HISTORICALLY BLACK COLLEGE and UNIVERSITY CAPITAL FINANCING PROGRAM

HISTORICALLY BLACK COLLEGE and UNIVERSITY
CAPITAL FINANCING ADVISORY BOARD MEETING MINUTES

CLARK ATLANTA UNIVERSITY
Thomas W. Cole Science Research Center
First Floor Boardroom
223 James P. Brawley Drive
Atlanta, Georgia  30314

Friday - November 30, 2007
10:26 a.m.
BOARD MEMBERS PRESENT:

- DR. NORMAN FRANCIS, CHAIRMAN
- MR. DON WATSON, EXECUTIVE DIRECTOR
- DR. LEONARD HAYNES
- DR. MARVALENE HUGHES
- DR. ANDREW HUGINE, JR.
- DR. HAYWOOD STRICKLAND
- DR. CAROLYN MYERS
- DR. LEZLI BASKERVILLE (Present via telephone)
PROCEEDINGS

DR. STRICKLAND: Thank you for coming.

We have a quorum now, and we are expecting Dr. Haywood Strickland here very shortly, so I thought we might get started for those of us who have schedules. We hope to have a very productive meeting here this morning.

You have your agenda listed under 1. I have two pages. The second page, it says call to order, which we have done. I've given my welcome introductions.

Any introductions we need other than in a minute we'll do a roll call? Let's do our roll call for the members of the Advisory Committee.

Would you do that for us?

MR. WATSON: Yes. Dr. Lezli Baskerville.

DR. BASKERVILLE: Present. Good morning all.

DR. FRANCIS: Good morning.

DR. HUGHES: Good morning.

DR. HAYNES: Good morning.

DR. MYERS: Good morning.

DR. HUGINE: Good morning.
MR. WATSON: Note that Dr. Baskerville is on the phone.

DR. FRANCIS: We'll ask you to speak loudly, because she has to hear us because she's got a lot of good things to say, right, Lezli?

DR. BASKERVILLE: Yes, Mr. Chairman.

MR. WATSON: Dr. Norman Francis.

DR. FRANCIS: Here.

MR. WATSON: Dr. Leonard Haynes.

DR. HAYNES: Here.

MR. WATSON: Dr. Marvalene Hughes.

DR. HUGHES: Here.

MR. WATSON: Dr. Andrew Hugine, Jr.

DR. HUGINE: Here.

MR. WATSON: Dr. Michael Lomax.

(No response.)

MR. WATSON: Dr. Ernest McNealey.

(No response.)

MR. WATSON: Dr. Carolyn Myers.

DR. MYERS: Here.

MR. WATSON: Dr. Haywood Strickland.

(No response.)

MR. WATSON: And Don Watson. I'm here.

Very happy.

We need to approve the minutes. And let me say something before Lezli Baskerville does.

We have had the transcript of the record, which you may have had a chance to read, and we have to work out some way -- and I'm not so sure how best we do this, Don -- where we can go through those and pick out either actions that we've taken and/or maybe significant comments, but that's all, and then make this a much tighter set of minutes.

I don't know what the Federal Rules are about this. But if we did that to the best that we could, then we could certify that at least it's the substance of what the record is.

And the record will always be there apparently for posterity, unless there was some things said in the record that you wanted to correct. I would certainly entertain that now.

There may be one or two things. When a reporter does that typing, there are names that may be off here or there, but that's okay. We can correct that. But if there are any comments that you want to make that the record
indicated something you said that may not have
been accurate, I'll certainly entertain that
and promise that the next time around we'll cut
it down to a much shorter version of the
minutes and then we can approve only the
actions. Marvalene.

DR. HUGHES: Is it possible that we
could correct these as minutes, because from my
perspective, there was no coherence to what I
was reading. And I think we need really
coherence, systematic minutes that reflect all
of our actions and activities.

DR. FRANCIS: Would you help us?

DR. BASKERVILLE: I second that
sentiment.

DR. FRANCIS: Well, I think I've got
a committee of two. Lezli Baskerville and
Dr. Marvalene Hughes are going to go through
those minutes and make them coherent. And then
Lezli is going to check it and then see if they
agree.

I agree with you, but, you know, like I'm
speaking to you right now --

DR. BASKERVILLE: Mr. Chairman --

DR. FRANCIS: -- the recorder is
going to have to say it like she thinks I said it.

