be the HBCU to borrow it. Period.

MR. WATSON: Right. On this
recommendation, if you look at the first set of
bullets, those are the issues that we have to get
through in order to allow this to happen.

DR. WILSON: So basically what you are
asking for, Don, is more time to explore it, right?

MR. WATSON: More time to --

DR. FRANCIS: Yeah.

MR. WATSON: More time to explore it or the
board can make a recommendation to actually try to
modify or change these.

DR. WILSON: How can we do that before you
explore -- before the term of the details?

MR. WATSON: These are the issues. I think
our general counsel may need more time to be help with
it. We are going to do a loan closing based on new
market tax credits and cap financing, these are the
issues.

So even if we say we are going to have this
-- the board recommends this, there's going to be --
you are not going to get a response in December
because our general counsel has to sort of become
familiar with how the new market tax credits work.

It's a specialized thing and not something the Department of Education deals with.

So our general counsel will have to get up to speed on new market tax credit.

DR. WILSON: Yeah, but we could recommend it pending your exploration or investigation of further details and you would amend it, send it to us and then we -- I mean it just strikes me that we can't make an informed recommendation until you find out what you need to find out in those conversations you just referenced.

MR. WATSON: Not me.

DR. REAVES: And tell us.

DR. WILSON: Yeah, and tell so that --

MR. WATSON: I can't work in a vacuum. As you know, John, I mean, if a recommendation is sent to the Secretary it's going to go to general counsel.

DR. WILSON: Right.

MR. WATSON: My understanding and general counsel's understanding of how this works is totally
different. I've been trying to figure this out for two years. So I've been looking at it, reading the IRS, reading their statutes, you know.

I've been reading the Treasury statutes so I am more familiar with it, but from a legal -- I'm not the Department of Education legal entity so I can't say -- I'm telling you it's not eligible because of the definition of the statute.

To get around this and say, okay, if the board -- the board can make a recommendation now and say we want to recommend that there be a legislative change to make HBCUs eligible to participate in new market tax credits, fine. Dandy. We can move forward with that. But in order for general counsel to be helpful and come back with a "yay" or "nay", I think they may need a little more time.

DR. SUBER: Do you need a recommendation to explore or do you need -- do you need a recommendation to explore it or can you take a direction from the board to explore it and then come back with a recommendation?
MR. WATSON: The board can simply recommend that the HBCU --

DR. SUBER: Let's presume that we are not at a level of readiness to make a recommendation to change the policy or the criteria. Do you have to have a recommendation to move the discussion forward in terms of your ability or your staff or whatever entity up there on the Hill on Washington?

DR. FRANCIS: Yes. And I would assume he --

DR. WILSON: To engage --

DR. FRANCIS: -- we should give that.

DR. SUBER: So the recommendation that you have put down here to explore possibilities is the recommendation that would move forward?

DR. FRANCIS: Right.

MR. WATSON: Exactly.

DR. SUBER: And I second it.

(Laughter.)

DR. FRANCIS: All right. We -- the board will -- this has moved, and you can pick any one of
them you want who moved and who seconded.

MR. WATSON: Right.

DR. FRANCIS: That we explore this because we have to know more about what the legislation currently is and more about new market tax credits. And you have been looking at it for two years. And God knows there's some lawyers sitting around this table. You get one lawyer in the department --

MR. WATSON: We have tons of them in the audience. I am sure they want to jump on this.

DR. FRANCIS: They are going to ask a lot of questions to say show cause why we should do this.

DR. WILSON: Dr. Chair, it matters who wrote it and seconded it. I think the two presidents did, so Suber and --

DR. FRANCIS: All right. Well, I got --

DR. WILSON: -- and we seconded it.

DR. FRANCIS: -- a motion on the floor.

Any questions on it? All we are doing is exploring this. Always safe.

MR. WATSON: And I sort of extended that to
page 2, and think I thought maybe you all had seen that. But top of page 2 actually goes to the second point at which the board recommends it.

DR. FRANCIS: Yes. Yes. I think that's appropriate. It really is. You get the information first, and as a good advisory board we say, well, it makes sense given everything else we are doing because we don't want to be taking something away from something else by doing something we don't know anything about.

MR. WATSON: Right. The biggest exploration I think will probably be, you know, as I mentioned if you don't have is to borrow $10 dollars, you only have to borrow five, it's a great savings.

DR. FRANCIS: We will get the information and then get a recommendation that will take action.

DR. WILSON: Chairman recommended that we watch our time here.

DR. FRANCIS: I'm sorry?

DR. WILSON: We just voted on that, right?

MR. TAYLOR: No. We seconded.
DR. FRANCIS: I didn't hear the question.

All those in favor of the question please signify by saying Aye.

RESPONSES: Aye.

DR. FRANCIS: Opposed? Motion is carried, and now you can start exploring with the lawyers happy times, all the lawyers sitting back there.

MR. WATSON: The next recommendation is for a disaster relief grant program. And I think this is a little different from the last grant program we talked about, it's different in the way that every year there's natural disasters around the nation.

Last year we had several HBCUs who were current borrowers in the program.

And if they were actually affected by one of those natural disasters, we could have potentially had to close in the middle of -- for a semester or so.

They could have been in a default situation. So the default rate I just ranted about earlier could have actually went up a lot.

The subsidies, the escrow, all those things
would have been affected. So I think this is something that is very limited. It's not open to anyone. It's not open to everyone. It's open to -- it has to be declared -- the school has to be in a place declared by a -- hit by a natural disaster. The school has to have been closed. And it sort of follows some of the same language that the Katrina schools followed. It also follows some of the same language that this current statute is unfunded but it's a current loan program for all schools that would allow those schools hit by disasters in the country to receive some kind of benefit. So I pulled some of those pieces from there to get sort of this same sort of concept, but again this is important because cap finance, it's a program where it doesn't matter why you can't pay the debt service. You can't pay it, you are going to be in default. So that's -- so it makes it a little different. DR. FRANCIS: And the difference is that
that school is in the HBCU cap financing program.

MR. WATSON: Exactly.

DR. FRANCIS: They are in the program under the umbrella. And if they didn't get this emergency help, they would not be able to meet their obligations.

MR. WATSON: Obligations.

DR. FRANCIS: Exactly. That's, I mean, that's --

MR. TAYLOR: So moved.

DR. SUBER: I've got some discussion.

DR. FRANCIS: Well, I've got a motion. Let me get a second.

DR. BASKERVILLE: Second.

DR. FRANCIS: It's on the table now, Dianne.

DR. SUBER: I'm sure this is going to be taken the wrong way. I do have some concerns about this, because I don't think that the criteria is tightly articulated enough. And I am concerned that in some situations this process is being perceived as
a way to address debt that existed prior to the disaster.

And that in doing so it is unfair to institutions who might benefit but who have been fiscally responsible prior to the disaster. And I think it invites some institutions to declare that they must close and that they cannot make their financial responsibilities because of the disaster.

And that is a concern I have about a blanket policy going through that allocates money based on this very loose criteria of a school determining by itself that it is incapable of servicing its debt.

DR. FRANCIS: John.

MR. TAYLOR: That's why the recommendation is purely for your -- I would presume that you would come back with the details. I assume this wasn't all of the --

MR. OCHOA: Right.

MR. TAYLOR: You know this is recommended in the creation of a program. Of course the details
to your point would absolutely have to be worked out.

But I don't think we are going to solve that.

MR. WATSON: Right. We went through the same process. Just to give you an example, where it says school demonstrating that they incurred physical damage resulting from the impact of natural disaster,

Dr. Loston left -- Dr. Francis can tell you, and if you come to the program you'll find out.

You are not going to say, Don, I need this building. I'm going to put it here. When I get there, I am going to meet with you, and I am going to walk into every building in your campus. You are going to walk with me, see students, however you want, but I want to see every facility. You are going to show me where you are going to actually put that building.

And I'll do that, and we'll have a discussion, and not just you but anyone who comes to the program, we'll have a discussion. There have been times where someone offers up the ladder and I go to campus and they say well, this, building is worth $20
And I will remind them that that first floor is full of water.

And so we get those kind of examples. It's not that the school ahs sort of determined themselves.

When you send an application for cap finance, it's just not your application and we are going to say, okay, these numbers fit. There's a whole conversation. I'm on campus for a while. And most times people fit me with students that they think are going to give me a good conversation, but I'll be in the cafeteria because I want to hear everything I want to know.

