HISTORICALLY BLACK COLLEGE and UNIVERSITY
CAPITAL FINANCING
ADVISORY BOARD MEETING

Washington, D.C.
September 24, 2012

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HISTORICALLY BLACK COLLEGE and UNIVERSITY
CAPITAL FINANCING
ADVISORY BOARD MEETING

The Historically Black College and University Capital Financing Advisory Board Meeting took place at 80 F Street, N.W., Washington, D.C., commencing at 10:13 a.m., on Monday, September 24th, 2012, before Donna M. Hall, Notary Public.
HISTORICALLY BLACK COLLEGE and UNIVERSITY
CAPITAL FINANCING ADVISORY BOARD

Designated Federal Official:
Mr. Donald Watson

Attendees:
Dr. Lezli Baskerville
Dr. Norman Francis
Dr. Adena Williams Loston
Dr. Donald J. Reaves
Dr. John S. Wilson, Jr.
Ms. Edith Bartley
Dr. Debra Saunders-White
DR. FRANCIS: Welcome, everybody, to this fine weather in Washington. I don't know long it's going to last. It was good Friday and Saturday. I don't know what happened Sunday, but a little cooler than it was on Friday and maybe it's going to get better, but I'm happy to have all you here and again to have with us Dr. Debra Saunders-White, our Deputy Assistant Secretary for Higher Education Programs. And you are first on the agenda.

DR. SAUNDERS-WHITE: I am?

DR. FRANCIS: Yes, you are.

DR. SAUNDERS-WHITE: Well, good morning.

DR. FRANCIS: We're always happy to have you here.

DR. SAUNDERS-WHITE: Thank you.

MR. WATSON: Before you start, I just want to call the meeting to order at 10:13.

DR. FRANCIS: All right.

MR. WATSON: And I'll do the roll call.

Once I do the roll call, then we'll have Deputy
Assistant Secretary for Higher Education Programs, Debra Saunders-White, to provide us with some comments from the department -- welcome from the Department of Education.

Dr. Lezli Baskerville.

DR. BASKERVILLE: Present.

MR. WATSON: Dr. Norman Francis.

DR. FRANCIS: Here.

MR. WATSON: Dr. Robert Franklin. (No response.)

MR. WATSON: Edith Bartley for Dr. Lomax.

MS. BARTLEY: Present.

MR. WATSON: Dr. Adena Loston.

DR. LOSTON: Here.

MR. WATSON: Dr. Donald Reaves.

DR. REAVES: Here.

MR. WATSON: Dr. Diane Suber. (No response.) Mr. Johnny Taylor. (No response.)

Dr. John S. Wilson.

DR. WILSON: Here.

MR. WATSON: We have a quorum.
DR. FRANCIS: Thank you. I'm back in session, right?

MR. WATSON: Yes, sir.

DR. FRANCIS: I have to tell you, I chaired the Louisiana Recovery after Katrina, and they had six lawyers sitting in the second row, that we couldn't do anything. If I made remarks that were off the agenda or said we're going to go somewhere, we had to take a vote each time. Now I come from an institution where you keep moving all the time. If you're winning, keep going like Washington was going after he left New Orleans, but he got stumbled somewhere down the road. But anyway, who is representing the lawyers here today? All right.

UNIDENTIFIED SPEAKER: We only have three this time.

DR. FRANCIS: Just raise your hand whenever I step out of line or anybody else.

MR. WATSON: Those lawyers aren't going to raise their hands, but for the purposes of this meeting we do have Karen Akins; she's the one that
we will call on. Karen, can you stand up. Karen Akins is from the White House Liaison Office of Committee Management.

DR. FRANCIS: Oh, yeah, I want to talk to her. Ready? Okay. Let's get the welcome on the agenda. I don't want to get past the agenda.

DR. SAUNDERS-WHITE: Good morning, everyone. Thank you very much for joining us today for the final meeting of this fiscal year for HBCU Capital Finance Advisory Board.

It's been a very active year. Don will take you through all of the details, but I think active and successful really characterizes the sentiments of the activities this year.

We're delighted that you are joining us here and our objective was just trying to make sure that we could find a time that was consistent with your schedule, and knowing that there are lots of activities in Washington in the last week and a half, we thought it would be a great time to ask you to finalize your work for the year.
You know, many of us in terms of members of the department, have been on the road for the last ten days. We've been crisscrossing America in the Secretary's bus tour. I myself started out in Laredo, Texas last week, went to St. Louis and ended up in Richmond, Virginia on Friday. Had a meeting with 10,000 eighth graders on Monday. And if you forgot what the energy is like in eighth grade, it's pretty exhilarating. And so what a wonderful way to talk about the purpose of education. And every one of those students when asked are you planning to go to college, raised their hand. And so we know what the critical need is out there.

More important, we understand that institutions like our historically black colleges and universities are critical to this nation's economic survival as well as this national security. And we also understand that the mission that you have in meeting the demands of some of the most vulnerable students in our community is
paramount. And that's why programs like the Cap Finance Program, I think, was so exciting to be in existence.

And with that, I also want to share with you that this is the end of our fiscal year. We are still dotting the I's and crossing some of the T's, so unfortunately I'm not going to be able to stay the entire time with you. We are trying to get some last minute monies out the door, so I can hope you will appreciate that challenge, but I will be with you as much as I can. So I'm going to turn that over back to you, Mr. Chairman.

DR. FRANCIS: Well, I'd like to know what kind of questions did those eighth graders ask you.

DR. SAUNDERS-WHITE: You know it was a wonderful meeting. It was -- one our programs, our Gear-Up program, that's focused on access.

DR. FRANCIS: Yes.

DR. SAUNDERS-WHITE: Their main question was could they afford college; isn't that interesting?

DR. FRANCIS: Yes.
DR. SAUNDERS-WHITE: They wanted to know could they afford their tuition and then they wanted to really know what kind of programs were available to their families to prepare them academically.

DR. FRANCIS: Right.

DR. SAUNDERS-WHITE: To be ready day one. I have to tell you, that's my summation of the questions that I got from that group, but the energy was infectious.

DR. FRANCIS: That's good to hear and they all want to go to college.

DR. SAUNDERS-WHITE: And this is coming from a community whose high school graduation rate is 48 percent, 48 percent. And so there is tremendous need. The Gear-Up program within that community is one of the largest in Texas, and it's about a $43 million program --

DR. FRANCIS: Good.

DR. SAUNDERS-WHITE: -- for that school to serve those 10,000 students, so that's the impact.
DR. FRANCIS: Well, good for us to hear.

DR. SAUNDERS-WHITE: It's a seven year grant, so I don't want everybody to think $43 million is out there for one year. It's a seven year grant.

DR. FRANCIS: At least there is promise for the future.

DR. SAUNDERS-WHITE: Absolutely.

DR. FRANCIS: All right. Donald, if you will tell us a little bit about what has happened and what's the next move.

MR. WATSON: The next on the agenda is the Board's approval of the January 20th meeting minutes.

DR. FRANCIS: I asked that earlier.

DR. REAVES: So moved.

DR. LOSTON: Second.

DR. FRANCIS: Second. Did you read the whole transcript?

DR. LOSTON: Yes.

DR. FRANCIS: I did too. I got sleepy, went
back and I read it again and I found out all about what I said and you said and so forth, and the long and short of it is, Don has done a very good job in summarizing the key points, so I'm going to ask for approval. All those in favor please signify by saying aye.

(All Members voted.)

DR. FRANCIS: Opposed? The motion's carried. Thank you. Don.

MR. WATSON: Thank you. Before I get into the Director's Report, I want to introduce Jonathan Braxton. Jonathan is actually working with HBCU Capital Finance Program now. At the last meeting you met Mark Somerville who is also working with Cap Finance. Cindy Nolan who is not here, she's the administrator person who assists Cap Finance. She is back at the office taking care of some administrative matters for us.

DR. SAUNDERS-WHITE: May I interject?

MR. WATSON: Yes.

DR. SAUNDERS-WHITE: The last time we spoke
there was reservations and concerns about Don. As
good as Don is, we all knew that the demand really
outstripped the capacity of any one individual, and
so you now are meeting the Cap Finance team. We
are trying to build a very robust team. We also
added the CHAFL program into his loan portfolio, so
we are really excited about the energy these folks
are going to bring to those programs.

DR. FRANCIS: Well, we want to thank you. I
remember distinctly we have been talking about this
for a long time. These folks in here are a little
bit too young to remember this, I called Don a
one-armed paper handler. Now if you are over 50,
you'll know what a one-armed paper handler is. If
you are not, that means you got too much to do and
if you can keep one hand on the wall and keep the
ax or the hammer on the other, you are a genius.
But we did ask the Secretary and you sent me a
little note saying help was on its way. The
Capital program now has the people and it's
important for this program. All of what I have
watched over the years with the Congress and the
Administration, they understand this program, they
like this program and it means so much and it's
going well, but we need people to be able to
service it and to keep it going. And so we thank
everybody. And, fellows, get your boots on. So we
should have a good year coming up hopefully.
Congress was good to us again and the schools are
looking forward.

I meet presidents who keep saying to me I'm
applying to the HBCU Capital Finance program. I
said you are. Yes. I said you better hurry up,
there is a long line out there. But thanks very
much, I'm very pleased with that.

MR. WATSON: Now I'll get into the
Director's Report. If you go through your package
you will see it, it's the third item.

Mr. Chairman, Members of the Board, I'm
pleased to present my report for HBCU Capital
Financing programs for our September 24th, 2012
meeting.
The first item we'll discuss is Barber Scotia. I want to give you an update on Barber Scotia. It's been on the agenda for a very long time. As you all recall, the Secretary has approved for us to market and sell Barber Scotia. And I constantly have to remind everyone that Barber Scotia is a unique product in that it's zoned as a -- institutional zoned which makes it difficult to sell for anything other than institutional purposes.

We're going back and forth with our general counsel's office. Our Office of General Counsel has now provided more questions for us regarding Barber Scotia; the marketing/sale agreement, the contract with the listing agent and other things.

Back in the corner over there where the lawyers actually raised their hands is actually the lawyers for the program. We have Bond counsel for the program, we also have Rice Capital Access which is the Designated Bonding Authority. There are three or four lawyers in the back. Rice also has
come armed with three or four people and we also
have -- I don't see them, I don't guess they're
hiding behind the podium, the trustee of the
program. They bought a couple of people as well,
so we're all going to meet October 15th to drill
down on our General Counsel questions regarding the
program and hopefully out of that meeting we will
come with some concrete resolutions with General
Counsel questions and we'll be able to move
forward.

DR. FRANCIS: What's the prospects -- we've
all watched this for a little while, it stops and
goes. We did recommend that the Secretary and
staff would do everything they could to assist. Of
course, it came when there were no other
alternatives, so at this point is it still up for
sale?

MR. WATSON: Yes, that's where we're working
now. Once we get the sale document in place, the
listing agreement will go to Barber Scotia and once
I have the 2013's travel budget in order, we'll
take a visit down to Barber Scotia in Concord, North Carolina, to visit the president and his board to talk with them in detail about how we expect the process to go. The other options, without actually providing them with this marketing sale agreement, is to have a full fledged foreclosure. If we do go through that process, then a couple things will happen. One, we will have to create insurance, hold security there, and some upkeep and maintenance.

At this point at Barber Scotia, their president is actually in town this week. He asked for a meeting to sort of discuss and provide me with an update as to what they are doing.

DR. WILSON: I'm sorry, Don, is that still David Olah?

MR. WATSON: Yes, David Olah is still the president.

DR. FRANCIS: There hasn't been a timeline the last six years.

MR. WATSON: Well, what I'm expecting after
October 15th is that we'll have a better understanding and hopefully General Counsel won't have any more questions and then the trustee and DBA and their lawyers will go and have a discussion. And then I'm hoping to keep it on a fast track so by the end of December we will at least have entered into the agreement with the listing agent.

DR. REAVES: Is the college still open?

MR. WATSON: Open in the sense that they have students there. The last count it was about 50 students in certification programs, but they are not receiving any Title IV aid. Sometimes I will get a call from a member of Congress stating that they may have a basketball team or something other than what's actually going on down there, but they have a couple of certificate programs they are providing about 50 students with some certificate options.

DR. FRANCIS: And of course if it's foreclosed, then it becomes a liability of the
Secretary and monies that could have been going somewhere else that goes to keep it up and all of that and it's really a difficult situation. And I know when he discussed it we asked for every bit of consideration to see if we could work it out. It's sad, but unfortunately it's a reality and so the best thing that we can do now is answer the questions of the General Counsel and move on. Any questions on that? Okay.

MR. WATSON: The next item update is A-123 Risk Assessment and Response.

DR. BASKERVILLE: I'm sorry, before you leave that, so in the event of a sale, what happens? How long does the campus have to vacate and what will be the process?

MR. WATSON: Well, the process at this point will be there is actually no time limit, like putting a house up for sale. We are going to let the market determine that. Again, it's a unique property. There have been a few institutions who have actually inquired as to buying Barber Scotia.
There has also been some individuals who have inquired. However, with those inquiries, you have some individuals who will say they have a client who is interested in buying Barber Scotia. They would never reveal any information about their client, anything else that would solidify that there was any sincerity in purchasing the property.

But again, I just can't give a time when there will be a date, which has two things that go with that. The first is that without having a date, Dr. Olah, his staff can continue to operate and if something happens then they can, of course, become current on their debt service. Not just become current on their debt service, but that you have the ability to continue to pay your debt service. That's one thing.

The second thing is that by letting the market provide us a sale price, we won't have someone come in and say we'll give you $50,000 for it or this. We'll let the market determine just like in a normal real estate market.
DR. LOSTON: What is the obligation, if any -- should the sale go forward what happens to the students, is there some responsibility back to the Secretary? What happens to the students because I'm surprised that they have students. I didn't realize that they were still operating.