DR. HUGINE: And I concur with your earlier observations. Obviously, I am new, but as I read through this, it was just voluminous. And I really was concerned about getting to what the action items were.

And so while we do need coherence, as long as we do that with some degree of brevity, I certainly would concur.

DR. HUGHES: Right. Right.

DR. FRANCIS: Let's try it again so you'll know. Most of us are new. This is my second time. And I've read these, and I find that we need to just go through them and pick out were there action items there, put them down. And if there were significant comments that may bear on something for the future, put that down. And we can get it down to four pages at least.

DR. HUGHES: Or less.

DR. FRANCIS: Or less.

DR. HUGINE: Splendid.

MR. WATSON: Mr. Chairman, can I make a suggestion?
DR. FRANCIS: Yes. Yes.

MR. WATSON: If you turn to page 2, at the last meeting I provided a synopsis for the board. I'm not sure -- I believe at the last meeting the synopsis wasn't sufficient. And that's actually a page and a half. If you actually let me know exactly what it is you want to see, then --

DR. FRANCIS: Well, I must confess, I didn't see this. This is in our book for the first --

MR. WATSON: No. It's actually from the last meeting. But the last meeting it was suggested that this wasn't done right. I need some concrete suggestions how you want me to do it.

DR. FRANCIS: Okay. All right. Let me do this. This is the synopsis of our meeting that -- at least I was not there.

MR. WATSON: Right. Right.

DR. FRANCIS: What does it say here? Called the meeting, presided -- Friday, October 27, 2006. Is that the synopsis of these minutes?

MR. WATSON: Not these minutes. The
meeting prior to our April 20th meeting.

DR. FRANCIS: Okay. Well, who was on
the -- who was on this Advisory Committee when
this was done?

MR. WATSON: No one. Dr. Baskerville
was the only one.

DR. FRANCIS: Well, that's one vote
to pass the synopsis.

Lezli --

DR. BASKERVILLE: Yes, sir.

DR. FRANCIS: -- have you seen the
synopsis of the minutes of October 27th, 2006?

MR. WATSON: It was prepared for our
last meeting, our April 20th meeting, so it
was -- everyone had it.

DR. FRANCIS: Okay.

DR. BASKERVILLE: I don't -- I don't
have it in front of me. I'm sure I had it. I
can quickly get that notebook.

DR. FRANCIS: Well, no. Let me get
out the conundrum. One, you're the only one
who was there for this synopsis. And nobody
here could vote for this -- may vote for the
form of it, but I don't think any of us could
vote to say that this is exactly what happened.
And what I'm going to do with a consensus, if you don't mind, that what we have just talked about before Mr. Watson pointed this out, this is what we're trying to get to.

MR. WATSON: Okay. Great.

DR. FRANCIS: So on the matter of getting it down to a synopsis, that's what we're trying to do. But we can't today pass on these October minutes because we were not here except Lezli. So I will defer this in terms of its substance to Lezli so you will look at it, because the other members are gone.

However, after we get a chance to take a look at this on its substance, then I think at the next meeting we can say do this for what we read for the meeting of the past and the one that we're going to have today, okay?

MR. WATSON: Great. Great.

DR. FRANCIS: I know that's a lot of work, but -- I hate to say this, but for those of us who have been on boards and the like, I don't want to sit before a grand jury one day and say, now, you agreed to those minutes, didn't you?

So it's an important -- it is an important
action, and it's a lot of work. And I think,

if anything, we will defer at least the action

on the minutes of the one for April knowing

that we read the transcript and then ask that

you do the April one in this format.

And then at the end of this meeting, we'll

have our nice recorder's work, and you will do

the same thing. And we will put both of them

together so that we will agree that they

represent what it is we have done, okay?

DR. HUGHES: Does that mean that when

we see the minutes of this meeting --

DR. FRANCIS: Right.

DR. HUGHES: -- they will be in

appropriate format for minutes rather than the

dialogue?

DR. FRANCIS: Yeah. What Mr. Watson

is saying is this is what he has done with a

similar meeting that was held at Howard, to do

a synopsis.

And if we agree -- and you can contact --

if you agree this meets what our needs are,

then he will do that for both the meeting in

April and the meeting that will take place

today.
MR. WATSON: I do want to make a point of clarity, though. The Federal Guidelines Act, because this is a federal advisory board, dictate that after this we receive the court report. And at least three weeks after this meeting, Dr. Francis, as the chair, has to certify the minutes. So that's what the court reporter has done, is transcribed the business that we've done. But you won't have this synopsis format at the same time.