So you sort of get that feel. And the damage isn't a window broken, that sort of thing. I should have brought pictures of what I consider damage or what's considered damage. It's sort of, you know, they have to sort of go through FEMA first. So FEMA is not rejecting them because they didn't -- they don't need it. You know there's a process in which the library is -- the stacks are all gone, filled with water.
So it's sort of -- if you start to go through the list of things you are going to look for, like the stacks are full of water and mold and mildew is coming up, then I started creating a list and add to that list. And at some point, no school -- if I'm looking for mildew, mold, wetness, broken window, roof been torn off, you know, the ground's been ripped to shreds, then I only have that criteria. But if something else comes in, the foundation's been cracked, then that school's not eligible but they have this from the earthquake or whatever sustained damage. So to have a list exhaustive like that comes to a point where the school is really eligible.

DR. SUBER: I understand your integrity and the character of how you do would do it. And I expect we will move this forward. But for the record, I don't think that a program of this nature should be predicated on your or whoever is at the director's head at the time, because the next person coming in may not have the same sense of standards or integrity. What I would like -- and this may not be
the method. Maybe once the recommendation is passed, another group comes in and looks at the criteria but there should be a set of criteria that includes that institution's amount of insurance that they have already purchased. It should be a set of criteria that evaluates to what degree that institution used the areas around them to be able to continue classes. There should be a set of criteria, an expansion of these that are here that ensures that those institutions who continue to hold fiscal solvency as part of their priority are not discriminated against in a situation where another institution gets lucky because a hurricane hits them or a tornado comes through.

MR. WATSON: Sure.

DR. SUBER: And that's my concern legitimately for reasons.

MR. TAYLOR: Yeah, right.

DR. SUBER: But I do think that as this process moves on, and I won't vote against it because I do think there should be some support, but I do not
want this program to be generated by heartfelt sympathy and disastrous photos on You Tube.

MR. WATSON: Right.

DR. SUBER: Because I think there is a much, much more significant and substantive issue in terms of being able to provide support for these institutions.

DR. FRANCIS: All right. That's well taken. And just let me say having gone through it, there are checks and balances which demand that the due diligence that you are talking about. FEMA does. I mean if FEMA -- if FEMA writes a PW on what you are asking for, I think you might consider making a grant because it's going to affirm that that is a byproduct of what the disaster was. But I think that's very important.

MR. WATSON: And I would spend the fourth bullet, that's where I was getting at. If you don't get FEMA help or assistance from FEMA, you can't get any of this. So that's what I'm alluding to SBA, your insurance, those sort of things because again you
can't just come in and get assistance just because.

DR. FRANCIS: As an example of what you are saying, and I learned we in the private school sector after Katrina wanted to get into the disaster aid under the Homeland Security. We had to first apply to SBA first. And I said, well, how come the state school across the street doesn't have to do that.

Well, we haven't answered that yet, so we have to go to the Congress. But they made all private schools borrow money or seek money from SBA, go through that system to answer the kinds of questions you are talking about.

I'm still paying on that SBA loan. I was hoping they would turn me down. Because as long as you went there, fine. But if you got turned down, then you could go get evaluated. But, Dianne, your point is correct. Your insurance company does the same thing.

I had a team of 20 people come, they came after we had repaired everything and tried to find out, well, was that before or after. I want to
federal court. My point is you should have come before, not after.

MR. WATSON: Right.

DR. FRANCIS: But that's a response to your question, I mean your point, that it has to be a part of the disaster and it has to be documented.

MR. WATSON: Right.

DR. FRANCIS: Okay. Now, if the motion and the second are still ready to go, all those in favor of that motion please signify by saying Aye.

RESPONSE: Aye.

DR. FRANCIS: Opposed?

(No Response)

DR. FRANCIS: Motion is carried. Okay, Don.

DR. REAVES: Mr. Chairman, I have to leave to catch an airplane.

DR. FRANCIS: You want to take me with you?

DR. REAVES: I'm going to North Carolina.

It's only slightly warmer.
DR. FRANCIS: Let me raise something before I ask for the general public. Are there -- are there things that would be appropriate for this board to consider that would enhance the loan capital program and/or any other things that would enhance HBCUs, even though we couldn't vote on them and the like? Are there any things that are out there? The precedence -- did the Secretary's budget has to be in or is now for 2013? What's the deadline? DR. WHITE: If we are -- we are at work, so this is a very timely meeting. We have a lot of things to do to get some of these things considered. MS. BARTLEY: So given that, Mr. Chairman, if it would be appropriate if everybody might consider that we make a formal recommendation that we put our recommendations forward, the key recommendations for the FY 13 budget next week to not only the Secretary but to O&B because the President's proposed budget for FY 13 is expected to be released early February.
And so if we can get a message following this board meeting the top, you know, our top priorities for FY 13, have them put forward, that's important.

DR. FRANCIS: Any of the things that we did here would be if we could do it in a timely matter as recommendation to the Secretary because you are working now on the short straight, right?

DR. WHITE: Yes. Yes.

MS. BARTLEY: And of course to me the top two, and we can put whatever you want, but for sure you want to get in in time next week the recommendation on the -- the subsidy and the increasing the -- the loan limit.

DR. FRANCIS: Yeah, the motion that we passed.

MS. BARTLEY: The cap.

DR. FRANCIS: Which would --

MS. BARTLEY: Because when the President's budget goes up to Congress, for all of us who are here as advocates and work the Hill, if that budget for
HBCU programs doesn't reflect closely to where we as a community want to be, it makes it harder for us to make the case on the Hill because offices that don't have us as a priority or don't represent us look and say, well, you know. And we want to be able to communicate. We don't want the administration to say you didn't communicate with us as we were preparing the budget. We have to do our due diligence on that.

DR. FRANCIS: So what we are saying is the things that we passed today that was, quote, a part of our recommendation to the Secretary, we could get that in as the Secretary prepares his budget. I think he should know what his advisors are saying on this one.

MS. BARTLEY: And to O&B to Jack Lu.

DR. FRANCIS: Oh, it goes out to O&B or just the Secretary?

DR. WHITE: I think Edith is correct.

MS. BARTLEY: What I'm recommending is that our people here agree that we put forth our recommendations for the President's proposed FY 13 budget to the Secretary and to the head of O&B because
that's being written now.

DR. FRANCIS: Okay. That -- that --

Congress does it. It doesn't make sense not to do it because we'd have to wait another year to do it. If we can get it in, we are asking that the board advises meeting on this day which recommendations it's making to the Secretary be done now with the hope that it would become a part of the budget preparation for 2013.

DR. WHITE: And is it the pleasure of this board that because we are -- 13 is imminent, so --

MS. BARTLEY: Right. At least we are on record.

DR. WHITE: -- next week is not as timely either, so is it acceptable for this board to take -- to get -- take that recommendation back immediately.

MS. BARTLEY: Yes.

DR. FRANCIS: Yes. That's the way. I agree. If that window is still there, let's use it.

If it's not there --

MS. BARTLEY: It's there. It's there.
DR. FRANCIS: But that's midnight oil working.

DR. WHITE: Yes, it is. Yes, it is.

DR. FRANCIS: Okay.

DR. WILSON: Don, were you finished? You had the impact studies and --

MR. WATSON: Impact studies.

DR. WILSON: Pooled escrow.

MR. WATSON: Yeah. Pooled escrow, we talked about that. And the board voted on that already, so.

DR. FRANCIS: We voted that, but there is no objections to the recommendation that whatever we've done today be sent to the Secretary, and that of course it's his judgment as to how fast he can work and get it in but we'd recommend that it be done. Any objections to that?

MS. BARTLEY: Answer to O&B.

DR. FRANCIS: So, we don't have to do the work but we advise us. Madame here has to do the work.
DR. WHITE: Yes, I do.

DR. FRANCIS: Okay. No objections? So all. All right. I don't want to lose too many of these other folks with these planes.

Dianne has her own plane parked out there.

DR. SUBER: Yeah, Right.

DR. FRANCIS: She can stay here a little longer. See, Don Reaves didn't want to take me.

DR. SUBER: You have me mixed up with the President Obama.

MR. WATSON: The next recommendation for the board is impact -- economic impact studies.