DR. FRANCIS: I think that the original students are probably gone.

DR. LOSTON: But are they still taking in students?

DR. FRANCIS: It's a new group of students.

MR. WATSON: The students that they're taking in are a part of a certificate program, so those students are paying out the pocket. Those students understand, too, when they are entering into a certificate program, that they are going to a school without any accreditation. I know one of those programs they were actually working on is installation of solar panels.

DR. LOSTON: They're continuing the workforce programs that are short term.
MR. WATSON: Right, exactly, very short-term programs.

Dr. SAUNDERS-WHITE: They're not toward degree granting.

DR. WILSON: Skills acquisitions.

DR. FRANCIS: All these tragedies -- only one in this program as I recall right now. And I'm getting ahead of the agenda, but it's a personal thing with me. But all of the late payments or nonpayments that were not made became a responsibility of the trust fund of all of the people who were -- y'all remember my Louisiana law -- in Toledo. And so those monies came out of that and once you clear that bowl, then it becomes a secondary budget that colors that. And I don't know what mortgages were on that or how much was owed to the government, but you always think what happens to the folks at Barber Scotia, did they still have any equity? I mean I doubt it at this point. I suspect that the loan has probably -- unless somebody comes in and makes a very good
offer, might probably try to clear the debt.

MR. WATSON: Exactly. That's the first thing would happen is, when the money comes in the door, the first thing you want to do is sort of pay the bonds themselves. Anything that's left remaining after that will go back to refund those individuals who used their escrow fund to make Barber Scotia payments.

DR. FRANCIS: Is that about right?

MR. WATSON: Anything else?

DR. FRANCIS: Well, we can go to Risk Assessment, it's again what this is all about.

MR. WATSON: Risk assessment is an internal department review of the federal programs. June of 2011 was the first time Cap Finance was asked to be reviewed. In prior years the program -- we're over a billion dollars at this point; $1.2 billion we've disbursed through the program. And so Risk Management, what they actually come in and do is to make sure that we have internal controls in place. Those internal controls, we responded to them in
November of 2011, and created a process where once I have a letter of credit and those things of order, I present them to Deputy Assistant Secretary, Debra Saunders-White, she'll review them, she'll sign off on them, she'll also get a summary sheet of what the transaction is, some information about the school and then that then goes to the Assistant Secretary for signature of the letter of credit and the Secretary's certificate.

I guess about two or three months ago Risk Management came back again and wanted to have something more informative about what Cap Finance does, what our processes look like. And so what we have -- actually this is something Jonathan has been working on. Jonathan put together a statement of operation procedures for Cap Finance Program and that is actually in clearance now. When I say clearance, it's internal clearance to us. Again, it does not go outside of the Office of Postsecondary Education, but we're actually doing
that to make sure that's what we want, what we want
to have in place to show all of our procedures, how
the program works and who the players are in the
program. And once that's done, then Risk
Management will close its review and we'll move
forward from there. Again, it's an internal
review, something that we've done to make sure that
we are covering ourselves and when it comes to risk
of running a federal program.

DR. FRANCIS: Are you satisfied with the
working cause being cleared and we're Class A,
Double A at the end?

MR. WATSON: Yes. Actually it's an
interesting process in that a lot of people will
want to come to a loan closing. When you come to
the loan closing you will see the president signing
documents, but there is tons of things that go on
between that. And the Treasurer will always say
how efficient the program runs. But it's only
efficient because when it gets there, they're
passing off documents, but there is a lot of back
and forth. And any school that has ever closed a
loan with us will tell you that there is a process
in which we go through heavy negotiations and tons
of signatures; not just from the department but the
DBA, the Trustee, the school's counsel, the
Treasury and their lawyers, so it's tons of people
giving authorization for the transaction to carry.
And I'm not a signatory on any documents, by the
way, which is also, I think, great in terms of
control, because as the director it sort of allows
me the ability to make the loan outside of everyone
else.

DR. FRANCIS: It's in all our best interest
to be at the top of the list for managing
appropriately. And I have no doubts that it's
going to be, but if you needed some advice from
folks who have gone through Risk Management, we can
tell you how to walk on water. It will tell you
where the stones are.

DR. SAUNDERS-WHITE: This was a very healthy
process for us because again it allowed us to look
at our internal processes. It also allowed the need to add additional folks. When we brought on this team it also gave them a jump start in terms of awareness and other programs. Because Don is right, we now have an operational manual that really spells out every step of this process which we did not have before. So everything that Don was doing now is committed to in writing somewhere so that our program can live in perpetuity.

I think that Dr. Suber made a comment like that, well, what happens if there is no Don. And we have now put controls in place and the documentation to support that effort.

MR. WATSON: It's interesting Deb made that comment. Dr. Haynes was actually the senior director of Community Services. He would always say what happened if I got hit by a car. And we don't want that to happen, but if something was to happen and I decided to leave or something else happens --

DR. FRANCIS: What happens if you get hit by
a car? Do you have a plan, do you have the manual, the MOU? They say grace over us and they move on.

DR. WILSON: They usually say hit by a bus, don't they?

DR. FRANCIS: But they got so many fast cars running around now. But it's important for anyone who replaces any one of us, if any legacy that we had we wanted it to be continued and the plan would work. You know, I keep telling a lot of the young presidents, it's going to go on. If your predecessor has done what he or she was supposed to do, they walk in and it works. It doesn't happen for certain kind of sports teams, but for college presidents who have some teaching plans and you document them and you have audits, external audits, it makes it so much easier for someone coming behind you. Presidents are important, but not that important.

DR. BASKERVILLE: I'm interested in learning something more about the functioning of the Office of Risk Management, how it operates, how it
determines which programs they are going to assess,
was it precipitated by something that they saw or
didn't see, was it the filing of a complaint? I
just want to get a sense of how that function
operates.

MR. WATSON: It's generally a random
process. But Cap Financing, as I sort of explain
to individuals, up to 2007 the program went about
15 years without having substantial making of loans
or substantial balance in the portfolio. As you
start to reach -- in the stem of all of education,
of course you look at the other loan programs, the
Title IV loan programs, those loan programs are
much larger than Cap Financing. But Cap Financing,
being an active loan program and having a billion
dollars outstanding, a billion dollars outstanding
in a loan program is not like a billion dollars
outstanding in grants.

You see the billion dollars as it becomes
outstanding, all of our escrow is healthy. If for
some reason we had a substantial loss in the entire
portfolio, then that's a great hit to the Department of Education balance sheet. So they want to make sure the internal controls are in place.

And again, Cap Finance for many years have, I'd like to say, flew under the radar. OMB had no interest in the program, Congress had an interest in the program and monies in the program, but outside asking questions and within the department, again it's a very small portfolio.

Prior to 2007 it was smaller than the CHAFL Program; now it's six times larger than the CHAFL Program. So if you think about that, it's in the best interest of the government. So it's something that we welcome. Dr. Haynes and I met. We had no hesitation to make sure we were actively engaged and willing to have conversation with them. And as Deb said, this process is healthy for us. It's best to learn from internally what's going on before it's discovered from the outside, something like a complaint or some mismanagement feature of
DR. SAUNDERS-WHITE: Most of our programs have this level of requirement. This was the only program that really didn't, and so it kind of stood out there on an island. And so now having gone through this, they will be put in a natural rotation. We do this with institutional services programs, we do this on student support services side, in FIPSI (phonetic), we do it across the Board.

And so there are two actual sides to this management. There is this internal control piece that Don spoke of and then there are the risk assessments we must do in making any award that we make on the grant side of the house.

This type of control comes as a result of meeting the statutory requirement or as Don says because of the size of the program, the risk associated with managing the programs have elevated. What's interesting about this is that the type of controls that are being talked about
usually don't get examined when there is a complaint because a complaint is pretty isolated to a particular action, it doesn't talk about the breadth that this one covered, so that's why it's so healthy for us at this time to be doing this.

DR. BASKERVILLE: And this Risk Management group is different from the OPM team that was assessing trio programs the year before last?

MR. WATSON: Yes. All programs in the Department of Education when they go through this process, the Secretary of Education has to sign something to say that we've gone through a risk assessment of this program. And that letter, if I remember correctly, actually goes to the Congress saying that we reviewed this. So when you are on the Hill and you're doing things that you're doing for Cap Finance, it's helpful to them to know that you're not just asking for money, we know what the risk entails. We've done this assessment.

DR. BASKERVILLE: Thank you.

DR. FRANCIS: I always like to have the Good
Housekeeping Seal. All right. Well, the next one is almost in the same line but it applies to the Board.

MR. WATSON: Yes. This is a report, annual report, it's already in draft form, the memos and things are already in draft form, but it's an annual comprehensive review. And this review is not necessarily someone coming in saying we're going to look at this, this, several things at Cap Finance. It's something that we have to report from the Federal Committee Management Act; we have to sort of report the Board activities. And it's not anything that someone's going to say the Board's not doing this, the Board's not doing that, but we want to make sure the activities of the Board are standing in line with the statute.

The report of the members of the Board, who they are, their ZIP codes, their affiliation to the Board, Board meetings, what were some of the -- and they don't get into exactly what the recommendations were, but they want to know how
many recommendations have the Board made over the life of the Board, how many of those have been implemented, how much does it cost the Board to operate, those sort of things. So it's just a report every Advisory Board has to perform. It's an annual report. We have had no complaints or anything about our reports, so it's just an annual procedural thing, if you will.

DR. FRANCIS: And it also, as you reported in your statement, the government is looking at all the boards and committees that it has and wondering whether or not some of them should be terminated.

MR. WATSON: That is also the case.

DR. FRANCIS: It happens in a lot of places, in all institutions. They haven't met in four years and still this is on the list, might as well clear them out.

MR. WATSON: And that's another thing. Going down the report there are things in there about why is the Board in existence, their statutory agreement, is it a presidential Board or
a non presidential Board. Has it been suggested
the Board be terminated. If it does and it has
been, are there statutory provisions attached to
that and what are those provisions. So it's just
to make sure that the Board is operating as they
should according to statute.

DR. BASKERVILLE: Will the recommendations
of this committee go back to Congress in cases such
as this where it's a Congressionally designated
body?

MR. WATSON: In order for this Board to be
terminated, it would have to be by a member of
Congress. This Board is created in a -- statute,
so the statute itself have to be mandated, would
have to be changed to get rid of the Board.

DR. BASKERVILLE: Are the recommendations
also for Congress or it's for anyone?

MR. WATSON: Anyone. These recommendations
with regard to the report, any recommendations that
the Board makes go to the Secretary and Congress.
This particular report, though, is just for the
public to listen to what the Board does. Sort of
an information piece for the public, if you will.

DR. FRANCIS: I understand the General
Service Administration is the agency that's going
to do the review and so forth, and it's part of
their responsibility to set it up as well. I guess
it would have to go first to the Secretary wouldn't
it, then the Congress?

MR. WATSON: This report?

DR. FRANCIS: Well, I mean the report
that -- this goes to the General Services
Administration. But they, I assume, and I'm like
Lezli, I'm not sure I know the audit trail, but
this probably would be noted by the Secretary and
then from that point on obviously the Congress.
Wouldn't that be the normal audit trail?

DR. SAUNDERS-WHITE: We send the report.
Don develops the report, we sign it and it goes
to -- our report to the Secretary's front office.
The Secretary then compiles all papers, reports on
all the activities for committees, and then
presents that to Congress. And then that's 
available obviously for public examination as well.

DR. BASKERVILLE: So can members of this 
body volunteer to be interviewed and/or submit 
observations in writing?

MR. WATSON: It's actually a form document 
and we have Karen Akins who is part of the White 
House Liaison for Committee Management, but it's a 
form document, filling in blanks that are already 
there. In recalling the form, I don't see any 
place where an individual Board member can have a 
place to make those comments. Comments for the 
Board are actually -- or recommendations for the 
Board are made at this meeting and are transferred 
to Congress and to the Secretary, so that's the 
format. That format isn't necessarily for the 
Board members themselves to make comments about the 
Board, but as a public member, there is a public 
web site you can view the reports and as a member 
of the public anyone can go there and make any sort 
of recommendations about how the report is laid out
regarding the Board and things like that. Karen?

MS. AKINS: That's correct. This report that you are talking about is part of the provisions of the Federal Advisory Committee Act, so GSA does the oversight for that so it's their review every year about whether the Board is still fulfilling these activities, how much is spent by the committee to operate, things of that nature. And every now and then, members of Congress do take -- it's a database. So members of Congress do or their staff take a peek at this database, but this is really an annual review of all committees government wide.

DR. BASKERVILLE: Thank you.

MR. WATSON: Anymore questions regarding that?

DR. FRANCIS: Well, the program activities, the core of money, things spent.

MR. WATSON: As you see from the table there, for this year we had about $367 million for which Congress provided a subsidy of $20 million
for us to make $267 million in loans. At this point we've closed six private HBCUs and one public HBCU. The loan activity, as you see, progressed over time. Actually this week we are closing our last -- we're closing our public HBCU this week and that's the last loan for this fiscal year.

As you all know, our loans are made based on the time we get authority either from federal budget or through a CR, and from that point we start to make loans until September 30th as any other -- as most federal programs.

For us we generally have started in January or February, from that point move down through the end of September. We would like to sort of use time from October through December to plan for that time in which we do have the authority to make loans. So during October we'll start to look at how to clean up our processes, including communicating better with borrowers, how we have our loan closing going a little smoother. So we're just looking at overall program processes, how we
can improve how the program operates.