DR. FRANCIS: The time is too short for you to do it in. I don't mind signing that that's what the court reporter has done. It's just a matter of our putting it in a format that would pick up the major parts of it. I mean, you know, I see a lot of things and I break my sentences up, and then I read it and say, whoa, I better do a better job in how I speak. But at the same time, at least we have the document itself. And that's the audit trail from which we will go back to, Ms. Grammar notwithstanding.

DR. HUGHES: You've got to get it right, Dr. Francis.
DR. FRANCIS: Get it to what we did.

Welcome, Doctor.

DR. STRICKLAND: Good morning.

DR. FRANCIS: I know it's a long way
from Texas. Takes a plane a long time to fly.

DR. STRICKLAND: Sure does. Then you
can't find your way once you get here.

DR. FRANCIS: Have to talk to the
president about that.

MR. WATSON: I want to note that
Dr. Haywood Strickland has arrived.

DR. FRANCIS: For the record and the
minutes.

Okay. We have certified, and I will
certify -- I'll certify the minutes from April
and I'll certify these at the end of this
meeting. And then we'll come back in our next
meeting with the synopsis, okay?

MR. WATSON: Okay. Great.

DR. FRANCIS: All right. Satisfied.

Any objections to that?

So when we write these minutes up, we will
write that there were no objections to the
actions that I've just described, okay?

I'm not going to take a vote on that.
It's a consensus. Because I don't want to argue this for another 20 minutes.

Let me thank Dr. Broadnax and his team for inviting us here to this great campus. I have to say, I can't remember when -- I can only date it when the Republican group in the Congress rebelled and took over as the new order in a revolt. And that was how many years?

DR. HAYNES: '94.

DR. FRANCIS: '94. So if it was '94, I came here as a SACS chair of the legal team to look at the consolidation of the undergraduate school and the graduate school at Clark Atlanta University. Wasn't it '94, give or take? Do you remember? You weren't here then.

DR. STRICKLAND: That was '88.

DR. FRANCIS: I remember being in the hotel looking --

DR. STRICKLAND: The consolidation was '88.

DR. FRANCIS: '88. Okay. Well, then when did our friend from Georgia -- Ringrich, I called --
DR. STRICKLAND: That was ‘94.

DR. FRANCIS: Well, then I came back.

I came back to do the tenures reaffirmation,

but I came with the legal team for the

consolidation. And I used the right word

consolidation. Beat that into my head. It was

a consolidation.

So I'm thrilled to be back on the campus.

And, Mr. President, we certainly would like to

hear from you. We don't have all the money yet

to provide you, but we'd be happy for your

comments as we start our HBCU Capital Meeting

this morning.

DR. BROADNAX: Terrific. How would

you like to position me?

DR. FRANCIS: Right here so that

Lezli can hear you.

Lezli, are you still hearing us?

DR. BASKERVILLE: Yes, I am. Thank

you.

How are you, Dr. Broadnax?

DR. BROADNAX: Fine, Lezli. How are

you?

DR. BASKERVILLE: Well. Thank you.

I'm sorry I'm not on your beautiful campus, but
I'm definitely with the team in spirit.

DR. BROADNAX: Well, I'm sorry you're not here so I can get my kiss.

DR. FRANCIS: Uh-oh. Cut the record.

We don't want that in the record.

MR. BACOTE: She's got it.

DR. FRANCIS: He's not a member of the Advisory Committee.

DR. BROADNAX: It's a great opportunity to be able to talk to the board a bit about our experience. And I have some wonderful notes here, but I'm sort of getting a feel for the tenor of the meeting, so I'm not going to be overly formal and retreat to those notes.

And I've got people here who really do know things, particularly my CFO, so any errors I make, they can be corrected almost on the spot so that you don't go away with a bad --

DR. FRANCIS: Would you introduce them for us?

DR. BROADNAX: Yes.

DR. FRANCIS: I know some of your great staff members, but not all of them.

DR. BROADNAX: Bobby Young.
DR. FRANCIS: Mr. Young.

MR. YOUNG: Good to meet you.

DR. BROADNAX: And my executive vice president, Carlton Brown.

MR. YOUNG: That's it.

DR. BROADNAX: So I'm well covered, or you're well covered, because you're the ones that will be injured by the bad information.