Dr. Haynes after a Reilly loan for $24 million, he asked that we have to look at impact, economic impact studies.

These studies have been done for HBCUs over -- there's been several studies done. These studies, past studies sort of lump all HBCUs together and talk about how Capital Finance is great for them from a market standpoint, but these economic impact studies do something a little different.
It will show as I spoke about earlier, it will show things like how an infusion of Capital Finance dollars will benefit the local community, the university, the visitors to the area, that sort of thing. And it sort of helps to fight the -- or make the case of how capital financing, the return Capital Finance is not just doing for the school itself but for the local economy, the state, the nation and that sort of thing.

It also -- this kind of study doesn't have to be committed just to capital financing program. It could be open up to anything, any kind of revenue services that come into the university. So it expands why the university is such a great economic asset in and of itself, so.

MR. TAYLOR: So moved.

DR. WILSON: Here.

MR. WATSON: The other part of this --

DR. FRANCIS: We had --

DR. WILSON: Don't over sell it.

MR. WATSON: No. Can't oversell it because
the point of this, I could do this on my own, the
HBCUs, the funds to do this come from HBCUs or an
increased funding on the technical assistance side so
that 20 -- so there's money in the budget. There's
about 20 million to make loans. There's also some
money set aside for technical assistance.
So I'm asking that we sort of programs that
come through the capital financing program we have
some mechanism to provide funding to do economic
impact studies to show how useful Capital Finance is.
And again this won't apply to capital financing, but
it applies to any kind of revenue source coming into
the university whether it's, you know, the net for
tuition and fees, whether it's, you know, doesn't
matter what the income sources are. But you see the
overall economic impact of the institution.
DR. BASKERVILLE: This would be invaluable
as we are making our case to members of the Congress
and others.
MR. WATSON: Yes. And again it's not just
Capital Finance, for any kind of case you want to make
MR. TAYLOR: How much do you think this would cost?

MR. WATSON: Without having a definite quote, when I was actually looking through this and looking to some sources, the study in and of itself will cost anywhere from 35,000 to 50,000 dollars. It's a very intensive study because they are not just looking at, like I said, you got a loan today compared to the loan you would have gotten at XYZ Bank. It's going in, looking at the market conditions, looking at your local businesses, local community, how things are improving that sort of thing.

MR TAYLOR: So $50,000.

DR. Haynes: It could be less than that. We looked at what the NCIS did for all of the institutions as a sort of models, so now we are trying to figure out how can we do it by individual. And this is a point, the reason I told Don he had to do this is because --
MR. WATSON: You have got to tell your name and who you are, for the record.

DR. HAYNES: Oh, I'm sorry. Leonard Haynes, Director of Institutional Services.

The reason this economic impact study idea came up was he closed the loan at Wiley College in Marshall, Texas last year. And Dr. Strickland who is the president there said to me the $28 million which was the size of the loan, Dr. Francis, was the most -- the greatest amount of federal funds that had ever come to Marshall, Texas.

And all of a sudden he was the friend of every banker in Marshall and the like. And I said, well, you know, those loans have impact beyond the institutions.

DR. FRANCIS: Oh, absolutely.

DR. HAYNES: In a jobless economy they are calling for jobs, this, that and the other. And I said we need to do this for everything because it helps make the case why this program is very important.
DR. WILSON: It's a no-brainer. I think it won't sell without a number in there, so if we can get a number in there.

MR. TAYLOR: $50,000.

DR. WHITE: But may I interject. My colleagues are being most ambitious with a $50,000 price tag. I tell you I think having seen these studies in the past, you know, what you want is a quality document and quality cost.

And I would suggest that we probably need to do a little better research on what that number is, but I will tell you that preliminarily what I have seen us produce, it's usually in about a million dollar, million-and-a-half price tag to get a comprehensive study done that stands up. Now, that's a far cry from 50. I'm not saying that it's a million, but I just think that we need to come back and give you a better analysis of what those actual costs will indeed be so that you can have a dynamic document.

DR. LOSTON: I would agree with
Dr. Saunders-White. I don't remember the exact figure, but I know we had a study done and it was above 50,000. I'm certain of that.

DR. WILSON: It depends on the scale of this. I didn't perceive you doing a comprehensive Capital Finance exhaustive analysis.

MR. WATSON: No. It's for each school and program, and this one here casts -- was estimated $50,000.

DR. WILSON: And that's on how many institutions?

MR. WATSON: Just based on a single institution, so.

DR. WILSON: And how many are you proposing for an impact study?

MR. WATSON: For each institution that has a loan in the program, so 24 plus any schools that come through the program.

MR. TAYLOR: So estimated 50,000 times 20 is a million dollars.

DR. WILSON: Is a millions dollars.
MR. WATSON: Right.

MR. TAYLOR: Then that does impact the presence because you said from some source, so it may impact the presidents directive.

DR. WILSON: I can tell you it's going to be a hard sell to go for a million dollars from this department in these circumstances. I would -- okay.

Deb, you are on.

DR. WHITE: I think that any time we are talking about evaluation and accountability and impact information, that is the rhetoric of the day. And I think that for the board to want to proactively do that, because let me tell you the department is going to want to do that. Okay.

And so for this board to come forward and take that initiative to champion that I think is the right way to go, and I think it will be well received.

DR. WILSON: I reiterate my point about supplemental versus substitution, that this not be --

MR. WATSON: And I want to sort of reiterate my point is that although this is coming up
to the Capital Finance board meeting, the department sends the money out on many different levels. So it includes Title 4, Title 3, Title 5 whatever monies you have from department. So the department -- and doesn't have to be cap finance, it can be the department's impact, the money you get from the Department of Education, its impact on --

DR. WHITE: As you are being zealous on that, that still comes back and hits my budget. So just be careful with that but, yes, there are many sources of funding to help fund these type of activities.

So I don't -- I would not advocate it to come from the subsidy, but there are some resources available if this board says that it is indeed a priority for us to consider. So there are some dollars available for evaluation that we -- that we don't need secretarial --

DR. FRANCIS: Understand.

DR. WHITE: We don't need the Secretary's authority to use, but certainly with this board's
recommendation that's a directive that helps us.

DR. FRANCIS: I got that. Do you have a --

go ahead, Dianne.

DR. SUBER: Another board I serve on, we
talk about capacity and we talk about the institutions
not being monolithic institutions. And I'm wondering
if it would be advantageous to look at clustered
institutions so that you get a broad perspective
because economic impact in one institution's community
could be very, very different in another community and
may be positively or negatively skewed depending on
which institutions you select to do the research, on
which you select to do the research.

So that may be one of the things you may
want to consider in structuring that kind of an
economic impact study.

DR. WHITE: That's why it gets -- quickly
it becomes a complicated dynamic. And again you want
to have the methodologies in place that anyone
scrutinizing any report or reading that report has
confidence in the data submitted. So
MR. TAYLOR: So my initial -- withdraw that. Because the recommendation language reads through some source. And I think someone here appropriately said that might affect the schools directly. And so if we could pull out the language that would directly -- because I don't think we are in a position, Madame President, you know as both of you to commit to the schools, right.

So I think if we can say if Dr. Saunders Write is white -- is right, White is right, if you are right, then we can do this as long as the funding can come from somewhere else. But you all are not I think I'm hearing you say committing the schools to get what could be --

MR. WATSON: Right.

DR. TAYLOR: -- a million dollars, out of control.

DR. FRANCIS: If, as I read the recommendation here, it says the board recommends that the department -- that those through some source or through the Administration's fiscal year 2013 budget
project -- process provide for economic impact studies

prospectives including business, social, student,
taxpayer. Each review includes a local and state
component as well as a national component.

MR. TAYLOR: And I am just clarifying that
through some source does not obligate in any way the
presidents or the schools directly, because that seems
to be the issues that were raised.

DR. FRANCIS: Right. It wouldn't come out
of there. It would be whatever resources there might
be outside of it. That's what this is saying.

DR. TAYLOR: Okay. So a federal source.

DR. FRANCIS: Oh, yeah.

DR. SUBER: It's a good idea as long as you
all pay for it.

MR. TAYLOR: Right.

DR. FRANCIS: Don't tax me. Don't tax him.

Tax the man behind the tree. That's what you want.

DR. SUBER: Right.

DR. FRANCIS: All right. All those in
favor, well, let's put it on the table because we'd be
making a recommendation, which of course --

DR. SUBER: So moved.