For 2012, a list of institutions for which we've closed: Florida Memorial, Virginia Union, Huston Tillotson, LeMoyne Owen, Meharry, Stillman, and Texas Southern will be the last one we close this week. For 2013, that's about 25 institutions that have expressed interest in borrowing from the program. Of the 25, 11 are public, 14 are private. At this date eight of the 25 appear to have eligible projects, they meet the other conditions to close the loans. So we will between that October/December time, we'll also take a deeper dive into what their applications look like, we'll do a little more analysis of the credit risk and things of that nature.

Those eight institutions represent two public HBCUs, six private HBCUs, with enrollments that range between 800 and 9,000 students. Their requests go from $15 million to $80 million and the total of all the institutions is about $430 million for which they'll be requesting.
Everything that every institution is requesting in their application isn't always granted. We have to again look at the institution's ability to repay and make sure they have eligible projects, that the institution has the ability to repay the loan funds.

DR. SAUNDERS-WHITE: Don, can you stop and give -- maybe the Board members already know -- but maybe, for the record, if you could explain what makes a project eligible.

MR. WATSON: Yes. The Higher Education Act determines what an eligible project is. So it's dormitories, academic facilities, student unions. We don't do football stadiums, we don't do churches or chapels or anything of that nature. The project in and of itself are geared toward academic buildings. It would have to be geared towards institutions that are eligible, academic programs. So we start to look at those things to make sure the projects are eligible.

We can do a wellness center, but again if we
do the wellness center, the wellness center has to be for the use of -- the outpatient service for students and faculty. We'll do roads and things that support those structures, so we do roads, parking lots, utilities that are associated with that, but again the eligible project has to sort of tie to the institution and the institutional programs.

UNIDENTIFIED SPEAKER: Refinancing debt?

MR. WATSON: Yeah, we'll refinance debt.

Debt is only refinanced if we were to finance the original project, eligible project. So it's a refinance or finance. For a refinance it has to be something that we would have financed in the beginning.

DR. BASKERVILLE: Recently we acquired a particular --

MR. WATSON: Right, that's an acceptable circumstance. A lot of people don't understand, but not just acquisition of land but also new construction, they both are acceptable
circumstances to the program statute. And if you want to acquire land or build something new, you have to sort of give some reasons as to why the renovation does not support.

A lot of acquisition of land, for example, if HBCU is land locked and they need to build a new dormitory, we start to look at if they can acquire the land around them to sort of accomplish that same goal. But again it has to be an acceptable circumstance in which we allow them to acquire land. New construction is the same way. We'd rather you renovate, but sometimes the cost of renovating is more expensive than the cost of building, so we look at things like that as well.

DR. FRANCIS: Don, can you talk a little money? We've got 24, it looks like, which you've projected for 2013 and you've got 25 schools that have expressed an interest so we don't know exactly how many of that 25 will come to the table, but how do we look with respect to the appropriations we have? You estimate the total might be 430 million
and we've got 320 million available to us. It's quite possible that you could have a fallout and maybe spend all your money, but what's it look like? We got an increase last year, do we have something in the budget that will increase this year too?

MR. WATSON: That's not necessarily an increase in the budget. What you are looking at is 320 is what's in the President's 2013 budget. That 320 number is based on what we had projected in the President's budget, went forth. And again that 430 number is based on what the school's allocation says. Schools often ask for tons of things, but not everything is an eligible project and not everything they are requesting -- for instance, they are asking for five academic buildings, new academic buildings and say one student housing building. Well, the student housing building is self-generating revenue, so we're thinking that housing can possibly help support some of the debt service.
DR. FRANCIS: But I guess the bottom line then, that 320 million that's in the President's budget would likely be able to handle with the experience of what we know how, you know, fallouts, what might be the request of the 25 institutions?

MR. WATSON: Right. With the 25, that 420 million does not support the 25 institutions. When looking at the 25 and I said they expressed interest, in looking at some of those institutions, some of them have accreditation issues, some have -- we are in discussion with them and have not been able to come to terms with the project or the collateral for the loan. So there are several different things that fall into that. But the eight that I've spoke of are likely --

DR. FRANCIS: Done deals almost.

MR. WATSON: Once we dig deeper into the project and their credit, we'll be able to say how much of that 420 million would actually go out the door rather than 320 million.

DR. FRANCIS: I guess what I take from that
is, that with the President's budget if it's approved, that 320 million is more than likely enough to handle what is currently being applied for or interested in.

MR. WATSON: Yes.

DR. FRANCIS: So that next fiscal year, we see how much of a fallout there was and there were still monies in the bank and our bank.

MR. WATSON: What will generally happen, the eight we are speaking of, usually around I'll say July/August time frame, schools try to rush their applications in, so that eight may come up a little bit. The eight that we're speaking of, a couple of them may fall out for whatever reasons. So it's a process that we look at all year round. But as of this report we are looking at eight that might be successful candidates.

DR. LOSTON: For institutions that may be having accreditation problems, does that automatically move them off the list or I mean there should be a great question mark there.
MR. WATSON: It is, and we've had that happen. We've had schools who they applied to the program, these schools that have accreditation issues are not part of this eight. If a school has accreditation issues, they are not part of the eight, but that is something we look into.

Before a loan is actually made, I'm on campus, the DBA is on the campus and we are looking at the assets, we're having conversations with the president. I always tell people it's important to eat at the cafe. As presidents -- I want to have a discussion with students as well. But with students -- you talk with students you sort of get to -- when the president gives you a set of students they give you the --

DR. REAVES: The best students.

MR. WATSON: In the cafe, they're getting everything in the cafe. So sometimes when I'm with the bowtie on they stay away from me, but as you start asking them questions they open up a little bit. That's important to note because again you
want to see everything about the university, not just -- and I won't sit in your Board room, I want to take a walk around the campus. Dr. Loston can attest, I've been to both her campuses, walked every floor, every building, and that's the important part when we're closing the loan. Sometimes we're in communication with the school -- and doing title and survey work something may go awry. And it's easier if you're on the campus, you know how the campus is laid out. You say okay, let's switch this building off of that building. It's gives us a better idea of how things are operating, how the campus flow is operating, things of that nature, so it's an important part to be on the ground. I think that's one of the great parts about having, you know, the DBA and the department going to these schools to see in our time there as much of the school as possible.

DR. FRANCIS: It's healthy for the institution, too. Now if you want to look like some of the students, I can recommend how you can
dress. You still look young enough.

MR. WATSON: I wear suspenders so you know I'm not wearing my pants down. I wear suspenders, I make sure that doesn't happen.

DR. FRANCIS: It's important for this program for those of us that sit on this Advisory Committee. But it's also important for the university because they are getting firsthand from you and your experience about how loans are made, than a building that they may have a high priority on, is not going to get the same high priority as another building that is as important. This is good. Banks do some of that, but they don't do what you do. They don't go visit and walk around and talk with people, they look at credit scores. Like California makes those second mortgages because they got the money, before you know it the whole thing collapses, so nobody wins.

MR. WATSON: And I'll tell schools that the Department of Education is very different. We have the same concern as other lenders about a school
being able to pay the debt, but our mission is
twofold, make sure you are able to pay the debt.
We have the same customer for both of us. I think
that's important for students to understand as
well. It's a partnership, but we want to make sure
you are able to pay your debt service.

DR. WILSON: Don, is UDC listed twice
because their two year and their four year apply?

MR. WATSON: No. Only their two year is
applying, but they are not listed twice. Only the
two year is applying.

DR. SAUNDERS-WHITE: It's a typo then.

DR. FRANCIS: Okay. If there are no other
questions on that, Don, you will take us through
the -- I think what's next on the agenda -- let me
go look at the agenda, I don't want to get out of
line.

MR. WATSON: I just want to add a little bit
about construction projects. We have ten active
construction projects. We try to have two things
happen when schools have new construction. One of
the things they try to have happen is that before
the project starts and I'm on the ground and we're
looking at -- talking with the president to
students, we want to see where the project is going
to go. But throughout that process what we do is
call -- they have advance of sorts. Every time you
get an invoice from your contractors, you will send
them in to Designated Bond Authority, they'll
review those. And when you get a certain
percentage we will go out and look at the project
to make sure the advances are going okay, that the
project is on budget, on time, those sort of
things. And sometimes we make it to the end where
we come out and it's a completed project. We keep
a little bit of money called retainage. We keep
that money, make sure everybody stays on key. The
contractors do everything that the school wanted
them to, we have a completed project. The only way
you can receive that retainage is once you get the
occupant certificate/certification from the
architect saying this building can be occupied.
DR. FRANCIS: You don't get a chance to look at change orders?

MR. WATSON: Change orders do come through. We try to keep those kind of things down to a minimum. I assume you mention it because it increases the price of a project and we try to make sure that those things are kept to a minimum as much as possible.

DR. FRANCIS: I've never seen a change order that was asked for by the institution that was less than what the bid was ever. It's something about this, you know, if it was $2,000 in the budget to do and I changed my mind, I want to have a change order and the change order would bring it down to $500. Somehow it gets back to $2,000. I never understood that. I figure I been in the wrong business, I should have been a contractor because the change orders eat you alive, believe me.

MR. WATSON: And that's one of the things, we visit the school at the beginning and at the end, but in between when we are meeting, it's no
longer with just the president and the CFO, and
students aren't there unless they are invited by
the administration, but we meet the contractors and
architects as well because we want to make sure,
again, they stay on budget.

With Cap Finance, if you are borrowing, for
example, a million dollars from us and get to two
months down the line, you can't say, oh, Don, we
need another $200,000. It doesn't work like that.
You have to borrow what you need and at that point
you move forward. And we encourage you to stay --
complete our project under budget and before
completion date, but there is no avenue that you go
get more money because we need more money.

DR. FRANCIS: Do you ever have to get into
cost per square foot?

MR. WATSON: We looked at that mostly when
we are talking about bids -- student housing.

DR. FRANCIS: Okay.

MR. WATSON: But the construction, we don't
get into -- if you hire a construction person --
that construction person, because we can't actually
offer -- we don't like to encourage anyone to use
one contractor over another.

    DR. FRANCIS:  That's a tough business. I'm
glad you were right on top of that. Are you going
to go to the respond side? All right. Welcome to
the table.

    MR. WATSON:  Leonard Haynes. Debra
Saunders-White had to leave the table. Leonard
Haynes, the senior director of Institutional
Services for which Cap Finance falls under, he has
joined the table to step in for his boss, Deb
Saunders-White.

    DR. HAYNES:  Good morning.

    MR. WATSON:  In the fall the Cap Finance
Program will work on, as I said, trying to improve
the program a little bit. We're going to try to
have a -- we generally have a planning session
where we talk about how to improve communication
strategies for potential borrowers. We're going to
have an overall review of our loan documents to see
how we can better have those documents in a way where schools can -- we can have sort of a standardized document, if you will, but only certain things change unless there's a complicated -- and of course we want to make those changes.

One of the things that we find out is that if you tell me your loan size, I can tell you what the DBA is going to pay, what the DBA charges, what their bond counsel is going to charge, what the trustee is going to charge. But what we often see is that on the other side, we have no idea of what the school's professional is going to charge. And sometimes those rates are -- if I add the DBA cost, and trustee cost and DBA counsel cost together, the school's professional cost sometimes would be twice the amount of DBA charges. DBA counsel are the ones who actually create the documents, DBA is the one who does the credit analysis. We're also looking to add a certification statement.

What I realize is that everyone involved in
the transaction has something in the transcript. So we will also start to create a certification by the financial advisor. So the financial advisor will now have to start to add something to their transcript to say that this is the best advice they can provide their client and what kind of advice they can provide to their client. Lawyers sort of already have those sort of things in place.

Although I put something in play where if the cost of DBA counsel, the cost of the schools counsel or school finance advisor is above a certain percentage of what the DBA is and DBA Bond counsel charges, then I need to see documents of what actually happened. And I say that because again with those prices escalating like that, we try to keep the cost down and we can't do it always if somebody is charging a half million dollars for six weeks of work and you are reviewing the document and not really putting other things into it. So trying to control cost on all sides. Any questions?
DR. FRANCIS: That's really detailed. I make jokes all the time. Years ago there were those of us who had to deal with SBA. And the kinds of questions you had to answer for SBA, if you could answer them all, you didn't need to be there. It straightened itself out when we got some folks to complain about it. But the point is there is a need to make sure that one is paying the bill, that they are asking for services, but that they are still reasonable enough that you see the need for it, even what the circumstances surrounding them are.

I can tell you, I don't know if there is any SBA people here, I can tell you stories about SBA that you just didn't get approved. Maybe it was the wrong ones of us going up there, but you just weren't going to be approved. All that redlining, it happened too long, but it's a little better now.

But there was something I wanted to ask you, you're going to get to setting dates for future meeting, is that where you want to go now?
MR. WATSON: Yes.

DR. FRANCIS: Recommendations and responses and so forth. Again, we try to do at least two meetings a year, if necessary we do three. I never like to take somebody away from their job just to hold a meeting unless it's necessary, so at least two or three. Maybe I should ask the Board, is these the times that have been chosen thus far -- we met in -- was it November?

MR. WATSON: January.

DR. FRANCIS: It was January and cold.

That's right, January. And I don't know what part of that month it was -- the beginning or the end.

MR. WATSON: January 20th.

DR. FRANCIS: It was not in combination with anything else necessarily as we are doing now.

MR. WATSON: Right.

DR. FRANCIS: So you would do for us what you have done in the past, do a survey. If January is a good day, because again we like to work around your schedule in terms of what's going on and what
you can report to us or what we might be able to
input. So is there any feeling of the Board as to
what month is best. This seems to fall pretty
good, if we can hook up to something else, but are
there any other thoughts with that?

DR. BASKERVILLE: This year, January,
probably won't be well because of the inauguration.
If everybody on the Board is getting invitations
we'll come.

DR. WILSON: I like the presumption on who's
going.

DR. BASKERVILLE: Well, we probably want to
do it before March because that's when whoever is
in will have to have their budget in, so we want to
have some discussion about that.