Let me say that the Capital Financing Program for me here at Clark Atlanta came into sharp relief a while after I was aware of it. It was not when I first heard about it that it became important and I thought that this was something that we could embrace and that it would do us a world of good. It came after we had gone through the financial recovery here at Clark Atlanta. And let me just say a few things about that.

When we started this watch at Clark Atlanta, we had a substantial deficit that we were facing, and an even more substantial cash flow deficit that we were facing to the extent that we were under some tremendous pressure and threat, particularly from our bond insurers.

And it finally reached a point that there
was nowhere to turn, that this institution was
going to be faced with having to do some very
difficult things in order to not have the
institution basically go into receivership.

And the conversation did get as far as the
bond insurers talking about the total asset
value of the institution and how they might
want to begin to think about sort of a ladder
or a schedule of presenting different parts of
the institution.

As I talk about this, you know, it
truncates what was more of an elongated process
and a process where we were sobering as we were
going through these conversations, because as
all of you know, the kind of medicine that was
about to be laid out for an academic
institution is totally anaphora, because at the
end of the day what it meant was, is we were
too large for the resources that we had
available to us and we had to become a size
that fitted the resources that we did have
available to us.

And so at the end of the day, consultants
came to the campus. And this was part of the
deal with the bond insurers. And we
constructed a road map for the recovery. And it was well done by the consultants, but what it involved was some major cuts. We ended up laying off over a hundred staff. We had some vacancies, so we could get rid of those vacancies, but there were bodies in over a hundred staff positions. And we had to cut programs and reduce faculty size. In total it was 75 faculty over time that would be phased out along with the programs.

DR. FRANCIS: Of a faculty of how large?

DR. BROADNAX: The faculty was over 300 at that point. About 329, 330, something like that.

DR. FRANCIS: 25 percent.

DR. BROADNAX: Yeah. Yeah. That's exactly right. So tough medicine, right? And some of the programs -- we went through an elaborate process on the campus, various committees trying to come up with ways how we could do this, because consultants did not tell us which programs. They just told us the dollar amounts that you got to hit to show that you are going to be on your way out. You
go and figure out the programs.

Now, some people wanted us to declare financial exigency, but that seemed to us that that just sort of created more turmoil. So you're going to have to work with the folks that are there anyway, so you might as well start out right now. So we did. And we worked through these committees. And we finally came up with a list of proposed programs.

And then we sat with our board and went through those. And there was some change with the board, but not a lot. And we finally came up with it. And it was five programs.

And then we started having meetings on the campus and worked all of that through. And then June 30th came, and we pulled the trigger, so to speak.

Now, also embedded in this was some other cuts. It wasn't just people, but we had to make other cuts. And one of them was the university had acquired this icon called Pascal's Restaurant. And maybe some of you read about it in the New York Times. And I always joke and say that when you're a university president and you make the New York
Times, you know you've bottomed out. And so
that I had probably gone as low as I could to
have my name show up in the New York Times.
And it was not favorable or pleasant.

But the point was, is that we had decided
we were losing a substantial amount of money
every year on this and we couldn't afford to
keep operating it. So we were going to shut it
down. And that would save us a great deal of
money.

I say all that to give you an idea of the
backdrop of what became described as phase one
of the transformation of this institution.

When I came, this was not at all what I was
thinking about doing. And I'm sure that there
are other people around the table who could
echo that. But once we got into it, we
realized that it was transformation that we
were going to be about. And the farther we got
into it, we began to think of that as phase one
of the transformation.

What we had not talked about was the
condition of the place, which was the other
part. Because as we worked through the
financial recovery, we realized that really the
big issues were competitiveness and student
satisfaction and parental satisfaction. It was
all the questions that you face every day. So
since we're on this road, then let's really go
get them. So how can we do something about the
physical plant, became a really important part
of this. We had a deferred maintenance tab
of --

MR. YOUNG: 76 million.

DR. BROADNAX: -- $76 million. When
we mentioned that to our board facilities
committee, I was shocked at their shock and
doubt about the size of the number. And we
were queried really hard about how could it be
that much.
And we finally retreated to saying, well,
you know, we invite you, just walk around
during the lunch break and you come back and
you tell us what you think it is, but you got
to go in some of the places and look around.
You come back and you tell us what you think it
is. And I think that calmed them down some
that they maybe started looking a little
harder.

And so we said, how can we then address
this problem? I've got to give Bobby Young, our CFO, all the credit in the world because he was the guy that brought me back -- he had introduced me to this program early in my tenure. And as I said, I didn't pay it a lot of attention. Didn't see the immediate value of what it could do for us.