DR. FRANCIS: -- The department itself feels it needs to do if it has the funds. And if it doesn't have the funds, it won't be done. But that's a part of the negotiations, what you have just described, Dianne, who is and how much and where and it takes it from there.

But I think we ought to make this as a recommendation from this board.

DR. SUBER: So moved.

DR. FRANCIS: Got a second?

DR. LOSTON: Second.

DR. FRANCIS: All those in favor please signify by saying Aye.

RESPONSES: Aye.

DR. FRANCIS: Opposed?

(No Responses)

DR. FRANCIS: Motion is carried. Johnny,

you still got a problem. You are not paying for this.

MR. TAYLOR: Are you voting on this
language through some source?

DR. FRANCIS: Yes.

MR. TAYLOR: Or did you modify it to say "not the schools."

DR. FRANCIS: I read it as it was written here, but I've got to put a T-H-R.

DR. WILSON: Through some federal source.

MR. TAYLOR: Some federal source.

MS. BARTLEY: Should we say from funds --

from funds that are used for some other -- for economic impact projects? This is not the first that would have been done.

DR. FRANCIS: Go ahead.

DR. WHITE: I think the language is clear enough. I think it's clear enough.

DR. FRANCIS: Add -- make the word "though" "through," and add "federal" before "source." It's been passed. Chairman just amended it and the people who made the motion didn't object to it. Right,

Dianne?

DR. SUBER: You are right. You are
absolutely right.

DR. FRANCIS: All right. Okay. We have public comments now?

MR. WATSON: There's actually --

DR. FRANCIS: Oh, you have got that Future Perfect one. Did I miss that?

MR. WATSON: No. Future Perfect. That's going to be a presentations. Future Perfect is a financial software package that account finance has been using to sort of help HBCUs use with some financial planning.

DR. FRANCIS: All right.

(Recessed at 1:11 p.m.)

(Reconvened at 1:21 p.m. for overhead presentation)

DR. FRANCIS: We are reconvening. We are back in session, and I'm going to ask a good friend of -- you are going to do the presentation.

MR. EVANS: I'm going to kick it off.

DR. FRANCIS: Okay. They are looking at --
they can see over there too? Okay.

(Discussion off the Record)

DR. FRANCIS: May I please have your

attention please? All right. We are ready to go.

MR. EVANS: Okay. Well, good afternoon to

everyone. I know everyone is munching on their lunch,

but I want to say a special good afternoon to

Mr. Chairman, Dr. Francis, who I've known for quite

some time.

And, Dr. Francis, you asked a question to

the board about ten minutes ago: What could this

board do to help HBCUs? And we think we have the

answer to that. And I'm just going to go through a

quick introduction.

My name is Sidney H. Evans, Junior. I'm

the president of Madisan Mackenzie, LLC, a management

consulting firm. And prior to starting my firm, I

spent 14 years as a chief financial officer of several

historic black colleges and most recently at Howard
Through my consultant business, I have the distinct pleasure of having public financial management as a client. And I'm going to introduce two managing directors from PFM in just a moment. But during my tenure as a CFO, one of my challenges was how to provide the most comprehensive financial management support to the President, to the board of trustees and other key constituents. I wanted and I strongly believed that I needed a specific tool and/or model to accomplish this.

After extensive research and reviewing a number of products, I found the Future Perfect strategic planning platform which I believe is the panacea for what CFOs and colleges and universities need.

At the most recent NACUBO conference, NACUBO is the professional organization for chief financial officers, there were two presentations on college and university financial sustainability. Both of these sessions focused on each -- a university
having a management tool or a strategic model for forecasting.

Additionally, all the leading bond rating agencies are giving kudos and high reviews to those universities that are using some sort of strategic planning model. To this end, our PFM team would like to introduce to this board a unique and comprehensive tool for strategic forecasting services.

At this time I would like to turn it over to Mr. Jim Haddon who is the managing director and national marketing account manager for public financial management, and Brett Matea who's also a managing director. And he is the guru for Future Perfect. So, gentlemen, it's all yours.

MR. WATSON: Jim, before you start I just want to, for the record, I just want to say that the account finance program is already using Future Perfect. So that -- but the Board I don't think has seen what Future Perfect is doing. So when I am asking you for money for technical assistance, I want you to see the kinds of things you are providing for
MR. HADDON: Thank you, Don. Thank you everyone again for giving us the time. As you see, we have multimedia screens here. We would love to be able to turn that screen off so it's not shining in Don's face, but I can't figure out how to do that, so bear with us.

But we do have a hard copy of the presentations. And if you can't see what's on the screen, please open up your presentation book and follow with us. We are going to make this an interactive discussion today. We are actually going to show you how this model works on the screen because we really think it is a dynamic financial planning, strategic planning model that can be very helpful for you.

And one of the benefits of it is when Brett takes you through it is you can change variables right in a real-time situation, and it can interactively spit out all of the results. So, again, this is a very effective planning tool.
And we like to stress when we get into this, this is not just a piece of software. This is a tool that can help you effectively plan into the future.

We'll give you the 30-second promo on the firm. We are a public financial management, we are in the financial advisor and the asset management business. We have two companies PFM and PFM Asset Management.

We are an independent, SEC-registered investment and financial advisory firm. We work 100 percent in the public sector. We work for not-for-profit colleges and public institutions and state and local government. We've been around roughly 30 years, we are in 33 offices, and we have over 400 employees.

The next slide just shows you -- we believe that when you are talking to an institution and you are giving them advice, you need to have a whole array of services that you can provide for them. And so we do have that array, and we just list some of these
We are the number 1 financial advisor in the country, and we are the number 1 financial advisor to higher education institutions. And we have a significant track record in working with historically black colleges and universities. I personally worked on the Howard University financing this past year in the spring of 2011 where Howard did a $200 million financing which is going to do some great capital programs for them.

We are currently now working for Central State which is looking at borrowing within this capital financing program, so we have a bucket of services that we can offer you. If Future Perfect is something that you get, you also get with that the attachment of PFM and all the services that we had on the prior slide.

We just have a couple of graphs here that we like to show that we are at the top of graph, so here in Higher Ed as well as in public and just general financial advisory. But enough with the
advertisements. Let’s now get into the bulk of this
and talk about Future Perfect because I think you are
going to see this as an amazing planning tool.

My partner here, Brett Matea, who heads up
our Future Perfect team; Brett was part of the
development team that created Future Perfect. The
Future Perfect is a dynamic piece of software. It’s
always growing. In fact there’s special things that
we can build into it and this program, when you
contract with us and get Future Perfect, you get all
that development. So, Brett, I will let you start
off.

MR. MATEA: I’m going to apologize to the
folks in the corners. Hopefully, you can hear me. I
have to sit down to do this.

Here’s the problem that we’ve seen with
colleges, pretty much all colleges and universities
across the country. And when I say that, I have a
data set of about 600 schools at this point. We've
talked to all manner of colleges, everything from the
smallest community college to the largest private and
public universities in the country, and all of them have essentially the same problem which is they don't have a view of the financial future.

Everybody has a budget. Everybody has a one-year budget, this incredibly detailed, politically oriented, 5,000-line-deep budget where we are lying out how many pencils and pens we need to buy and what the insurance is going to cost and all that. But what people can't see is what's going to happen next year. And I'm talking about University of Pennsylvania and Cornell. And I'm talking about little Bryn Mawr College. And I'm talking about UVA. These are all clients of ours.

All of them have the same problem, which is they basically see to the end of their nose. And obviously you are running a 200-year university here, maybe it's a good idea to kind of look a little farther.

The reason nobody does, in our experience, is because it's a really hard problem to solve, if you are going to do it right. If you simply want to take
last year's number, last year's tuition revenue and
grow it year over year at one-and-a-half percent or
whatever, I mean, that's a spreadsheet we all could
write in about two seconds. And, frankly, PFM, we'll
give you that, if that's what you want.

We don't think it's what you need, however.

We don't think a typical HBCU or any college needs
just last year's number growing year over year.

Colleges are about FTEs of students coming in the
door, times the rate, minus some amount of discount if
the schools can afford it.

There are teachers and staff that have to
support that effort. There is space needs related to
that. There's backlogs of maintenance that have to be
addressed. There are a lot of things that go into
this. So if you are going to do it right, you need a
big, integrated approach to this projection.