DR. FRANCIS: Yeah, that's right, because we
need to do some work if that happens, I mean a
whole lot of work. February, of course, is the
Super Bowl.

MS. BARTLEY: It's a tough call. We're
under a CR that just passed, so we've got to always
take into account what's going on with the budget.
And it just worked out well when we met in January
before. The budget cycle was out of sync, so we
were actually able to make proposals that week as
things were unfolding. So nobody has a glass ball,
we don't know.

MR. WATSON: Let me ask the Board this, with
the current President's budget, I guess we can
still make some suggestions, the Board can still
make suggestions on, regardless of who is in there,
you know, how that pans out, the President has a
budget there already. I mean I guess if that's
what the Board decided on, then the Board can
continue with that. So maybe not the budget
necessarily. And I guess from my standpoint, you
know, if you want to send two reports of what this
Board decided, I think we did that before, we sent
two reports. So after this meeting, whatever
recommendations come out of this meeting, we can
send that report to the current Congress and the
current Secretary and then we can send one again
after January. So I mean to me if we're going that route, our recommendations are recommendations no matter what occurs.

DR. FRANCIS: Let's plan it this way. Let's plan it that if we can do something in January and then that would depend -- I think if you did a survey and we could look at our calendars and take all of this into consideration, which also gives us an opportunity to have something to say about budget regardless. And then, if necessary, we come back in, who knows, right before March or right after March. So we may need three meetings in the future.

MR. WATSON: And the thing that's most important, you know, I'm always optimistic about Cap Finance, but if for some reason there is a change in the budget and either you, Lezli, Johnny Taylor, if you all actually see something, then you can let us know and then call a meeting based on that if something starts to change. To me again that's when the importance of the meeting comes
around. I think we were trying to plan the
meetings around events that are already occurring.
I know Dr. Francis also mentioned New Orleans. I
was in New Orleans the last time and didn't have an
overcoat.

DR. LOSTON: I'm happy to offer up San
Antonio. I can pretty much assure you there will
be no snow.

MR. WATSON: So I mean again, so if we want
to look at things like that, when it comes to the
recommendations, unless the Board changes
recommendations from now to January, then it's
going to --

DR. FRANCIS: Send us a report and we'll
check it out and see. I like San Antonio.

DR. LOSTON: I like it too.

DR. FRANCIS: It's good to get away every
now and then from New Orleans.

DR. HAYNES: I want to just insert this, we
hope this doesn't happen, but they are discussing
the sequestration event, and when the Congress
comes back that's high on the agenda. If it goes through, then all the investigation agencies will take a reduction in funds, including the Department of Ed which would impact all of our operations. We are under the CR now for six months which takes us into February, March, so we'll probably have to be guided by what takes place in November. I know they are having discussions now, the plans need to be put in place if it happens.

MR. WATSON: That's why I was saying if Dr. Baskerville and Ms. Bartley, if they tell us if they see those changes, they are there all the time, if they see these things going on then they'll let us know. Dr. Baskerville.

DR. BASKERVILLE: I appreciate your bringing up sequestration, Dr. Haynes, because under the next order of business, I think it would be really important for this body to go on record A, as opposing sequestration; and B, importantly, sending a recommendation to Congress that in the event that they do sequester, that they make it very clear
that the federal departments do not have to cut all accounts equally across the board to achieve the 8.2 percent, but that within the department they are giving broad discretion and wide latitude as to which accounts to cut.

Everyone at this table, as you recall last year, the challenges we ran into because many of the departments thought that 8.2 meant that they had to cut across all accounts equally. And that meant that those accounts that have traditionally and are contemporarily underfunded, got hit substantially. So, Mr. Chairman, if appropriate, I would like to make a recommendation asking Congress to make clear that in the event of sequestration, the departments are not required to cut each account equally.

DR. FRANCIS: Yes.

DR. BASKERVILLE: I'm sorry, just one footnote. You will recall that we did get from both the House and the Senate a letter to that effect, but it wasn't made clear in the original
language that they sent to the department.

DR. FRANCIS: Sequestration is mandated now because the committee could not come up with the agreement. We can't argue against the fact that there shouldn't be a sequestration.

DR. BASKERVILLE: They have another option.

DR. FRANCIS: I'm sorry.

DR. BASKERVILLE: The second option is to do another continuing resolution -- chair appropriations committees and their goal is to try and do another CR, which would mean that they wouldn't have to do sequestration, but it's looking shaky.

DR. FRANCIS: I hope they didn't have to do it at all, but if it's mandated and they have to do it, then what you are saying is that our recommendation would be that the manner and form in which the sequestration takes place would be da, da, da. I wouldn't try to spell out all the things, but if you want to make the motion to the principle that you just said and maybe frame it for
us so that we could vote on it, I think that would be very appropriate. It's like anything else, for an agency that's doing good work, and Cap has done good work and has had the benefit of increases from the Administration and the Congress and the like, we would like to be protected from losing monies, getting cuts that would be helpful for the program itself.

Again, we are an Advisory Committee and they would probably wonder what does this Advisory Committee feel about the agency that you're sponsoring, and I think we would want to have the amount of money appropriate to do some of the projects that are on our Board. So the sequestration could blow that out of the water with deep cuts.

So however you would like to frame it, how would you want to approach that, Don, because it's critical and it needs to be worded in a way that the Board -- it says it understands the nature of the Congressional mandates, but in so implementing
those mandates we would hope that -- now all
agencies say please don't cut me, but if the agency
doesn't say anything, I wouldn't mind cutting you
because you didn't speak. But I think we should
speak in some way. Yes, Edith.

MS. BARTLEY: I was going to say maybe you
want to include in the -- how it's worded -- that
this Advisory Board wants to make public on the
record that this program is clearly a good return
on the investment for the federal government. As
the government looks at trying to cut programs and
trim the budget, we're responsive to that and we're
able to show clear evidence that this is a good
return on the investment.

DR. BASKERVILLE: I think that's excellent
language from my colleague to put on the front that
would then lead to a request that Congress make
clear that while we oppose sequestration, in the
event that it is required, we respectfully request
that Congress make clear to the departments that
while they have to attain the sequestration level
which would likely be 8.2, whatever it ultimately is, we need to make clear within departments they have wide discretion with regard to which accounts to cut and the amounts to achieve the sequestration level.

DR. FRANCIS: Does the Board understand the sense of this motion, because if you do we could pass it and send out a draft to have it put on the record that that's what we are asking? I feel very strongly about it in the sense that there aren't too many programs, the likes of which in the last few years that Congress, the Administration has recommended and Congress has approved. And in the interest of the institutions, I mean to have 25 institutions seeking assistance, although we realize not all will make it, but for those who do make it, we certainly would like to have monies in there because they are planning for their budgets as well.

Are there any questions from the Board generally for those of us who have to go to the
trough so often? You want to make that a motion?

    DR. BASKERVILLE: Yes.

    DR. FRANCIS: Get a second for that?

    DR. REAVES: Second.

    DR. FRANCIS: Okay. Now we can discuss it, pros and cons. Any general feeling? All those in favor please signify by saying aye.

        (Members voted.)

    DR. FRANCIS: Opposed? Motion's carried.

    We would get the language for the record and then send it out to you so that you have an appreciation for what you voted for. Simply, if you are doing good and you can get assistance, this is not the time to cut. Let's hope -- well, we'll get to our recommendations of the others, but this will be a new one, right?

    MR. WATSON: Yes, that will be a new one.

    DR. FRANCIS: Well, am I following this correctly now?

    MR. WATSON: Yes.

    DR. FRANCIS: Now we'll go to the Board
discussion and recommendation of the Secretary and the Congress. This is on page one, first page of the responses, right? Did you want to lead us through that?

MR. WATSON: Yes. During our January 20th meeting the Board made several recommendations. The first recommendation was eliminating the pooled escrow. During that meeting, the Board understood that the department had worked with our Office of Management and Budget and the budget office took the borrower option of schools to either stay within the current pooled escrow program or pay a premium for not being pooled with other borrowers. The way that process would have worked is it would have been the language that was drafted, that showed that the current escrow program remain as it is, five percent of the borrowing amount, and then the other part would have been some portion of interest rate add-on, which had not yet been determined by OMB's department, but in order to get Pell Protection Act together, we had to put some
draft language in there and that language actually just allowed us that percentage of add-on. What that percentage add-on would have been, we do not know. The Board asked that this continue to be a recommendation for the department of Pell Protection. The elimination or changes of the escrow did not make it to the Pell Protection Act, but the Board asked the department to continue to view this as something that it will support and we will continue to look at it, revisit in 2013 in budget requests. But with sequestration, this sort of becomes -- again it's a cost factor and we are trying to make sure whatever we do stay cost neutral, otherwise it will start to eat into subsidies for making loans to institutions.

DR. FRANCIS: For someone to opt out of the escrow and this is what is going to be looked at, is this similar to the private sector where institutions, if they were in the private sector of bonds, you could buy insurance to cover yourself?

Then I have a second question after that. Go
MR. WATSON: Yeah, I look at it two ways. One, you actually are buying insurance.

DR. FRANCIS: Right.

MR. WATSON: But you can look at it as if you are either having your reserve. If you are in a regular bond market -- and we can go through a scenario. Bond insurance really doesn't exist anymore, but if you were to get bond insurance, you'd have bond insurance, you are still going to have a problem getting a reserve fee. You can look at it as being a reserve fee or you can look at it as being you are buying insurance.

The Secretary's letter of credit is guaranteeing the Treasury they are going to get paid their bond regardless of what happens. So you can look at the escrow as you are paying for that insurance, which is a small portion.

DR. FRANCIS: Right.

MR. WATSON: So can you look at it that way or you can say I'm getting free insurance and I'm
paying my reserve fee up front.

Our five percent requirement is less than any of the reserve fees. If you pay for that insurance you are not going to get it back. Reserve fee, it sets there and you will get that back; you can get it back either way.

I was reminded we closed a loan last year. I was reminded that I believe it was Yale who had closed a loan at the same time we had through our Cap Program, and guess who had the lowest rate? Cap Finance Program did. And this institution actually has a pretty hefty endowment. Great rate, but, you know, Yale did not have the better rate.

DR. FRANCIS: I was going to ask our DBAs, I'm told that -- you just made the remark -- very few agencies are now selling insurance for -- cover lack of collateral and so forth, is anybody out there doing this now?

MR. FISHER: Yes.

MR. WATSON: State your name for the record, please.
MR. FISHER: Okay. Will Fisher with Brice Cap Financial Program. The bond insurance market certainly is not what we historically have known it to be. A lot of the players, Ambac, MBIA, FSA, they either no longer exist or they've consolidated.

Another interesting point is that from what we knew, they had ratings from three major rating agencies of AAA. There is no such thing as a AAA bond insurer. The only active participant in this market, quite honestly, is Assure Guarantee and they're a AA. So in an instance that Don had just mentioned, going through Capital Financing Program where we are allowed to borrow directly from FFB at a eighth over corresponding Treasury, and you look at the slope of the yield curve which is essentially flat, the program is able to offer rates that are far in excess and better than what you could get in the open market.

DR. FRANCIS: And that's good because what I've been told, that it's very difficult to get
that bond insurance and there were very few people
still in that business. And I'm sure that if there
is a few people, then their rates are going be
higher than this Cap Program.

We're going to get to this later what we as
a Board might wish to do for financial literacy, to
help institutions understand the myriad of things
that go into the bond financing so that they know
what it is going forward and get the advice that's
in their best interest. And I say this because
if -- I think what the Board -- what maybe should
be understood, that the Board made this
recommendation, the response is the department look
into it and we hope that this review continues
because it is an essential part of the whole
financing business.

Do we need a consensus vote on that, so to
speak, that we would be reaffirming our original
recommendations and encouraging the department to
continue as they indicated, looking at our
recommendation for the budget years 2013 and 2014?
That's the summary. Anybody want to make that one?

Unless you had second thoughts about what we did earlier.

DR. BASKERVILLE: I would like to make that recommendation, Mr. Chairman.

DR. FRANCIS: Okay. That's a motion, can I get a second and put it out on the table and talk about it?

DR. LOSTON: Second.

DR. FRANCIS: All right. Good. I was going to make it second. Lezli, you want to say anything about it?

DR. BASKERVILLE: No, sir, I yield to the president.

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

(The members voted.)

DR. FRANCIS: Opposed? The motion's carried. That was a good one; it's good that we looked at it.

DR. BASKERVILLE: I'm sorry.
DR. FRANCIS: Go ahead.

DR. BASKERVILLE: I thought you were asking if I wanted to go before.

DR. FRANCIS: No, no, I'm sorry, on the point of continuing.

DR. BASKERVILLE: On the point, the only other thing is that somehow we should note in here that with the reauthorization of Higher Ed expected in the next Congress, this should be a priority for the department for Congress, and then for the advocacy groups, UNCF, that we move forward.

DR. FRANCIS: Okay.

DR. BASKERVILLE: Because that's another opportunity that we can really work at.

DR. FRANCIS: Okay. Fine.

MR. WATSON: Can you say that once again so I can make it for my notes.

DR. BASKERVILLE: Yes, sir. And I will be happy to try to come up with the language. But the spirit is that with the reauthorization of Higher Education Act that will take place in the next
Congress, there is another opportunity that we want
to work closer with the department, the advocacy
groups and other friends of HBCUs and make this a
priority in reauthorization.

DR. FRANCIS: This is to be part of our
working with respect to the response that we got
that the department is going to look at it, we
would want to reaffirm that we work with groups
that have the interest in the reauthorization as
well.

DR. BASKERVILLE: Yes, sir.

DR. FRANCIS: All right. What's the next
one? Lower interest rates. That was our
recommendation.