He brought that thing back, and he said not only can we start to do something about, with this program, our physical infrastructure, which is really important to us, but it can help us with some of our financial problems that we are dealing with in the context of this recovery.

And so he began the conversations. And I had a couple meetings with people from the program, and it got integrated into my psyche in terms of this phase two, which was going to be the physical Clark Atlanta.

We've done some things with Title III. And I don't want to muddy the waters talking about that, but between the two things, Title III and the Capital Financing Program, we were able to then put together a corpus of resources that have helped us in total here.
We calculate that we've invested somewhere north of a hundred million dollars into the physical Clark Atlanta over the last five years.

DR. FRANCIS: Five years.

DR. BROADNAX: And $20 million of that is new money which has helped us through the Capital Financing Program to renovate three of our old dormitories. Because all of you know, housing is extremely important. And because we're in the inner city, which I had never thought about before, it becomes even more important.

I've always thought about residential facility as being really important if you're sort of isolated at schools like -- you know, that are out in the country. But here people say it's great. I want my child in the city but if they're freshmen or sophomores, I want them to be safe. And that means --

DR. FRANCIS: You take care of them.

DR. BROADNAX: You take care of them.

DR. FRANCIS: That's right. Guard at every door.

DR. BROADNAX: Absolutely. Exactly
Been there. And folks shaking their fingers,
as you know, in your face as they're getting
ready to leave their kids saying, "I'm holding
you responsible for my son or daughter."

So my excitement just went like this
(indicating a hand gesture) about what we could
then do and being able to get at this deferred
maintenance issue. And I had no idea earlier
on how we might do that.

This $20 million in and of itself will
virtually finish the transformation of the core
of Clark Atlanta.

Now, if I had a photograph of what the
school looked like in 2002 and what it looks
like now -- and, see, it becomes hazy to me,
right? Because I'm coming here, not every day,
but a lot of days in each week. People talking
about how different it looks.

But it will be virtually a new institution
when those dormitories -- those three
dormitories are finished in terms of the
remodeling along with the next academic
building we're going to do, which is our School
of Education which is called Clement Hall,
which is not far from here. In fact, it's sort
of right across here. When you go out the door
and go down the sidewalk, it's the building to
your left. Trevor Arnett is next, to your
right, and it's right down the hill. And
you'll notice that's going on.

It's been magnificent. The refinancing of
the debt and the money that that saved us in
the recovery is tremendous. The only sad thing
about it, it's hidden to the campus, that
probably no more people outside of Carlton,
Bobby, myself, and two or three other people
really get or understand that. And, think
about it. If we hadn't been able to do that,
that would have been another -- what?-- almost
14 million --

MR. YOUNG: Uh-huh.

DR. BROADNAX: -- that we'd of had to
find a way to come up with. But by refinancing
that debt, that saved people, that saved more
pain.

So I'm here, not only willingly, but
enthusiastically supporting this program,
because a lot of our institutions, as I've
talked to my colleagues over the last five, six
years, I know have some of the same challenges,
particularly in terms of their physical plant.

And you go around this city, and I look at the competition, Georgia State and Georgia Tech, and, you know, you've got kids you want, high-quality kids to come to your institution, and they go down there and look at all the wonderful stuff, and then come up here and say, "Well, where's the air conditioning and where's the WIFI and the rec rooms?"

And you say, "We don't have any of that, but we've got history. Boy, have we got history. So all those comforts you were interested in, just but that in abeyance, and four years from now you'll see that we were right."

DR. FRANCIS: That dog won't hunt.

DR. BROADNAX: It's helped us tremendously to have parents and people comment now about how good things are looking these days at Clark Atlanta. And the story is it's going to look even better in the short term. So by 2009, phase two of the transformation we intend to have completed, which is when those dorms will be completed and Clement Hall will be completed. And Davage
Auditorium, for those who know the campus, which had a tremendous amount of traffic -- I mean, we did everything there, all of our theatrical stuff. We do chapel there. And it seats about 500 people. And the place is really beaten up. And that will be completely refurbished with new sound systems and so forth.

So Sam Bacote and his colleagues deserve a tremendous vote of thanks and appreciation. They were patient with me because --

DR. FRANCIS: They had to be. You were so skeptical and not knowing it in the beginning. Had to lead you by the hand. But now you've got it, and look at your testimony this morning. That's going to be in the record.