The problem with that is nobody's been able
to work out all those relationships. It's like a
spaghetti of relationships. If you are going to do it
right, you need a balance sheet projected. And,
frankly, nobody can project their balance sheet.

Everybody is all about last year's financial

Well, that doesn't help you with next year

or five years from now or ten years from now when you

might have to build that dorm. This is about taking a

look out to the horizon, over the horizon, if you

will. We are going to identify variables so we can

project the balance sheet. So we project operations.

So it all ties back to your historical financials and

creates pro forma financial statements going forward.

And I've got to tell you, that is a

different thing. We are producing pro forma

financials that tie together, and an accountant would

agree this is pretty good stuff.

At the same time, there are third parties

involved. You happen to be one of them where you are

going to care about things that frankly the typical

budget director at a college doesn't care about. You

are going to care about the restricted piece of

things, all those grants that come in the door.
Somebody has to track them.
You are going to care about safety. You are going to care about the debt and how much expendable resources there are versus that debt or operations.
To do that, you need a balance sheet. And nobody has that. And it's a little bit troubling, frankly. In the waning years of my career, this is my new mission in life. I'm going to try to fix this around the country.
We think that what you need is a projection model that allows you to provide real-time feedback to the stakeholders. What we've been talking about in kind of really broad turns -- I speak at ACUBO all the time. We are trying to define best practices.
A typical college, and I mean all of them, I don't care how rich they are, has the same problem.
A board like this, or a finance committee, or a president asks a question. There's a big data wrangling exercise that goes on back at staff level where they wrestle some sort of data to the ground out
of the budget system, or out of an ERP system, or out of an accounting system.

They wrestle all this data to the ground. They piece together some sort of spreadsheet. They plop it into a PowerPoint presentation, and they get back to the -- ask them the question. By then they usually forgot the question. It's that long a process.

What should be a two-minute answer turns into a two-day or a two-week or a two-month answer.

And that's not a way to kind of run these big institutions.

And I recognize academics kind of moves at a slower pace than the corporate world but: One, should it; and, Two, even if it does, it shouldn't be that slow. So we think that what you need is a more interactive, organic, accurate, bigger picture way of doing everything.

Now, the answer to this problem is we think an integrated point of view where you get a strategic plan. And that strategic plan has a business plan
against it. I mean most strategic plans at most

colleges are dusty white papers where everybody sat in

a room and created a bunch of bullet points about

student-faculty ratios and better facilities.

Well, somebody ought to suss it out whether or not you can afford that. That's what this is about. You've got to fold it into in your budget, obviously, and down into the extent there is some, debt is obviously important to this board, capital projects facilities, but the point being it all should look forward, not backward.

Last year's financials are already done.

You don't need another set. We need something looking forward. So what we've done is we've created this fully integrated model. Now, here's the good news. It's not another software. PFM is not in the software business. I wouldn't know how to do that. I've been a consultant for the last 25 years. And what we are offering here is PFM, the nation's leading financial advisor firm blah, blah, blah. We are basically going to become financial
analysts on behalf of the schools or the program.

However you want to structure it, we become your financial staff in the sense that we are talking about the strategic forecasting. We could do a lot of things, but now we are talking about strategic forecasting. We add some value.

If you want to know what's going to happen in Year 5 at XYZ College, we could give you a fair approximation of what that looks like. We are not in the business of all the detailed data wrangling. We work with the school to do that support analysis part of this.

So we are providing the model. We are providing the support of the model. And we are interacting with staff to create some sort of going-forward set of projections with sensitive analysis. That's the idea.

So we have a very involved process to make this happen. We identify what's particular -- what are the particular needs of that school. Some are big and relatively rich, Howard's; and some are smaller.
and have fewer resources. Some are public and some
are private. If you have a big mix of schools out
there, well, they are all going to be different. And
we need to customize this to their particular needs.
And it should reflect their respective business
models.
And we should get a fully projected set of
budget and financial statements. And here's a really
good thing I think you'll like as a board trying to
evaluate whether a given institution should or can
afford getting where we are going to tie that all back
to the rating agency metrics. You know these are
pretty good set of criteria by which you could manage
this process.
148 metrics out there called a score card
that we could provide you and provide all the
comparable data on, and then at the same time to the
extent you're interested, we could customize any other
set of metrics we talked about, for example, something
called a report card which might be crafted
specifically to the HBCUs.
How does a given school rank relative to its peer, relative to its rated peers, et cetera, maybe its academic peer group, however you want to think about it. But where you are going to be able to do side-by-side comparisons, then this is the nice thing. It's not an analysis going on in Philadelphia. After we build it, we deliver it to the school and they use it going forward.

I want to be in the business of helping these schools and improve what they are doing going forward. So there's training involved, support involved. We want to get them kind of doing best practices at their respective school. They should be doing their own planning, frankly.

And I would love to -- sounds ridiculous, but it would be nice if in three years you fired us. I'll charge something, don't get me wrong, but we want to be in the business where everybody becomes self-sufficient after a few years. That happens at different paces at different schools, but that's perfectly within the realm of possibility.
So we want to partner with the institutions or with this board or with the program to -- there's a bunch of ideas on a given campus. Everybody's in the idea business. Well, somebody has to cross it against the financial human and space constraints to find out what's possible and affordable. That's what this is about.

It's a consulting relationship, not software. We partner with the school and the institutions and the program to figure that out.

So that was the log cabin story. I'm now actually going to show you a prototype of what we are talking about delivering to a given school. And we've done this for a couple of institutions already in the program.

First off, I want you to notice we've kept it in Excel. It's an Excel model. It's maybe the most complicated Excel model, but it is Excel. Why? Because we have worked our entire professional careers in Excel. You can open up a form of it and understand it.
The data is available in Excel. I'm not going to bore you with the bells and whistles, but just suffice it to say it's a little bit more than the typical year-over-year spreadsheet. Most of the work is driven -- a picture a financial staff working in this model now.

What you are looking at, I just want to orient you, you are looking at the dashboard. And the dashboard is this bifurcated screen. The left side is a series of outputs and the right side is a series of drives.

And just to orient you, there's five years of history. Current year shows up with this lavender bar down here.

MR. WATSON: I just want to point out to the board you are looking at the Excel system. It's the plan, et cetera, so just point it out so it's not part of the --

MR. MATEA: We are not in the PowerPoint presentation anymore. This is the actual model. That PowerPoint presentation, I can't do justice to that.
What I'm about to show now is a bunch of static slides. It's the antithesis of what this is all about. That is a dynamic program.

So you are looking at five years of history. This lavender is the current year. Here's the point: Ten years of projections. And I'll, you know, there's a pretty short list of schools, and I think they are all my clients, that can give you a ten-year look. University of Richmond, one school that doesn't have this that can also do it. That's the only one I've found.

So, again, five years of history. Current year. Just as an example, I start increasing enrollment in the future. We can do sensitivity analysis, but you do financial staff for them to pull this together for you, what happens if enrollment were to grow up one type or another in one program or another. If I drew up enrollment that quickly, that fast on the left side, notice the blue bars are different than where we started; the yellow bar, the burgundy is different than the yellow, the green is
What that is is the current case increased to 270 million versus where we started at 226, a differential of 30 million dollars we have forward in additional enrollment that quickly.

Now you guys are in the higher-end base now asking does that account for retention. I mean what kind of student group was that. All of this is focused, if you want to do code-word-based retention model and see the fall freshmen come in and track them, that's what we do. If you want to think about it as a grad program, that's what we do.

We customize the students the way it works at that particular school. And obviously in a private where they think about things on an FTE basis by semester or trimester is way different than a credit hour basis. All of that is customized.

The point is you can drive the independent variable called fall FTEs and immediately know the impact beyond. You may say, well, a heck of a good CFO can do that on the back of an envelope. And I
agree with you. If that's all it was, I wouldn't be here. But what a good CFO cannot do is, for example, as I'm increasing the enrollment, I'm also folding in additional faculty and staff. Enrollment is driving my faculty. And here's additional FTEs coming and going on faculty. In fact what we have, just because I'm going to go into a little bit of detail here, as enrollment's increasing, it's driving up FTEs perhaps of adjunct faculty, 3.8, 1.4.9 additional adjuncts. And we are going into a little bit of detail but I know you are following, so stay with me. Here's additional FTEs of adjunct comes in, and so the salaries are calculated and the benefits, but think about that. That's a second order assumption. Enrollments which drives in the revenue also drives salary and benefits for that faculty. But then just to show you how rich this can be, as faculty goes up, and as my faculty FFE goes up, I might need additional staff. So now the salaries of staff and benefits of staff have gone up.
In Number 3, 2 million dollars net impact

because of enrollment change is not some more sort of 

simple-minded year-over-year integrated growth numbers

of people times their rates to create the net revenue.