MR. WATSON: Right. During the last meeting
there were two items. One was lower interest rates
for any institution engaged in construction or
renovation on a college campus, to provide them
with a lower interest rate during a draw period.
The Board decided it's more important to have a one
percent interest rate in schools that are engaged
in science, engineering, mathematic programs to support academic buildings.

As I mentioned earlier, academic buildings are not self-generating revenue buildings, so that having that lower interest rate that would engage, allow an institution to offer more support, have better facilities for kids who are interested and in going into the STEM fields.

We provided some estimates of the interest rates that were at one percent, how much subsidy would we need above what we are asking for today. Currently, I will tell you that the Cap Finance Board has asked for $20 million in subsidies. So if interest rates were to be one percent over a 30 year period of time, we would be asking for roughly $146 million a year in addition to the $20 million.

If it was at two percent cap, it would be at about $146 million for a 15 year period of time. And I think with those high numbers at that level, we probably would look at maybe not offering those rates for the entire term, but maybe coming up with
something a little different. Instead of a 30 year or 15 year term, get a lower term and have some way in which the schools can then at that point decide if they want to go into the market or come back to Cap Finance for a more certain fixed rate.

DR. FRANCIS: And the response to that is quite similar to the response we got on eliminating pooling.

MR. WATSON: Yes. If you look at $146 million and you're only requesting $20 million to make loans, then it's actually asking Congress for seven times what they are actually providing us.

MS. BARTLEY: I think we should continue to support this and maybe we might want to add language in our recommendation that this body sees this as a top priority and consistent with increased interest across the federal government to address national security issues and providing increased access to students to pursue careers in those high need areas, because STEM certainly falls
DR. FRANCIS: It does. I think in our original recommendation we realized that this was going to be a high priority for the country and the need for doing more, not less, increase. It is happening right now. It's amazing every time you pick up the report, people are catching on to the fact that in the global economic development organizations that lists countries which are doing more work in the STEM, the United States has fallen from one to 17 in the latest report. So our priority to get STEM moving will certainly be energized by allowing institutions to build under the Cap Program facilities that would work in the growth and STEM careers from young people.

Only 40 percent of all American youngsters in colleges are in the STEM fields, only 40 percent. So on that report, that motion in terms of we are energizing our recommendation, we would add the fact that we feel that is extremely important to the national interest in careers for
young people in the STEM fields and it relates also to our position internationally to do so.

Further comments on that? This is again our original recommendations. The response was to continue to look at that recommendation, so it will follow the same general template of the first three. It's always good when you wish to continually look at them and not turn them out of hand.

MS. BARTLEY: And to really just emphasize what Dr. Francis said, the national security component and the global competitiveness component, because as our nation continues to grapple with severe economic challenges at the federal level and across the board, and as the seats in Congress will definitely look different in November than they do now, all of us need to do a better job of connecting those dots in a manner that the majority of people who are in office can relate and understand why resources are needed in these areas. And whether it's Republicans, Democrats,
Conservative or Liberal, people understand global competitiveness, people understand national security.

DR. FRANCIS: How you connect the dots as a country you said is a priority, how that dot connects to how you fund the folks who are in the business of helping you achieve that. Sometimes there is a big disconnect and the like, so it's in the best interest of the nation, and it's competitive. It's a little bit of a shock.

Again, you are all too young but when Sputnik went up, the United States said whoa, we better start putting money in that priority. And, of course, we created a huge agency in NASA and we got back to where we should have been, and that the Russians were ahead of us at that point.

DR. HAYNES: I'm sorry. I was just telling Don if the Board wants to work through lunch it can.

(Discussion off the record.)

DR. BASKERVILLE: I'm certainly in line with
everything that's been said relative to the lowering of the interest rate, but I would be interested in, Director Watson, given that we've asked this and gotten a response or not, is there something more strategic you would have us say?

You emphasized the seven percent or seven times the rate, what is your best assessment of the next approach or the next steps?

MR. WATSON: I think most times our performance on making loans has been proven over time. In this budget climate, we always tell individuals that work cut 20 percent by two million, our ability to make $300 some odd million won't be affected, because what Congress will be cutting is not the money available for loans, but the subsidy which they cut that by a small amount and only cut the multimillion dollar piece by a small amount.

Maybe we should have more defined issues or maybe it's during the construction draw period, instead of the entire 30 year period. But again in
these budgetary times, Congress is looking to keep
money close to the pocket rather than expending
more money out. And again we'll be asking for a
huger, a larger amount of money.

And it's possible things are being brought
up about us being not just national competitors,
but international competitiveness in the STEM
fields trying to reach the 2020 goals and those
things, but if that's the case, let's see how it
works for a specific period of time and maybe
place -- schools are getting these lower interest
rates, then what kind of benchmarks do we put upon
them to meet this?

And if you don't -- and the rates, you know,
we can set the rates in such a way where no matter
what the government says the rate -- what they are
willing to pay, we can set the rates in a way
where, just for mathematical purposes say three
percent; the government pays two percent, the
schools pay one percent. And whatever that federal
finance bank rate is and we close the loan, the
government will pay the difference between one percent and the federal financial bank rate.

And then what we'll end up doing if the school does not reach those benchmarks, then the school picks up the original market rate. That would do a couple things for a school. From a credit standpoint we will still look at the school's ability to make its debt service payment. We can also look at the possibility of having some more creative ideas; saying, if you meet this criteria, then over a five year period of time we will increase the interest rate, the federal finance bank rate over a period of time. If you don't meet those criteria, then you immediately go to that rate.

The government has a grant program, I forget the name of the program, but there is a grant program for which teachers did not meet the criteria for being a teacher in a low income area, those grants actually turn into loans. So I mean we could have something very different. We need to
be a little more creative for how we are actually asking Congress for the money. It has to be some return on investment.

When you start to look at schools, for instance, when they are applying for this piece or portion and interest rate, then maybe schools need to provide us with how they are planning on getting to that level. If they don't meet their benchmarks and we agree upon them, if they don't reach their benchmarks, then there is an understanding that you're going to the market rate. No I'm going to call this person and have you keep me in this. No, you said you were going to do this and these benchmarks you are not meeting them, let's move on. And that way schools have some relief, and it will force schools to try to meet those goals for those stimulated --

DR. WILSON: Don't we do that now?

MR. WATSON: With Cap Finance?

DR. WILSON: Yeah, or elsewhere in the department?
MR. WATSON: You may know better than I do. But as far as a loan program, Cap Finance -- we don't tie -- we don't say okay, we want you to graduate 50 people in physics for a Cap Finance loan.

DR. WILSON: Right, okay, those metrics -- but I thought we had some accountability metrics. Len, you may know.

DR. HAYNES: Yeah, we do but it's not tied to the graduation rates.

DR. WILSON: Other performance?

DR. HAYNES: Yeah, we do, we do, because that's part of the risk assessment information that we have to provide for all programs. They want to know how well the program is doing.

MR. WATSON: But it's not the program, it's the institution. Again, you will have some institutions who are actually paying the federal financial bank rate, you have some who are asking for something very specific. But I don't want to poll either of the two because you will penalize
one institution who said we never agreed to do
this. We wanted to operate to build houses or
whatever they wanted to build, and we don't want to
be tied in by what the government says we want to
meet these rates for.

DR. BASKERVILLE: I think it's important for
us to have heard the Director's perspective because
he's the one who goes back and talks with someone
so we've gotten some feedback. And it seems to me
it would be reasonable as the Director suggests to
try to be more creative. I'm always loathed at
tying anything on graduation rates alone, but we go
back to the fact that we're taking many students
who are coming in first generation, traditionally
underserved, coming from low performing high
schools, and graduation rates is probably not the
best. But you mentioned the lower rates during the
construction draw period and you talked about a
couple of other things, there might be a way of
talking about some incremental successes while
keeping the same overarching goals so we can get
from where we are today to where we want to be, but make some small progress in the interim.

DR. FRANCIS: I think that's what Don is trying to say -- do a phasing, that you don't ask for a whole ball of wax, but you start the phasing of it and show how that will work with the national goals. I think you got to connect it.

DR. BASKERVILLE: To the national goals.

DR. FRANCIS: And the global as well.

Because as things get tough, and they are getting tough everywhere, not just in the government, companies, you can't raise money unless they ask for the ROI, you know, what's the return on my investment? Nobody is giving anything up and giving it from their heart. They want to know if I invest in you what is my return, because I'd rather go over here and get my 12 percent, instead of my little 4 percent I'm getting from you unless you make a good case.

DR. BASKERVILLE: So can we agree in concept that what the Director is talking about is
construct some creative alternatives, then perhaps
you can prepare for us some draft language to take
a look at and, Chairman, if you would circulate it.

DR. FRANCIS: What he said was part of
trying to take into consideration what the folks
who say they are looking at this, are going through
this, but we got to remind them that we are still
on top of that priority. And in addition, we'll
make recommendations on how this might be done.
Because some folks who say they're going to be
looking at it, if you look at something the way you
used to do it, you will get the same answer.

DR. BASKERVILLE: Every time.

DR. FRANCIS: So we would be a little
aggressive and say that's why we're advisory, that
we think this could be done over a period of time.

DR. WILSON: One second. I just want to --
with Lezli and Edith --

DR. FRANCIS: Yes.

DR. WILSON: My sense about this is that it
might not be well received in the HBC community.
That's any notion of tying strings, performance-based strings to these kinds of outcomes, they'll say we're under-resourced enough, we got challenges enough, and to tie performance strings to it disadvantages --

DR. BASKERVILLE: Oh, I'm with you on that. That was the point that I was making.

DR. WILSON: No, I got that.

DR. BASKERVILLE: We're together.

DR. WILSON: So where do we go?

MR. WATSON: If a school is already paying three percent and just take it out of the concept of Cap Finance. I don't want you to think it will just work with Cap Finance, but anyone. If you are going to pay three percent, I'm telling you, you can take the three percent or you can take two percent. It's up to you what you do with it.

If you want to take the two percent, but that one percent, if I'm going to give you that one percent, I want you to do this with that one percent. If you say I don't want to do that, fine,
go pay the market rate. I mean, because right now you have nothing. If you want an academic building, you are going to pay that big rate. So what I'm saying now is that if you want to participate and help us to get to that level, I'm willing to take some of that costs of you getting this new building on campus. That's what I'm saying.

And just to use a couple of schools here, a short pharmacy program. You say okay, I want to build a second annex for the pharmacy building and with that annex for the pharmacy building I will give you this rate here and you can go build it, just make sure you read your covenants on the loan. But if you say no, Don, I want to save a little bit while I'm doing this construction, then I'm going to say, Dr. Francis, you have to do this for it or do this. It's your choice.

Just like with the pooled escrow, the school can either stay in the pool or pay a little extra to be out of the pool. It's just the opposite.
You can help reach some of these goals and get a lower rate. And again it doesn't have to be something hard for your program, it could be a pilot program.

DR. WILSON: I hear what you are saying and I think it's a very responsible proposal, but what you are doing is you're mixing the physical infrastructures with the outcomes of the academic infrastructure. And that to me would make sense if we could add into the Cap Finance kind of orbit, an investment in the academic infrastructure as we invest in the physical infrastructure. Then it would make sense to tie some accountability to it.

So, for instance, if you were to say okay, I'm going to, as you put up this physics building, we'll finance as part of the money that you get, we'll underwrite two endowed chairs, but you got to have these academic outcomes to derive from this investment over the course of the loan. And if you don't, you're going to owe us back for those endowed chairs. If you do, you keep the endowed
chairs in perpetuity. That to me suggest that we've given a loan and we've invested in the physical infrastructure at the same time as the academic infrastructure. We've asked for academic outcomes from our investment in the academic infrastructure and, therefore, we strengthen that HBCU. We got to go to Congress for that, but it's worth it.

DR. FRANCIS: But in your original proposal, I have to tell you what I'm going to do with that building, that I'm building it for that purpose which has an academic side of it. But if I add something else to get a lower interest rate, somehow I have to pay extra for that or do it exactly as it was proposed, not just build a building.

MR. WATSON: Right. When we are doing an agreement, we have to know what the project is; there's a project description. We just can't give you money and say go build this building. So we have to know that you're building an academic
building. And again if it's an academic building, we also not just want to know that you're going to build an academic building, we're going to make sure that you have a support for the academic building.

Again, it's not student housing that's sort of simple where revenue from the housing is going to help support the debt service. That academic building, you are saying you want to build -- it's a major science building and you have one science program with 100 students in it and it's going to hold enough students for -- 500 students in this building, then where are the other labs going to be used. We have to know exactly what that building is going to be used for and that's in the loan documents. You know, some people try to build student housing and want to take one building and reconvert it into an office building, that's not the purpose of that facility. We lend you the money based on it.

DR. FRANCIS: What I was trying to get to
though is the building, when you add, for an example, if you said added -- there are other programs that could support this, so I could see where Cap said we can't get into that, so you need to go somewhere else for it.

    DR. WILSON: Well, then we shouldn't get into the outcomes. If we can't even get into the investment and the academic infrastructure, we shouldn't get into the outcomes of the academic.

    DR. FRANCIS: Yeah, but you are getting into the academic when you make the grant for the building for that academic program. I mean it ties together at the very beginning. If you say we are going to build this building, we're going to call it this but we're not going to teach anything in that building that relates to what it is we are building the building for. Just a general purpose.

    DR. WILSON: I got that, but I just want to say this. I think this is a good idea on the table and I think there might be some receptive ears on both sides of the aisle in Congress. And I think
this would be enormous value added for HBCUs and I think our Secretary would stand behind it, too.

DR. FRANCIS: How do you get a value added to that in addition to the value added to the institutional building, that building that has a specific purpose?

DR. WILSON: How do you get value added?

DR. FRANCIS: Yeah. What you were saying is if you would put a condition on it, it would not fly and that you might want to put an incentive on it, so how do you do that?