DR. BROADNAX: That's why I say don't give up on those C students, that you just keep working with them, and, by George, some day you're going to see them down the road and they'll be president of a college or university.

DR. FRANCIS: Well, Mr. President, you've done very well. Let me say that. And I
preface my remarks by saying I came for the consolidation, I came then for the affirmation. And I know what the struggle was. I know -- I saw it coming at the time because you were being -- well, you weren't here, but Clark Atlanta was being inundated with students. I mean, inundated. They were hiring faculty two weeks before classes because of students coming in. And this is 20 -- what? -- some odd years ago. About 20 years ago. So all of these things sort of catch up with you. And, unfortunately -- I guess we will end with this -- for those of us who are presidents and staff, you do work that people don't see, people take for granted. Mostly faculty.

I don't blame them. I just get a little upset when they don't acknowledge what it took to get to where you are. And it's unfortunate. I think Martin Luther King said it very well. He said, "You will hear the criticism of your enemies and the silence of your friends." Remember that. And you've been there.

DR. BROADNAX: I've been there.
DR. FRANCIS: And yet you have to
keep on keeping on. And that's what they --
they don't pay you for that. There isn't
enough money in the world to pay you for that,
but they do remunerate you at least to keep
body and soul together. Of course, they are
not paying you like Georgia Tech and all the
rest.

I want to congratulate you. I'm glad you
were here to give us this report. I think it's
couraging. It's certainly encouraging for
all of us as we will talk later about why we
must keep this program going and get the money
that is needed for those others who are out
there who need the same thing, and use Clark
Atlanta as an example of what that's all about.

DR. BROADNAX: Thank you very much,
Mr. Chairman. I haven't read this piece that
Leonard has handed out, but I think one of the
things that we suffer from could be cured
through programs like this.

I mean, what people see -- it's hard to
try to talk to families about the high quality
of your faculty if they're looking at a
building that's falling down and you're going
to say you're going to teach their children in
that building. So it's really important work.

DR. FRANCIS: No question about it.

We thank you.

DR. BROADNAX: Thank you very much.

DR. FRANCIS: We wish you well, and we wish you to continue to thrive and folks downtown will look and say, "Well, my goodness look at this. We've got big-time competition down there at Clark Atlanta."

DR. BROADNAX: Dr. Brown is becoming just a first-class cheerleader. I mean, he talks loud and strong about us being the force. It scares me a little bit, you know, this force, not only in Atlanta, but in the region, in the world. So, you know, I have to drink my strong coffee to try to --

DR. FRANCIS: We know Dr. Brown very well. And you can always point the finger and say that's what he says.

Thank you, Dr. Broadnax. Appreciate it very much.

DR. BROADNAX: Thank you.

DR. FRANCIS: Keep up the good work.

DR. BROADNAX: Thanks much.

DR. FRANCIS: All righty. We will
have now the ethics update for new members.

And we have only one new member, right?

MR. WATSON: Actually, we have two new members. We actually have three ethics primers to go out. The two members are Dr. Haynes, who is the Executive Director of the White House Initiative on HBCU, and Dr. Hugine, who is the president of South Carolina State University.

DR. FRANCIS: Who is going to do the duties, today?

MR. WATSON: Actually, same as before. Very simple. I'll just pass these out.

Dr. Haynes, this is just the ethics rules of what the responsibilities are of being on the Advisory Board. One is for actually Dr. Myers as well. Although, you're not a new member, I missed giving you that the last time. That's provided you to read at your leisure. If you have any question, I can put you in contact with our attorney.

That's about it for your ethics.

DR. FRANCIS: That saved 30 minutes.

Well, my goodness, Dr. Haynes, you've seen
so many of those --

DR. STRICKLAND: He still has a problem reading them, though.

DR. HAYNES: I was a C student.

DR. FRANCIS: We want to welcome our new members to the Advisory Committee. Interestingly enough, we are only one year old or new. We're all in this together.

You've been with us Doctor, what? How many years? You're a senior.

DR. STRICKLAND: Where? Here on this?

DR. FRANCIS: Yes.

DR. STRICKLAND: No.

DR. FRANCIS: What about Lezli?

DR. STRICKLAND: I came with you.

MR. WATSON: She's been here for a while.

DR. FRANCIS: She's the senior.

That's why her vote counts so much on that October Howard meeting.

DR. BASKERVILLE: I love being the senior rep.