How about this. Again, CFO can do a lot of

tings but not in their head. And how about space.

So as I'm increasing enrollment, I'm keeping track of

my space needs. How much academic space do I need.

DR. WILSON: Yes. What about the other

revenue streams? Is this entirely tuition driven.

MR. MATEA: No, not at all. Let's go to,

for example, auxiliaries. So again just like with --

if you'll bear with me for one second, just like on

the student side, it was FTEs discount to create net

revenue, it's numbers of employees times their

salaries to create available and benefit dollars, so

it's at the bottom.

Same thing on the auxiliary side. So we

are not going to make -- what we are going to do is

keep track of the design capacity of your business,

how many students went into those beds, fall and
spring, times the rates for those revenue. My design
capacity, I have a compression problem. So I actually
oversell the beds and take doubles and turn them into
triples and closets into singles.
And then some students are studying abroad
and off-campus apartments. We track them out, net
demand, fall and spring into beds, create a revenue.
If you have dining plans seven days, five days,
however you think about it, we are keeping track of
that in terms of the growth of the population.
So when I changed enrollment and I
calculated the additional faculty and staff, I was
also capturing the impact in a very bottom-up way on
housing revenue, for example. And then how about, you
know, every school is different, obviously, but how
about parking. So we will be driving any set of
variables in that matter. So I'm going to just now
real quickly.
You can put any
revenue screen.
Tuition and fees are kind of
related, so endowment, fund raising --

MR. EVANS: That's a whole lot of endowments, capital campaign.

MR. MATEA: Let's do that, your asset allocation. So again this is both sides. This is a balance sheet. We are modeling everything you can think of related. So here's your historical and your prospective asset allocation.

Now, you might or might not -- I don't know your background, but if you are sitting on an investment committee, you know, people think any about this long and hard, making a ten-year projection is a little bit of a fool's mission. But I contend I'm fighting the good fight on this. You ought to at least do some sensitivity, double dip crease, can't get its act together. Don't you want to know what happens.

You can change your asset allocation very, very quickly. We can create a prospective return assumption based on the weighted average returns of your assets and then sensitivity analysis around that.
Let's drive down the S&P 500 four standard deviations and see what the impact is on our return, on our draw and all of our financial statements prospectivity. So it's very interactive on the endowment. It's a really effective tool. We can build that into the model. We've given you the traditional ones.

DR. WILSON: Research grants.

MR. EVANS: Yeah.

DR. WILSON: You are saying Howard has this in right now?

MR. EVANS: No. When I was the CFO, we used it at Howard. Then there was a change in administration. I'm not sure what they are using now, but it was very helpful to our board and to President Swygert and to the provost and everyone else.

DR. SUBER: What is it that we are doing with this?

MR. WATSON: Well, there's two things:

One --

DR. SUBER: Is there going to be some criteria --
MR. WATSON: Well, actually, it's currently being used in capital financing programs, so that projects what I'm actually seeing. Just like everyone else, I want you to see what schools are actually getting to provide with the second assistance.

DR. SUBER: Is there a cohort of our institutions?

MR. WATSON: In the capital financing program, yes.

DR. SUBER: Are the names of those schools available to us?

MR. WATSON: I can get them to you. I don't have them with me.

DR. WILSON: I'm sorry. Those schools are using it comprehensively or only vis a vis the Capital Finance?

MR. WATSON: No. It's not for Capital Finance. It's just what he's explaining, something Capital Finance is offering because you are part of the program. He wants you, and as I said earlier --

DR. SUBER: When you say offering?
MR. WATSON: We are already paying for the service.

DR. WILSON: Who's paying for it?

MR. WATSON: Capital finance through the Department.

DR. WILSON: Is that right?

MR. WATSON: The money is actually being used for good things. Dr. Francis is going to get --.

DR. SUBER: Capital finance is paying for this service for the schools who are using the service of Capital Finance?

MR. WATSON: No. Once you get a loan through the capital financing program, what we are actually offering you is strategic to the school because although we look at the analysis for long-term, while we are looking at the analysis, if something changes in Year 2 based on our assumptions, you are able to go in and say this to change in Year 2.

Now, how are we going to plan that to keep having available --
DR. SUBER: I don’t --

MR. EVANS: Can I share some insight and I think I can answer your question?

DR. SUBER: Well, before you -- I’m not sure, because I’m not looking for insight. What I’m really looking for is how this fits into the capital financing program for the institutions that use the capital financing service.

DR. WHITE: They get this tool.

MR. WATSON: They get this tool.

DR. SUBER: They are given it.

DR. WHITE: Yes.

MR. WATSON: Right.

DR. SUBER: Are you required to use it if you -- as a part of the criteria for the loan?

MR. WATSON: No. It’s not part of the criteria for the loan. One of the big issues was that as Brett was talking about how the model was built, they can’t build a model by themselves. They are not internal to your schools, so we need input from the schools, so we ask from data. We don’t get the data,
they can't build the model to that school for that school.

So we offer the service. If you don't want to take advantage of it, then we can't make you take advantage of it. It's not required for capital funding. That's a added piece of service.

DR. WILSON: Who pays for it?

MR. WATSON: It comes to us -- we have a technical systems budget, so I would have 20.5. They say part of that would be my salary, but the first thought is I would have to reimburse it, but a lot of it goes toward technical assistance, so.

DR. SUBER: So you are -- I've got to get a clear understanding here. So the $90,000, $30,000 over a 3-year period is -- which is what I see in here is the cost of this, is paid for?

DR. WILSON: Is that right?

MR. WATSON: No, it's not 90,000. We have a special -- we have something special with them.

DR. SUBER: Okay. It says offered at the three-year agreement in advance, $30,000 per
MR. WATSON: Well, they have done this.

UNIDENTIFIED SPEAKER: That's going forward.

MR. EVANS: The six -- if I may, Don,

MR. WATSON: Yes. Tell them your name, for the record.

MR. EVANS: Sydney Evans. There have been six models built. Those -- Brett built, Brett has built six models for six schools that have participated in the program. The price was different than the 30,000 he's proposing now. There was a different pricing structure at the time and --

DR. SUBER: Let me take the pricing structure off the table because I still haven't gotten to it. The six schools that you developed the program for were historically black colleges and universities?

MR. EVANS: Correct.

DR. SUBER: And the names of those institutions are available to us?

MR. EVANS: Yes. Florida Memorial, yeah.
DR. SUBER: Okay. They received loans from Capital Finance?

MR. WATSON: Right.

DR. SUBER: Whatever the pay fee structure was, who paid the fee?

MR. WATSON: We have a contract through the DRBA, our designated bond authority. That's how we acted to get this. So in the statute itself, statutes -- a part of the statute is we provide technical assistance. And part of that technical assistance, so when you see that 20, and I always use 20 million because the piece of the decimal becomes part of technical assistance, travel, borrower features, things like that for administration of the program, but the technical assistance piece is an annual piece that comes out every year.

DR. SUBER: And it helps the borrower to predict their potential success in the borrowing process and that's why it's advocated.

DR. FRANCIS: Correct

DR. SUBER: Theoretically, if an
institution wanted to borrow money and had a similar program or a similar consultant that offered similar support, would the -- would capital financing pay that consultant the consultant of choice of that institution's fee?

MR. WATSON: No. This is the program's -- this is the program's technical assistance. And I'll tell you why. The way this works is that we already have a designated bond authority. So the designated bonding authority actually has this as part of the technical assistance package. Like we have a marketing package, this is part of the package. So that's why we are using the PFM model.

The other piece of it is this is literally -- it's Excel based, so there's no additional cost to an institution to implement this. There are other models for which you have to sort of have mainframe, build a mainframe and things like that. You have some universities that have the same thing but they actually build these on mainframes or other systems.

DR. WILSON. Don, did you compete that?
MR. WATSON: No. It didn't have to be competed because it's through a designated bond authority.