DR. WILSON: So this conversation started when Don suggested --

DR. FRANCIS: On the rates.

DR. WILSON: Yeah, that there would be some accountability in terms of the outcomes for what happens in a building financed by Cap Fi, all right? And I’m with that, I think it makes sense. But if the accountability is in the academic realm, then we should at least consider the financing or funding in the academic realm to balance that.
Because to invest in the physical infrastructure and then make demands for outcomes and thresholds and benchmarks in the academic infrastructure, to me is crossing wires a little bit and I think there is a creative way to preserve that academic accountability in a way that would make lot of HBCUs happy.

MR. WATSON: I think I know what you're talking about, John, just let me see if I'm hearing you. So you used the word endowed chair, and I'm not into telling an institution how to use your money, right? Now if you want to take -- you call them endowed chairs, you call them scholarships, call them whatever you want, but whatever that one percent is that you are saving or that one percent money that we are going to take, then we are expecting for you to provide that to students to get into STEM fields, is that where you were going? Because otherwise, I mean you sort of --

DR. WILSON: I said endowment because I know that's the area of deficiency in HBCUs that keeps
us running in place a lot, so I'm partial to that.

MR. WATSON: Yeah, right, but that's what I'm saying. So I mean --

DR. WILSON: Students, faculty.

MR. WATSON: So the funding, the savings would not be for just to put more grass seeds down, if you will, but it's for you to help sort of lead back to building that group of STEM students.

DR. BASKERVILLE: I think, while I certainly embrace some of the thoughts, I think the fundamental issue is that this is an infrastructure program with the intent if Congress was not to regulate outcomes with it. It may be something that we would put on the table during reauthorization or something, if anybody wants to talk about that, but the part that I resonated with was you were talking about keeping the interest rate substantially lower during the period of construction, and that made sense because there will be no students in it and the campus can't make any money from it at all. So if you kept it lower
during that time period and then when students were in there brought it back to whatever was the market rate, that might make some sense. But I think that if we start to connecting it to student performance outcomes, that's a different shaped program which folks can talk about during the reauthorization.

DR. FRANCIS: You would really have problems. I didn't think yours was performance as well as it was what we call extra, something extra that the university would get to do something else with. If do you that, I think what might come back to haunt you is, is that a part of the legislation that you should be funding under Cap as an operating side.

We went through this earlier in the game, that Cap does not fund operational expenses and so forth, and we even recommended a grant as a separate part of that. Remember they blew that out of the water, they captured that, but it was the same based principle. But I remember the meeting we had in Atlanta. We had a delegation explain
that they couldn't make the measure under the
Capitols, but they wanted money to operate the
school and they got blown out the water.

DR. WILSON: But I think that's a little bit
different. All I want to say is, as I started the
idea for all the reasons we stated, right, global
competitiveness, our priority on STEM, HBCUs as a
legislative category rather than racial category,
all the categories that we have in place, I saw
your idea as complex and perhaps it might be
received negatively by our HBCUs unless there is a
way to get a win-win. That is to say, we will
accept increased accountability, particularly in
the academic realm if there is an investment in the
academic infrastructure at the same time. I think
some HBCU president will say hum, okay. And that
is to say, that below market rate, that one or
two percent would accrue to us, we could invest in
any academic infrastructure, endow scholarships,
however you want to use it, and then if we don't
reach those academic outcomes over the course,
based on whatever schedule you want to set up, we
don't have to do that here, then instead of those
being -- it would revert somehow to the higher
interest rate and then you'd owe back to this
program what you could have had as an investment in
your academic infrastructure.

You work the details out, but the bottom
line is -- and that is a tweak -- it's not a
fundamental change, it's not a major edit, but it
is a tweak of a Capitol Finance Program. And I
think that as a tweak we'd have some skin in the
game, that the politicos, the Congress, would say I
think we can do that. And I know the Secretary,
Arnie Duncan and some others we could align, could
get behind that.

MS. BARTLEY: I think if we go down this
road it should be a pilot. We should go with
cautions and be specific on what areas that we want
to do. Maybe cyber security and I think there
needs to be some other cushion, because this famous
body put forth a very good recommendation on a
grant proposal. And I think that we got a lot of resources around national security, and we can tie that to something that people want to build or enhance a structure on campus that's in these STEM areas, that we highlight some high need areas in a pilot and maybe throw in the idea that you get extra points if you can get a partner.

Right now the best school in the country dealing with cyber security is University of Maryland University College, UMUC. I don't know how many HBCUs are well known in cyber security. That's just one idea, but I think it should be a pilot.

We want to go cautiously in this direction because while all the community want to focus on doubling graduation rates and meeting other well needed standards that we're all trying to meet as a nation, we have some areas of deficiencies in terms of access to federal student aid that are coming up and other things that make it difficult.

Accountability is a two-way street.
DR. FRANCIS: My only point was going to be I always like to get a little incentive in these things, but the devil gets to be in the details, that's what worries me. That's what we met when we first were approached to get out of the HBCU Capital Finance and go into supporting what the institutions needed to operate, which could have been endowments, could have been things that would pay for the ongoing operation.

Now what you are saying is, though, if you gave them a choice as to whether you want to do this under this or this or that, you'll still get it under HBCU Cap and you would have to be very clear about what it was going to fund, that "it's not in the operational side of the university". But that was our first proposal. I forget what it was, about $100,000, and we were requested to submit that to a Congressional delegation because they wanted to support that for the schools and their district. And it came back, no, Financial Cap can't do operational.
We all like the idea, but just let me say, what I worry about, I might as well say it here, I'll say it on the record, when people talk about retention rates and graduation rates, and until we get apples to apples and oranges to oranges, we are going to lose the battle of retention rates and graduation rates. There is no question in my mind. I don't know about the other HBCUs, but when you count a graduation rate and let's say 50 percent of the people who left you who were counted as a gig for making satisfactory progress, but they didn't have the money to go through that second year, third year, fourth year, I can't count them, the other school can't count them because they didn't start with them, you get this mismatch. And really the graduation rates are now more heavily weighted in terms of reality for the families on money rather than academic performance. But the man in the street sees a lack of graduation as you're serving students who are not talented enough to graduate and you've got a poor
school. And yet you look at the fiscal. I'm going
to make the recommendation whenever it comes up,
I'm going to start reviewing the numbers now, how
many students are dropping out of school who can't
pay the bill but are making satisfactory progress?

DR. REAVES: Lots of them.

DR. FRANCIS: Exactly. But, Dr. Reaves,
they count against our graduation rate big time.
So when your graduation rate might be 75 percent,
25 percent of them left because parents say you are
doing very well, but I can't afford to keep you.
And the graduation rates were really intended to
say how well are you choosing students, how well
are you serving them so that they would get that
goal. But you got kids who are leaving private
schools, going to schools that are less expensive.
Now you can count them because you started them,
but they are in no man's land, nobody can count
them. So that graduation rate business is going to
haunt us for years and it's starting to be embedded
in a lot of decisions that are being made, I mean.
DR. LOSTON: I do like the idea of incentives in this whole program and in this whole process, so maybe if we can begin to think more broadly about other types of incentives. Say we were to finish the construction project, you talked about the change order element, guaranteed maximum price, or if we are finishing, something of that nature because I know we do that a lot where I am. And so if we can say that you are finishing a project that's estimated to take so many months, years, but if you can cut the time, eliminate the time or cut it in half, there is an incentive for that and we can redirect funds in another direction. Look at some other incentives around construction and the timelines.

MR. WATSON: What we're actually realizing is extending the construction draw period, not necessarily change orders, but a lot of time frames and stuff like that, but I will look at other options. I guess with this particular recommendation --
DR. LOSTON: I have to say this, and I didn't take it that you were saying this was emphatically what we were going to do, I took it as you speculating as looking at some incentives, so that's why I didn't get roweled up because I thought you were speculating possibilities and I understood.

DR. FRANCIS: What Don was saying, the incentives were very good, depending on what you write into it in the details that you can fund on the second side. The only reason is, we went through this before. Once you get into the operational side to Cap money, you are outside of the legislation and that was the problem.

DR. WILSON: I think if we drive the idea, we have the power to put the angel in the details too.

DR. FRANCIS: Where I would like to put that angel is in Title III.

DR. WILSON: You and everybody else, Doctor.

DR. FRANCIS: I think this is what the
staffers would tell you, you can do that in Title III, that's your incentive, you know. Give me money to buy land, more land. So look into that aspect. But the one percent, two percent is still our goal and if we can do it in time for legislation, I think this Board would certainly support that.

(Discussion off the record.)

MR. WATSON: Interest subsidy. The Board wanted to continue to support the subsidy for the Cap Finance Program.

DR. FRANCIS: Yes.

MR. WATSON: That again was the recommendation. We just continue to support that for this because again we're talking about --

DR. FRANCIS: Wasn't there something that the Congress was not able to fund us for all of what we asked, but they gave us sort of a temporary --

MR. WATSON: Yes.

DR. FRANCIS: Lifted the cap.
MR. WATSON: Yes.

DR. FRANCIS: For things that were in the pipeline. That was quite a fine action that they lifted that cap in order to get --

MR. WATSON: Each administration's budget has had a provision where it provided a subsidy to make loans to HBCUs regardless of the cap, regardless of the cap and regardless of whether the institution was public or private HBCU. That provision does not change the statutory language, but the appropriation bill actually gives us authority to go above the statute.

DR. FRANCIS: That's it.

MR. WATSON: But it does not change the statute. But each appropriation bill allows us to go above the statute. So the language in the appropriation bill would say something similar to we provide $20.5 million to HBCU Capital Financing Program to make loans according to Section 343 of the Higher Education Act without regard to Section 342. So to say something like that which
allows us to go above the cap.

DR. FRANCIS: Did we have to go above the cap so far?

MR. WATSON: Yes. We been above the cap since last year. Everything we are doing now is above the cap.

DR. FRANCIS: Okay. Okay. And then a continued resolution that still allows us to go above the cap.

MR. WATSON: At this point I'm saying yes. I'll have to insure that. I have a meeting with our budget service office and with our Office of General Counsel, Office of Management and Budget, to make sure and not just at what point in time, not a continued resolution.

DR. FRANCIS: Yeah.

MR. WATSON: The $320 million will only have to be divided by each month, so it's not like I have it all at one time.

DR. FRANCIS: But that is your cap in the legislation.
MR. WATSON: Right, for 2012.

DR. FRANCIS: But an understanding if you go above the cap.

MR. WATSON: I will be very careful how much we will lend.

DR. FRANCIS: Then let us move on to we talked about additional staff and we want the record to reflect, I hope, by unanimous consent that we are grateful for the action taken by the department to fund the two full-time employees and that they have been assigned to the Executive Director of HBCU Cap Program; is that right?

MR. WATSON: Yes, sir.

DR. FRANCIS: We want to thank the action of the Secretary for adding your assistance. Unless there is an objection to that, we will put it in the record as consensus from the Board. We are not going to add for one more until we see how the first round goes because if we need to, we may need go back to the trough. Let's talk about new market tax credits.
MR. WATSON: During the last Board meeting, the Board asked that I do more investigation about new market tax credits and utilizing those with the Cap Finance program. We actually met with staff, Department of Treasury, Community Development, Financial Institutional Fund. They actually are the people who are in charge of the tax credit and give people the ability to make tax credit.

DR. FRANCIS: And that's as Treasury.

MR. WATSON: Yes. We discussed, we went through several scenarios as to how we thought we could make it happen. We both came to the conclusion that it would not be something that could happen to Cap Financing, unless there was a change in the laws. It would have to be a change in law to allow the borrower to be something other than a HBCU, there has to be a change in the laws to allow the New Market Tax Credit Program to be eligible under the program.

DR. FRANCIS: So it would be a compliment -- tax credits would be a compliment to the --
MR. WATSON: Cap Finance.

DR. FRANCIS: And until you change the legislation that's not going to be possible.

DR. BASKERVILLE: But there's community development corporations.

MR. WATSON: Right, but HBCU is the only borrower, not -- the borrower has to be HBCU itself.

DR. BASKERVILLE: For our finance program but the way they can augment it is use the New Market Tax Credits through their CDEs?

MR. WATSON: That's how the law would have to change.

DR. FRANCIS: The likelihood of doing that is most appropriate at this time.

MR. WATSON: I think it's something that if you want to continue to address, I think we should. I think the Board should continue us on that route.

There is a couple of pieces in there I think institutions should have probably more education on, the New Market Tax Credits. A lot of
institutions believe that if we have a new market
tax credit period, that your loan obligation goes
away, but it's a may and not a will. And so the
investor can say I want this loan taken at the end,
which means now you have to find someone to borrow
from for that additional investment.

    DR. FRANCIS: I'm for lending legislation,
but our timing is everything and I hate to open up
Pandora's Box, if you had to change the legislation
somebody might be eliminated.

    MR. WATSON: Is this something we should
continue on or not?

    DR. FRANCIS: It's on the mind at the
moment. The timing may not be the best for us
trying to change the legislation. I'm not
optimistic about the future and our legislation
will take place, so if you don't have to open that
Pandora's Box right now. We are doing well.

    MR. WATSON: If at the end of the tax credit
period they don't have to get up out of that loan.

    DR. FRANCIS: Do you want to go to Disaster
Relief?

MR. WATSON: Yes. The Board recommended that a Disaster Relief Grant Program be created, developed -- in HBCU program. And the Board asked for more detail how that will be implemented. The department already has a disaster relief program for all higher education institutions.

In the Higher Education Opportunity Act of 2008, Congress created this program which allows any institution in the country to borrow money if they were declared a natural disaster. However, Congress has not -- to fund this program. So what I actually did, I looked at that program, looked at what we did for Katrina schools, and I sort of created a program out of that with more details with regard to definitions, how the program would work, that you need to -- has to be declared a natural disaster by the President, you have to seek funds from FEMA, your insurance -- before you come to the program, you have to have evidence that you have done that, you have to have evidence that you
applied to SBA but not necessarily received funds from SBA.