DR. WILSON: I think that was your next question.

DR. SUBER: That was my question.

DR. WILSON: I just want to cut to the chase. Okay.

DR. SUBER: I just asked if this -- because I couldn't tell whether or not if this is a marketing pitch to institutions to consider this, then it's probably not enough representation in this meeting for it to be a marketing pitch for a presidential use.

MR. WATSON: No.

DR. SUBER: If it is a component of the Capital Finance piece, then it's good if I know what services are available if in fact we are -- take advantage of the capital financing piece. If this is -- if it is a service that is available to institutions with consultants of their choice, that makes it even greater. So that was -- that was the
reason for my question.

DR. WILSON: I need to also make a comment, and we probably need time for a public comment, but this tool, I mean I saw in two slides, you referenced the strategic plan. This tool is only as good as the power and wisdom of a strategic plan and the value of the presidential and board leadership.

MR. MATEA: Agreed.

DR. WILSON: You are not going to find a school that's better than its board.

MR. MATEA: I agree with that.

DR. WILSON: So if you don't have good drivers and worthwhile strategic plan, this could be flat paint here right.

MR. MATEA: I --

MR. EVANS: But this -- you have to look at this as a building block. This is a planning tool. So if you want to drop a strategic plan, you have to have a tool here that can help you think about scenarios of that strategic plan. You can filter it down a strategizer, well, that's a worthwhile.
MR. MATEA: We were trying to say -- and there are whole bunch of plans out here so we can evaluate whose plan is better. We are just trying to say this plan, it's very predictive for the future, and it has a ton of interactiveness. So there are all these variables that have been baked into it. So it's not just a debt model.

DR. SUBER: That's fine. I'm just trying to figure out how it fit.

MR. EVANS: No

MR. HADDON: I understand and, Dr. Suber, your questions were right on as far as where it goes in the program and all that. And maybe we didn't introduce it well enough in that way, but think of this as my staff that I can use to help plan here, that might have taken them a longer time to do it. It was just efficiencies here that a lot of this stuff can be created in a real-time situation.

MR. WATSON: And I apologize to the board, when they were getting ready I was trying to say that representing this, because this is what we offer
technical assistance, as for technical assistance, you can see what's being offered. So not just technical assistance is being put someplace, and nothing's being done with it. So you can see that's being done with technical assistance and how it's useful.

MR. HADDON: And we can use historical data. So I don't mean you have to have all this fantastic future data. It's history that is built on assumptions.

MR. MATEA: And I think that goes to your point. I agree this projection is as good as the inputs, obviously any model but, for example, this is the reason it's different than what most schools were doing. Everybody -- you were talking about development. So imagine being able to track gifts on type-restricted versions versus endowment gifts and being tracked by not just the corpus but how can the income being used, aid, et cetera. Imagine being able to fold it in, see what the answer is and take it out and do a side-by-side with a different version where you fold it in or take it out, sort of that quickly.
Imagine being able to put that development campaign in place, see what the impact is, not just, you know, in aggregate but across your financial statements, and then at the same time fold in a new dormitory project with debt and see whether or not you can afford it now. And then you step down and say, What was my debt capacity. Can I afford the new debt relative to my peer group. Can I afford it on a comparable basis. And if I can't, again, imagine trying to get this out of a typical staff working a full-time job. I push it out a year or two and out goes the dorm project, and now can I afford it.

Those are the kinds of things that I think if I were on this board I would want to be able to get those answers, be able to do sensitive analysis. You said you are going to make 50 million on your capital campaign. What if it's 20. Now what happens. That's a two-minute answer or a ten-second answer as opposed to, you know, two months or --

DR. WILSON: At the six institutions, did each of the six overhaul staff or were current staff
able to use this system?

MR. WATSON: Current staff.

DR. WILSON: In every case?

MR. WATSON: Yeah. There's no increase in staff. That's why --

DR. WILSON: I'm not saying increase. I'm talking about replacement.

MR. WATSON: Oh, no.

DR. SUBER: Would you send us the names of the schools?

MR. EVANS: We are still working with each one of those six schools to get the model in place with their CFOs. I mean it's just -- as you know, in a lot of schools the cell phones, times he or she has a board meeting, I don't have enough staff. So we are still working with all six schools. And Rice is helping us through that process. So it's not -- Rice financial, the DBA loss.

DR. LOSTON: I would like to say that given the dialogue that we had this morning when we were talking about the grant program, even though we said
we are going to set it aside, it's not for us I -- and

I am not -- this is my first time seeing your product,

but I would think that some form of technical

assistance, that would be my preference, some form of

technical assistance above a direct grant program if

we are looking at how we are going to support

institutions in terms of capital financing.

And I'm not saying that this is it, but I

think a model for technical assistance will be

preferable over championing the direct grant program

to prepare people to apply for a capital financing

scenario.

DR. WILSON: You are talking about putting

this in at that time.

DR. LOSTON: I didn't say this is the one,

but I said technical assistance to these institutions

that were receiving it.

DR. WILSON: Got you.

MR. WATSON: And to that level, each

school's level -- capital financing, and I'll just

give you a couple of examples, capital financing each
school's level of understanding of a bond process, the schools who actually go on through bonds, but when you sit down and have a conversation, the understanding isn't there. You have some schools who understand a lot.

We've worked with some of the top bond attorney--bond counsel firms in the country. And Capital Finance is different. Although it's a bond program, it's different than the other bond programs you deal with. So it's technical assistance, it's different for each institution. So, you know, when we go down to the institution, that's why we go through how the program works and that sort of thing because otherwise you are trying to make something blanket for everyone. It's not going to work.

And, see, this tool--comment on the front to see whether you need to borrow money or can borrow money is a great tool for once you apply the program and get accepted, one of the criteria to being--to issuing the debt you need a five-year forecast. The model can be used for that. And then the model will
be great to ensure that you can repay this going forward as you go through different scenarios of your financial plan or different events come up. So this model is great at any point for colleges, universities.

MR. MATEA: And we've developed some criteria along with Don to, you know, provide score cards to the school, for example, on key ratios. Is that expendible financial resources or operations, et cetera. How are they doing and how are they doing relative to their peer group or investment grade over private institutions. How are they doing relative to all rated HBCUs.

DR. WILSON: All what?

MR. MATEA: Rated by rating agencies in New York.

DR. WILSON: And you exhausted financial data on one --

MR. MATEA: The ones that are rated.

DR. WILSON: How many of the 105 are rated?

MR. EVANS: I think three, maybe five. No
DR. WILSON: Okay. Oh, my.

MR. WATSON: No. When they say "rate" they mean --

MR. EVANS: By Moody's, Standard and Poor's. Bond rating. I think it's five. I wouldn't want to -- Howard --

MR. TAYLOR: Do they rate public schools?

MR. EVANS: Yes, they do.

DR. SUBER: So you already have in your data file all HBCUs? You have data on all 105 of them?

MR. MATEA: No.

DR. WILSON: No, five.

MR. MATEA: No, ma'am. This is a -- this is obviously a demonstration. All HBCUs -- we put that in there to have this discussion. What I would love to do is be able to develop a database and be able to for all the HBCUs -- obviously we don't have enough data right now, but as soon as we start -- I mean we can collect it easy enough.
DR. SUBER: Ha ha. Excuse my --

DR. WILSON: You think --

(Unintelligible, too many speakers)

MR. EVANS: You know we talked to Dr. Lomax about trying to get the data for 38 schools.

DR. SUBER: Good luck with that.

MR. EVANS: Yeah, it didn't happen.

DR. WILSON: You talked to him.

MR. MATEA: All right. Maybe that's in a perfect world.

DR. WILSON: Data is hard to come by.

MR. MATEA: I agree. And that's a process in making this happen, obviously, and we are in the middle of the process. And I think to the extent we have more and more schools doing this, and it's clearly best practices, and I'll spare you any more buttons and arrows at this point.

What we are talking about is for any given school we design their model for them, come up with a
way to produce exactly the model they particularly need, it's going to be different from school to school to school, build it for them, train them how to use it and move the needle in terms of how to manage their own financial affairs. That's part of the process and we support the ongoing effort. That's what we are talking about. And, you know, we've talked about the pricing, and for what it's worth, here's the client list. We actually have another 25 as well, but these are the ones we are active with.

DR. WILSON: Is that Xavier and --

MR. MATEA: That's in Cincinnati.

DR. FRANCIS: That's a small one.

DR. WILSON: Okay.

DR. FRANCIS: What claims are academic people, we should -- how much more time do you need, because I've got to go to allow for public comments.

MR. HADDON: We are -- I think we are done.

We wanted to show the board, we think this is a powerful tool. We think even smaller schools can
really benefit from this type of software.

DR. FRANCIS: No, there's no question about that. And learning the fact that you have some of the schools who have capital financing now gives a degree of confidence to the government about whether or not they will grow, become stronger, or be able to pay their loans back. And that's a great incentive. If I was owing that mortgage, I would want them to do that.

But the other is that you can encourage other people who may wish to become a part of the capital financing program because this effort, this is a resource for them, but they could get into the door because they have got the numbers that we require.

They stay in the business of education by this because there's no question, I think the post-secondary education said we are going to be looking for schools to become effective and efficient. This is the answer for effectiveness and efficiency.

As John Wilson said, of course, you have to start somewhere. And most schools would throw their hands up. But if you help them develop the model,
then you know starting to get it together, all of this
is really strategic planning in its highest sense
where most of us don't do it at that level. But you
would help start this strategic planning and then show
how much, quote, you could get out of your money by
doing and knowing this.

And most of what we do, say, what was the
past; add two or three percent. Look at this and that
and the rest. But this -- I think John's question, I
knew where he was leading. What about fundraising.
How much money -- you can't plug this hole and say,
well, it's going to be five million dollars when you
haven't raised more than two million dollars and you
are going to go out on plan.

DR. WILSON: Or just add 50 students.

MR. MATEA: One of our colleges said
fundraising was coming in low. They said we'll add 50
students. They ran the model and found out they would
lose money adding students.

DR. WILSON: I got it. Yeah.

DR. FRANCIS: A school would be developing
so much information that it could answer any question

coming up in the future that right now we can't do.

Take a shot at it. But you take a shot, and hope it

hits, but this is much more.

MR. MATEA: Dr. Francis, you said exactly

what I would like to close with. We see this as not

just delivering a CD ROM and training manual. We want

to go on line, the offensive line for the schools.

And I've got to tell you, to be truthful,

it's a little bit of pulling teeth at times. But

that's what we do for a living. We are professional

bird doggers and try to make it happen.

MR. EVANS: And, Dr. Francis, we have

already talked to a number of schools: Alabama,

Tuskegee, University of Maryland Eastern shore, Morgan

State; we've been consistently over the last year

meeting with presidents and CFOs to try to share this

model with them. But we just thought this would be a

good place to get some support.

DR. FRANCIS: But Dr. Loston just said part

of what we had on our agenda, which I think we just
buried, is the grant program. But this is the
technical assistance while you are in the program
itself. And it's a good use of your money whether
it's federal, whether it's monies that come from
private sources and the like. But more than that,
more and more boards, no matter where you are, Yale,
Harvard, boards are going to be asking this very
question.

When you come to me with this, how can you
tell me more about what impact it's going to have on
the school.

MR. MATEA: Exactly.

DR. FRANCIS: I mean it's plain and simple.

All right. Now --

DR. TAYLOR: I was just going to say thank
you all, because it was actually very, very good
information. And kudos to you, Don, for offering it
as a part of the technical assistance or whatever the
label is for it because it's another tool. The more
information we can have for our schools to use, the
ones that participate in this program, the better off
all of us can be. So I hope -- I know it's pulling teeth, that's why she said the best of luck on getting -- but this is really viable information, so I for one am going to follow up and see how we can help. Because the more data, the better.

MR. MATEA: Absolutely. Thank you.

DR. FRANCIS: Thank you very much. That's fine.

All right. Public comments?

MR. WATSON: If you have public comments, state your name and, anybody, public comments? Just one.

MS. HARRIS: I'm from the south so, you know, I want to talk the most. And I simply wanted to thank you for your diligence with regard to keeping this program afloat, and also say thank you to -- for the leadership that Don has provided to HBCUs.

Just in one case in North Carolina, I've wanted to say that this program more than doubled the value of the campus. It created more than 400 jobs, full and part-time paying, and it also through this
program we were able to achieve more than 46 percent minority women's business participation during that construction period.

We had also had the opportunity to in the past to do business with the same consultant used by the Department of Education's Institute for Educational Statistics to look at the economic impact that can be seen in North Carolina and to have them desegregate that for us.

We are in the process now of having them to update that and add construction data to that. And I can say that will cost you far more than $50,000. But I wanted to thank you for putting that on the agenda and looking at doing that. And I also want to say that when we worked a few years ago to try to get some changes made in this program congressionally, what made the difference for us was the fact that we had done that report on the economic impact of HBCU's just in North Carolina.

And when we went to the Congress, what the Congress said to us then was simply that this was the
first time that an economic case had been made in support of HBCUs. And if we had that type of data in the past, it could have made more of a difference.

The other thing that they said to me during that time, and I would ask that you really hear this point, was that sometimes we did not get any more for our communities than we did because we did not ask. We were sometimes often our own greatest limiter, for lack of a better way of saying it.

And the last thing that I remember that Senator Kennedy said to us was nobody put these limitations on you and told you you had to pick and choose. But within the HBCU community, we did that. So I would ask that we look at what we really do need and what would really make the difference for the program, and you put all of that on the table and not limit yourselves in doing so.

I would secondly like to recommend that when it comes to conversations about the pooled escrow, about the pre-payment penalty and new markets tax credits, I'd like to recommend that you call
together a work group that at least will consist of

the leadership of the coalition, of HBCU community
development corporations, the Center for Responsible
Lending, and the National Community to Reinvestment
Coalition, that you bring those three groups to the
table who are accustomed to dealing with new market
credits and also have been the leaders in making and
assuring there was effective changes in Treasury
programs and statutes.

They have had tremendous success. And as
you know some of -- one or two of those individuals
are members of our board, my board of directors. And
so we've been able to encourage you to your research
on responsible lending, NCRSC, and also invite the CDC
coalition HBCUs to the table.

My last two recommendations in that five
minutes that Don gave me was that I would like to ask
you to put the public comment period on the front end
of the agenda and not the back end because each time,
I think this is my fourth time, most people are
already gone. And if they are not gone, you surely
don't have their full attention.

DR. FRANCIS: We'll put it in the middle.

MS. HARRIS: Okay. And you can limit that time, do whatever that is, but I would ask that you do that.

And then my last comment is with regard to the last presentation that you just had. I would encourage that you give consideration, that the Department of Education give consideration to transparency, and to clear -- to assure that there are no conflicts of interest so that when we talk about designated bond authority, you bid out that; but also when it comes to the technical assistance, I think there should be different entities doing that. Someone could look at this as a conflict of interest. So I would ask that you give consideration to disinterested third parties providing technical assistance. I have no interest in this work. I am not looking for a contract. My only interest is that I can look at my community, particularly in the south, and I realized
that we have some tremendous challenges in terms of economic health. HBCUs are critical, and I think more important today than they have been in any time in the last 30 years. And they are tremendous economic engines.

And I do think that for this program, if we look at making sure that we had contracts for -- we bid it out to technical assistance contracts, but that there was a clear language so that there was no conflict of interest in the work that's done between a bond authority and the TA provider. And I thank you for the two minutes.

DR. FRANCIS: Thank you. Very helpful.

MR. WATSON: Any more public comments?

DR. FRANCIS: And we are going to put it in the middle, not at the end, but not at the beginning.

MS. HARRIS: Yes. All right.

MR. WATSON: Doesn't look like we have any more comments. Shall we turn to adjournment, if you wish?

DR. FRANCIS: We will declare that the
meeting has been adjourned at 2:15. And we thank
everybody for coming and for a good meeting, full
meeting. And hopefully it will move us further and
further up the ladder, not down. Thank you very much.

(The proceedings are adjourned at 2:15 p.m.)
CERTIFICATE

I, ELIZABETH MINGIONE, NOTARY PUBLIC,
HEREBY CERTIFY THAT THE FOREGOING TRANSCRIPT IS A TRUE
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IN WITNESS WHEREOF, I have hereunto set my
hand this _________ day of ________, 20____.

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NOTARY PUBLIC IN AND FOR THE
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My Commission Expires:

May 14, 2015

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