The purpose of that is that we want you to take all other sources of income, all other sources of getting your campus back online before coming to the Cap Finance Program. Again, this would have to be something in addition to the $20 million that we asked for subsidy and with the grant program, for every dollar we request is actually a dollar out there. So it's not like Cap Finance who gave us $20 million, we can leverage that from anywhere from $180 million to $367 million.

We asked for a million dollars for this grant, Congress is going to have to appropriate a million dollars. We asked for $100 million, Congress is going to have to appropriate $100 million. Congress has a loan program that has various provisions for our education and they have not funded them.

DR. REAVES: So I saw Shaw and St. Aug in there, both of which were hit by hurricanes, so
none of that is under disaster relief, that's just
the straight loan program?

MR. WATSON: No. Shaw was actually -- the
hurricane for Shaw, that was after they had already
come for a refinance in the Cap Finance Program.

DR. REAVES: Okay.

MR. WATSON: St. Aug, they applied for a
loan through the program, but they have not applied
for a loan because of a disaster.

DR. REAVES: Okay. So how do you
differentiate? I mean they had a lot of
destruction there and they're going to renovate
those buildings, how do you differentiate?

MR. WATSON: Shaw had already borrowed
through the program and the president at that time,
she and I had discussed about Cap Finance and how
Cap Finance could be utilized. There is no one
percent, there's nothing. You have to come back
through as a regular borrower to support that debt
for which you are looking at.

They have insurance proceeds. Various
schools in the program are required to have insurance to take care of those kinds of things. What the president at the time wanted was to have a lower interest rate which would allow them to be -- a lower interest rate to do those sort of things instead of relying on proceeds.

The current interim president of Shaw has put all those buildings back online except one which they are going through some work on that through insurance proceeds and other things.

With St. Aug, I actually talked to Dr. Suber. She said there was some wind damage, a lot of trees and things had fallen, but it wasn't anything where she would want to borrow. They are coming through now, not anything that affected them during a disaster, but they are coming through for a new project, it's a new project, it has nothing to do with a disaster.

DR. REAVES: Thank you.

DR. FRANCIS: This sounds a whole lot like the Stafford Act.
MR. WATSON: I looked at the Stafford Act. A lot of the process and procedure have come through the Stafford Act and from that we are -- and that's where the idea of this grant program come out. I thought it was attached to here, but it's not, but I'll have it sent out to you through an e-mail.

DR. FRANCIS: Just for the record, the Stafford Act needs to be amended to deal with -- the current Stafford Act, as written, neglects to cover a afternoon thunderstorm.

MR. WATSON: What I used was twofold. As I said before, the area has to be declared a national disaster by the President and a thunderstorm would not happen. A lot of institutions go through storms and things like that and you will have wind damage, but the area, not the institution, but the area has to be declared a national disaster, if you will. It would be very different from if you had a storm and your institution is affected, that area has to be affected as a whole. And the President
does not always provide -- during a storm every place that's hit by a storm is not declared a natural disaster.

DR. FRANCIS: Let me tell you two things. I had no idea about FEMA and the agency, but private schools could not get into FEMA money until they had gone to SBA to make the loan. You could get money for Section 8 to mitigate the mold, but once you have done that and you say now I want to do some serious renovation, they say you got to go to SBA to borrow money.

MR. WATSON: And that provision is also in there. The same provision was in the 2006 Gulf legislation for Katrina affected schools. But the only difference, you don't have to be approved by the SBA, which I modeled that language out of the Katrina legislation. So you have to go there, but you don't necessarily have to be approved from there.

Once you go to SBA -- because when a school is in a disaster, there's a lot of things that
happen. $320 million -- if we have five schools in a disaster, $320 million will not be able to support those five schools and the other schools that are looking for funding in the program, so we have to have some kinds of safeguards to do other things other than using Cap Financing.

DR. FRANCIS: Well, what we just didn't understand, we knew that there was going be many more dollars in the disaster in schools, but we had to genuflect before the SBA and I think, if I remember correctly, you didn't even have to be approved nor did you have to go there. I was praying that it would disapprove us and, of course, we had to borrow a little money, but I could go there.

But the other side of the Stafford Act needs to be changed. And the latest, Hurricane Isaac, which was a benefit to the parishes that got hit, was that FEMA now is making like insurance companies are supposed to make a certain amount of money, they make an assessment of what the damages
are and then let's say they're $200,000, they gave
you the $100,000 up front and then you do all your
accountability. But what happened at Katrina,
where are you going to get the $100,000 from?

So at least FEMA has changed the policies
that obviously still were within the Stafford Act,
but the Stafford Act should have pointed out very
specifically that, you know, this whole thing about
pull yourself up from your boot straps -- I don't
have any boots.

You should at least fund -- you know, don't
give somebody money if they had no damages, but
Louisiana law has been changed. If they penalize
insurance companies, but they don't tell you up
front how much money you are likely to get from
your insurance policy by the assessment they must
make within 30 days. You don't have the cash to do
that.

All I'm saying is, you should look at this
carefully and don't tie the FEMA to Stafford. But
I've said this to everybody I know, I could tell
this to even the President of the country, that the FEMA Act had to be amended. They are not amended in Washington without coming down and talking to the people who went through this.

MR. WATSON: The Stafford Act was just one of the pieces that -- I've never lived or visited the areas that have been declared a natural disaster, I've never lived in one, so I had to do research into the Stafford Act. And I said the legislation that was passed for Katrina and the department actually has a loan program that addressed disaster areas, but it hasn't been funded, and I'll send that to the Board.

DR. FRANCIS: Economic impact.

MR. WATSON: Economic impact. The Board recommended that we provide funding through federal sources to perform economic impact studies, to show how Cap Financing is being useful to second time borrowers and multiply our funds that are being provided to Cap Finance participants.

The cost projection is still being studied.
If you remember from the last, I had some quotes from $50,000 from someone who does it for public and private HBCUs. But others suggest that it cost millions of dollars to do this so we're still looking at this. Again, I can send you some copies of what will cost $50,000 per -- I think they are in the process of going down in price. So again that would have to be something that most of our process -- was obtained in that impact study, so I think that was very useful and can be useful.

DR. FRANCIS: I think that's a good recommendation because again I think that HBCU Cap has done has been very beneficial. And I think if you don't tell your story, the chances are you won't and we won't get the money in the future because people will keep wondering what happened to the money.

DR. HAYNES: Mr. Chairman, I raised this issue last time, the economic impact study, and Don said we tried to identify within the department and also is there someone that can assist like the
National Center For Educational Statistics which did an economic impact study. So we had some conversation, but I just had a thought today, Lezli and Edith, maybe this can happen, the Department of Commerce might be persuaded to conduct an economic impact study of this program because of the impact it has on communities. They do have resources over there; that's one place. Another place is FDIC, Federal Deposit Insurance Corporation might also have an interest, FDIC and the Treasury Department. I don't think we should leave that off the table and maybe some agencies --

DR. FRANCIS: No, no, anybody who may have some resources that will help us.

DR. HAYNES: Right, right.

DR. FRANCIS: Oh. Hi, Dr. Holloway.

(Discussion off the record.)

MR. WATSON: We just want to recognize Dr. Holloway, president of Wilberforce University in Ohio.

DR. FRANCIS: Small school with a big
impact.

DR. HOLLOWAY: Thank you.

MR. WATSON: We'll keep that on the agenda.

DR. BASKERVILLE: I very much embrace Dr. Haynes' recommendation. I would also suggest you might put out a request for our economic departments, some of our graduate students. That would be a great project someone working on his or her masters or Ph.D. program and then they could become an expert in that area.

DR. HAYNES: Maybe it's the institutions that can develop a proposal and one of the agencies would fund it. I like that. That's another way.

MR. WATSON: Funding. Again, we talk about the agency's funding, I just want to -- no matter where it comes from Cap Finance currently is not, in and of itself does not have that funding.

DR. HAYNES: If we are going through the process, maybe something could be put into the legislation that would allow for an economic impact study to be conducted, and paid for by -- maybe the
DBA could join us. I'm trying to keep the DBA engaged.

MR. WATSON: Pooled escrows has a statutory designated -- Cap Financing in and of itself, if you want Cap Financing to fund things, not just the subsidy piece, but there is an administrative part. $500,000 in 2006 to close to $350 million this year. That administrative piece covers not just the Board, it covers travel, it covers all administrative aspects of this program so.

MS. BARTLEY: I was going to say do we need to make a recommendation?

MR. WATSON: I bring that up for a couple reasons. As we go through administrative process, I travelled less this year than I've travelled in the past. The Board is meeting more frequently, but the Board portion is not cut -- we made sure there was money for the Board to get here. And so things that we want to add to increase the program like economic impact studies will need to have an increase in the administrative cost of the
programs.

Also with technical assistance, what I'm realizing is that some schools may hire financial advisors and bond counsel, what we're actually seeing is that we have a lot of work on the back end to do because whether something was missed from their perspective, so we have a lot of work on the back end to sort of clean up or go through. We can't go those things during a negotiation process because we're the guarantor, our DBA is the lender so they can't come out and say hey, we need you to do this, this, this, that's why they have to have separate financial advisors and bond counsel.

We're discovering that, so my idea is to actually have -- and we've talked about it, you heard me before about Bonds 101. I talked to the DBA, I talked with the counsel. We want to sort of get something together so we can start having a discussion about how bonds work. PMF is here as well, they have actually had something going on on Fridays, so I'm going to try to go down and see how
their Bond 101 works. But to get any of those things done, we will require more administrative money in the program.

The other piece that we are seeing, that sometimes it's a little scary to see that during title and survey work which probably one of the most -- which is the longest piece of us making a loan, is probably one of the most difficult pieces for schools, we come up with schools that have not had title and survey work done on their property since the early 1800's. I'm sorry, not early 1800's, early 1900's. There is some of the same things in play. We had school once who was doing title and survey work, and they had to go and find the person who was there to witness, one person that died, they had to find a witness and the president, who was the president at the time of the transaction. Those things are not uncommon. Not to know the property that you have, is it really yours? Those are things that we are looking at trying to provide HBCU. And again technical
assistance, trying to make it for everyone, but schools need to understand these things are important not just for Cap Finance, but the administration of the program period.

When we talk about the escrow, people often ask, you know, the program went from $130 million to almost $1.3 billion in five years, one of the big things I'm still convincing the person to my right that it's okay to have a pooled escrow. But other than that, most people understand that pooled escrow is something that if you compare your rates, your rate and pooled escrow is what you are going to get in the market, you are going come out with a better rate. So that had to be a conversation that I had with each president over time. And so, you know, the ability to have to do that and go out and have those conversations, I think the Bonds 101 and talk about title and survey before they come to Cap Finance Program, before they think about lending or those kind of things become very, very much important. And again those dollars we are going to
need above the current $354,000.

DR. FRANCIS: How do we do this? I think we
need to be very supportive of, one, the goals of
financial literacy for doing bond work and making
sure the house was in order and so forth. Do we
recommended that you pursue this activity and at
the same time recommend that funds above the
current budget of the office be extended to
accommodate achieving those goals, is that the way
we have to do it?

MR. WATSON: Yes, sir.

DR. FRANCIS: And do we have an estimate of
what you think that might mean, $50,000, 75,000,
$100,000?

MR. WATSON: I would ask for $50 million,
Mr. Chair.

DR. FRANCIS: Now you've left preaching and
got to meddling.

MR. WATSON: Usually the way this worked,
I'll ask you for more concrete things on how this
will work, and I'll talk with Edith and Lezli and
Johnny Taylor as to what that amount would look like so I'll have some concrete figure. I just want to make sure the Board is supportive of this kind of action.

DR. FRANCIS: Well, let me get a motion from this Board that's indicating its approval or disapproval of the activity that is included under technical assistance; which embodies helping institutions and the HBCU community to get more knowledgeable about, and more available for advice on bond financing, and of course the loan responsibility; the knowledge of what they own or don't own and to do it now before they come to the bond agency, because you can't be funding money for things that we don't own. Maybe that's that incentive, if you fund the ones that you don't own and take that money and put it in operations, we all go to jail. We don't want to do that, so it's important for helping institutions do this. Let's get the advice and counsel of the Board. Any Board members like to react to the proposal?
DR. REAVES: It makes sense and so I move it as a motion.

DR. BASKERVILLE: Second.

DR. FRANCIS: Any other discussions on this? I personally support the motion because this is a new arena for many schools and there are some things that, you know, we don't get around to doing that later gets to be a problem for us. So as much as advice and counsel and information you can give under the law, we would support that but cut your millions down a little bit, Don.

MR. WATSON: $50 million we'll be asking for to make loans.

DR. FRANCIS: All right. Any other questions? All those in favor please signify by saying aye.

(The members voted.)

DR. FRANCIS: Opposed? The motion's carried. Don, what else shall do we have on this fine agenda we've covered so far?

MR. WATSON: I guess we move for the
comments.

DR. FRANCIS: Okay. Then it's open for public comments. We have covered almost all of the recommendations we made the last time. We added a couple and amended a couple and we also are going to talk about when we meet again, so the floor is open. The Chair will recognize anyone who wishes to speak.

MR. WATSON: Well, first how many people have public comments so we can get some idea of that? How many people would like to speak on the record? Just one.

(Discussion off the record.)

MS. HARRIS: My name is Andrea Harris. I'm with the North Carolina Institute of Minority Development. And I probably have made more comments than anybody else in 2007. For the record, nobody was making comments. And when I recognized that the only people attending the meetings other than the members of the Commission, were people who were trying to get business from
HBCU or do some business under this program, so there were no disinterested third parties in the room.

My interest is just in trying to strengthen the position of HBCUs because I think they are of tremendous economic value and I think that they are businesses simply in the business of education and their products are students.

In North Carolina we have been around for about 25 years as some of you know, and we were a creature of the Department of Commerce, the HBCU community and the Legislative Black Caucus Foundation, so we feel a tie there. In 2000, North Carolina passed the largest higher education construction bond in the country, as you know, $3 billion. Our work there was to make sure on the front end, as they prepared and worked on that, that the public HBCU in the United States was going to get their fair share. And, secondly, that minority businesses would have an opportunity to do a significant part of that work.
So we've been through construction, the GNP, and I know about single prime, multi prime, our gross national product, construction management at risk, we own about four construction plan rooms, offices around the state of North Carolina, two of them are in partnership with HBCU.

But my intent was to simply say that I wanted to commend you for your continued work on this issue of pooled escrow.

DR. FRANCIS: My swan song.

MS. HARRIS: So I do hope that you continue to look at some other alternatives to that. I'm not opposed to -- not one that's opposed to escrow, I am opposed to pooled escrow. And I would like to recommend that the Advisory Board at some point have some conversation around how you, perhaps, institute some penalties to speed up actions where there may be a default so that there is not a decade or so of loss of revenue to those who are in the program, and there is no incentive right now to act. And that is not to say that I want to see the
demise of any institution, but I do think the people need to be responsible. And so I would encourage that we not allow students to lose their escrow over a period of a decade. That seems to be quite a bit of time.

I would want you to know that I have requested that the Center for Responsible Lending and the New Consumer Financial Protection Bureau, I have had an opportunity to meet with and testify before the New Consumer Financial Protection Bureau, that they took a look at this program. And I would ask this Advisory Committee meet with those leaders to look at other federally funded financing programs in comparison to this program.

This program has performed exceptionally well and I do think you can get some support and assistance in expanding the program and also addressing the components of the program that you see as inhibitors to HBCU. They were quite willing and open to provide assistance where they can.

(Discussion off the record.)
MS. HARRIS: Also in line with the recommendation that came from the Chair, I would like to encourage you to tell your story, because I do think that there is an exceptional story to be told here, particularly again in comparison to the outcomes of other federally financing programs that deal with capitol projects. I think you have an exceptional story to tell. I want to thank you, Don, and I think somewhere that ought to be a matter of record; that you have such a large staff to do such tremendous work. I want to thank you for your commitment and I appreciate you.

I would like to also encourage that you seek notes from partners that can help you in this effort of looking at economic impact of the program and of HBCU. And as you know, we took full advantage of the Institution of Educational Statistics, the individuals that they used in their study and that we're partnering with him now to do specific economic impact analysis for us for various HBCUs in North Carolina. We've probably
done about six of them so far. We did all of them collectively and then came back and we've done about six or seven of them thus far.

These documents are helping the schools better position themselves in their respect to regions and host communities, because people get a better understanding and they see them as this and this and they're better and more capable to engage the corporate community.

I would say that who does the study is important because it gets you around all that credibility stuff, so I would encourage that you look at that.

I would like to recommend that in line with the comment that John Wilson made, that we also take a look at expanding, you know, I would not want this committee or Advisory Board to be your own ceiling. But I would encourage you even in these tight economic times to still be bold and in line with what he was mentioning in terms of academic incentives.
Even though you have the HBCU Capital Loan Program, perhaps that program could be expanded and you could also initiate another component, which would be a PRI, a program related investment, that could be utilized as an academic incentive so that as people do whatever you see, you know, run their programs accordingly, it can be deemed a forgivable loan.

And you might be able to use your position as an Advisory Board as well to bring some of those foundations around the table that would be willing to accept a PRI as incentives in that regard. I would like to ask for your continued -- as an Advisory Board -- your attention to incentive impact default ratio may have and that graduation rates may have on our HBCUs.

And in this period of transparency, I would hope that we continue to work to avoid any conflicts of interest. And I said that before and I will say that again, I think that financial advisors, the institutions should disclose that
they have no conflicts of interest. And I think the same thing when it comes to TA training and technical assistance.

Again just lastly, I would like to commend you for strong leadership, but I would still ask that sometimes we are our own ceiling. We've heard that before when we were trying, I think, back in 2007, 2008 to change the level of incumbency that came with this program, so that all of the schools' assets were not incumbent, and trying to lift that feeling.

So I want to thank Edith, Anita back here, all of you offered your help in trying to get that done. It was a small core of people that made that happen in a little time. So, Lezli, you were aware of that, so I would hope that we can make keep that same momentum going even in these kind of challenging times.

And as we've heard from some non-minorities, and the Congress, generally sometimes the challenge to HBCUs is that when people don't set a ceiling
for us, we set our own ceiling and we think we
can't ask boldly, so I would encourage us to be
bold.

MR. WATSON: Thank you, Ms. Harris.

MS. HARRIS: You're welcome.

DR. FRANCIS: Those comments are very
helpful. I think what we heard earlier today about
how much time Don has spent visiting schools is a,
if not a direct, it's an indirect assistance to
"mitigating any possible defaults," number one; and
number two, to make sure that we are being fair to
schools who are about to invest money and incumber
the institution by knowing what it is they are
going to where sometimes you're on my optic view,
what you want to do in the school does not resonate
with what reality is, and he's been doing that.
And partnering with others to the best that he can,
and we talked about that with respect to the post
economic study, the impact study because that's
extremely important. And I guess the big one is
how far we can go, and we've gone pretty far in
some of the recommendations we've made. Pool is
one, interest rates is another, and the
partnerships are also very helpful.

And I must say, my only personal worry is
that where there is -- and you didn't say this --
but you're asking for creative ways to do it, but
as long as we can stay at the moment of opening up
the legislative box, there's too many vicissitudes
there. But the time will come when we may have to
do that, but if we can be creative.

Now the tax credit one was a creative
approach to it. My question I wanted to ask you
is, in your North Carolina world, are private
schools allowed to participate in the state capital
program?

MS. HARRIS: Yes. Not like the public
schools can.

DR. FRANCIS: I understand, but is there an
opportunity?

MS. HARRIS: There are different levels of
opportunities. I'm going to ask Bridgette
Chisholm, one of our consultants, to come up and she will speak to that. I wanted to come back to say one other thing, one recommendation I do have. The Center for Responsible Lending, I think, can be an exceptional, no-cost partner, probably has more financial expertise and has been a real guide to both the U.S. Treasury, to their respective committees on the Hill, the leadership there, to the Consumer Financial Protection Group. I think if you were to call upon that leadership, that they could help you explore and look at, you know, at no cost to you, what are the other options of what could or could not work for private schools.

Initially they one, recommended to us that we look at the charter school financing program, Department of Education had because they ran that program for them. The Department of Education which made it a lot simpler, cleaner program, overdone, end of story, without all the other costs. Bridgette, you want to come up.

MS. CHISHOLM: Bridgette Chisholm, Building
Wealth in Communities, and we're financial advisors, a small boutique firm. We don't say that private schools can go through our state program like Winston-Salem State can, but our private schools and their taxes and bonds can participate in the New Market Tax Credits just outside of HBCU Capital Loan Program.

And I will say that the work that the program has done, has made other lenders much more competitive and willing to think out the box because, yes, if you compare rate to rate you can't beat the program. However, when you want to keep your relationship with that institution, you can be more creative and open up your vehicle and conservative posture of the lender, do some of these things that, by statute, we can't do, such as the New Market Tax Credits, and you have them now starting to be more in the game because they realize that institutions come through this program not because it's their only source of capitol, it's just they look at it from a competitive point of
view. And if they want the relationship, they too have to be competitive. So I think the program has done a lot for those -- emboldening those schools and their negotiating position. And they may not come through the program, but they are getting comparable rates.

DR. FRANCIS: That technical assistance 101 would get to the prospective loan applicants in the HBCU community, because even if it didn't -- cap side, they would learn how to maneuver in a competitive world in the private -- and it's expanding your base of how you negotiate.

MR. WATSON: I think I saw Dr. Holloway's hand.

DR. HOLLOWAY: Hello, everyone, I'm Patricia Holloway, president of Wilberforce University. First of all, thank you for all your work. We are a beneficiary of the program. And there are just two points I'd like to make, if I may. First of all, as we're telling the story, I think if we spin the story or frame it in terms of this is an
investment in the future of this country, that the universities are strengthened and the students are benefiting, and then the country eventually benefits because we have contributed to the talent.

I think so often when we talk about the HBCU impact, it's really from a standpoint of helping these poor schools and it overlooks the impact that these great schools have had; in Wilberforce's case since 1856 and before the Civil War. And so as we move into this century, we are framing our story as an investment in the future based on the fine legacy of the past.

And second, with respect to the availability of public funds in a given state, in the state of Ohio, there is little to -- during the tarp season, millions of dollars came into Ohio, not $1 came to Wilberforce and it was not for a lack of submission, a lack of relationships from the governor on down, from the Board of Regions on down, and vary few of the majority, if any of the majority of private schools received any of the
tarp money.

So, yes, there is a school construction group in Ohio and we can go there, but it's very difficult. And you talk about the tax credits, and I look at it from a standpoint of who benefits and who pays and the tax credit, because we are tax exempt, we receive no benefit. And even when the lender receives a credit, we're still faced with the very high interest rates.

And, yes, it's an incentive for lenders to come to the table, but it's not really based on any benefit to the borrower. And so we still would find ourselves behind the eight ball, with the excessive collateral and the excessive interest rates and the very onerous covenants. And I just want to say if there is any discussion as to a way forward, Wilberforce would be very delighted to sit at the table.

MR. WATSON: And, Dr. Holloway, I just want to clarify, New Market Tax Credits -- we would have been the lender so your rate would have been the
DR. HOLLOWAY: Okay.

MR. WATSON: But the difficulty in that is that where I can benefit from a university, for example, to do a project for $10 million, Wilberforce would have $5 million in New Market Tax Credits and Cap finds that $5 million. Then you have now a $10 million building that, you know, you have $5 million in debt service. The key to that, though, and a lot of people don't realize this or not think about this, that after that seven year period it's a balloon. So you want to make sure -- and that's what Cap Finance -- I want to make sure the lender knows that it's a will go away and not a maybe.

DR. HOLLOWAY: Yes.

MR. WATSON: Because what I don't want to be faced with now that I have -- and I can't take a parity interest on that building -- but what I don't want to happen is that a university will actually go through this, you have to now find a
balloon payment, and you have to find a way to pay
that if for some reason the lender says no.

    DR. HOLLOWAY: Thank you.

    MR. WATSON: Thank you.

    MS. STONE: Mr. Chair, my name is Anita
Stone and I'm a consultant to UNCF and other HBCUs,
Good afternoon to all.

    MR. WATSON: Good afternoon.

    MS. STONE: I missed part of the hearing
today, but I have a question which is, in terms of
some of the recommendations that have been made
today, how will they be shared with the
administration to ensure that the ones that are
appropriate to be submitted in the President's
budget submissions for 2013, considering that we
may be working under a CR for a year, we don't know
yet, but it would be important for the President to
send some signal in his budget recommendations
regarding some of these proposals, or we may not be
able to get them included through other
opportunities in a timely manner.
MR. WATSON: We have a couple things that's going to happen. One, the recommendations that are made today, they'll be forwarded to the Secretary and the Congress at the exact same time. Once that happens, not just through Cap Finance, but John Wilson will also forward through his Board as them supporting these recommendations. So they will generally support whatever we have to move that forward. So it's going several ways.

Then we also discussed early on, if the Administration changes in January, we will resubmit those recommendations. Our recommendations won't change, we'll resubmit those both to Congress and to the Secretary once again, so there will be some continuum of what this Board actually recommended to the Administration and to the Congress. And when we send these to the Congress, literally separate from what the Administration has, so Congress can go their own route, the Administration will go their route. But if we send it to both and that's legislatively the responsibility of the
Board not to just the Administration, but to the Congress as well.

DR. FRANCIS: And we're going to try to time our meetings, we talked about that, so that we would be willing and ready to make recommendations, whatever Administration is operating. CR will be continued, I guess.

MS. STONE: It may be a year because it's gone for six months.

DR. FRANCIS: So we're trying to be as strategic as well as substantive in the recommendations we made.

MS. STONE: And to clarify, Mr. Chair and Mr. Watson, I would just say that it would be important, I think, from my perspective as a professional on the outside as an advocate, they have those recommendations submitted to the Administration well before November or definitely before December as O&B prepares to lie down its budget. As you know, many of the submissions have gone forward and they'll be putting that budget to
print, so if there's any way they could be
communicated with the Secretary and the White House
prior to the conclusion of the O&B deliberations,
that would be good. Because once the horse is out
the gate, as you know, it's very hard to get it
back in. And what we've learned from Capitol Hill
is that if certain things are not in the
President's budget, should he be the president next
year, the Hill isn't necessarily receptive.

   MR. WATSON: Exactly. I have two people
behind me, the one that's taking notes very
feverishly, he's going to make sure that we get
those out in time.

   MS. STONE: Thank you.

   DR. FRANCIS: Well, we want to thank
everybody. I was thinking about when we said about
telling our own story, I'm getting old so I'm not
going to be able to get this correct, but the old
African proverb is that until the lions tell their
own story on hunting, the tale of the hunt will
always glorify the hunter. And so we can't wait
for anybody to tell our story, but we got to tell it ourselves. Because otherwise we will continue to be the invisible man, so we got a great story to tell. All right. Well, I want to thank everybody for being here. We are a little earlier.

MR. WATSON: The meeting is adjourned at 1:14 p.m.
I, DONNA M. HALL, the reporter before whom the foregoing conference was taken, do hereby certify that this is a true and accurate record of the foregoing proceedings.

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Donna M. Hall

My Commission expires February 14, 2014