DR. FRANCIS: Okay. Now we'll move on, do our program update.
Let me thank Dr. Watson for the work that he does. He doesn't have a big staff. He's got Dr. Watson, right? That means he's got to make visits, he's got to put all this together and make sure that this is all in good order. And we compliment him for that. And I want to thank you, Mr. Watson, for that. But I'll turn it over to you now for your director's report as we go along in this meeting, on schedule, too.

MR. WATSON: Actually, I'm the only Department of Education employee, but there are other people who work with me to make this happen, Commerce and PMO folks that make it happen for me as well. I had to put that out there.

DR. FRANCIS: We know that, but you got to carry that load on the Department of Education side. These guys -- I know what these guys do. They do what Dr. Broadnax just got through saying. This is what you've got to do. This is you. Okay. Go ahead.

MR. WATSON: On tab -- it's tab 7 in your notebooks. It's the director's report. I'm going to highlight some things here. Of
course, if you have any questions, I can
address your questions as we go through the
report. I want to thank the Chairman of the
Board for allowing me to provide this report to
you.

The first item, as you'll see, is our
Barber-Scotia update. Barber-Scotia is the
only loan that is in default in the program.
During the last meeting I reported that we were
going out to do an appraisal. We had not yet
looked at it.

We have looked at that appraisal, and
we're taking the next steps to review the
market conditions and those other things that
are important to see what we can actually get
out of a foreclosure if we were to foreclose on
this property.

The Department, along with the trustee,
the designated bonding authority will do all we
can and recover any outstanding --
Barber-Scotia's outstanding loan, but until we
actually make a sale and foreclose on this, we
can't say with certainty how much we would get
for a particular property or Barber-Scotia's
collateral.
We're in the process of retaining an after broker to see what those market conditions are for a property such as a college. And we also -- within the Department of Education, we'll look to see what alternative uses of the property -- the property can be used for. So far it's been said possibly a military academy. There may be some interest someplace on a charter school, something like that, but there's nothing as of this date. There's no one interested in that as an alternative use within the Department of Education.

DR. FRANCIS: I don't know if this is a fair question or not, but I thought I read that Barber-Scotia was trying to recover and go on and start a campaign. From your comments, it doesn't sound like that's going to happen.

MR. WATSON: Well, I've been here for about a year. And prior to me coming, Barber-Scotia has been working on this plan. I've made several visits to Barber-Scotia. I've been in contact with President Flamer as well as members of their board to try to help them work out a plan. But, I mean, as of this date, we have not yet seen any plans from
Barber-Scotia.

As far as from the standpoint of the borrowers within the program, we have to proceed forward. Borrowers in the program actually plan for Barber-Scotia's debt service. That's presently a 5 percent escrow within the program. And so for those other borrowers in the program, we have to proceed to make some kind of -- make those borrowers whole again.

DR. FRANCIS: How many in that group?

Five?

MR. HANSEL: That are subsidizing the Barber-Scotia?

DR. FRANCIS: Yes.

MR. HANSEL: It's about 10 or 11.

DR. FRANCIS: So what you're saying for the record is that, like in any business deal, you have to foreclose, sell the properties in order to make whole the money that was borrowed as well as the monies that were in escrow to pay.

So, I mean, it's just not Barber-Scotia that's at risk. It's the trust fund for the others that --

MR. WATSON: Right.
DR. FRANCIS: So you've got to make
that whole to the extent it can be made whole.

MR. WATSON: Right.

DR. FRANCIS: Okay.

MR. WATSON: Now, the problem is
also, as I informed Barber-Scotia with --
Barber-Scotia wants to come up with a valid
plan and that kind of a thing, which we would
consider a release of collateral, but we have
to move forward.

DR. FRANCIS: I understand. I
understand.

DR. HUGHES: Can I ask a question?

DR. FRANCIS: Yes.

DR. HUGHES: In applying for the
loan, I assume Barber-Scotia was required to
put forward its payment plan and receive
approval according to the payment plan.

MR. WATSON: When you say payment
plan --

DR. HUGHES: To repay the loan.

MR. WATSON: Right. They had a debt
service.

DR. HUGHES: So something must have
happened. I think there's some lessons to be
learned here. Something must have happened.

MR. WATSON: I'll say this. I'm sorry. Are you finished?

DR. HUGHES: I'm just trying to learn.

MR. WATSON: Okay. Well, Barber-Scotia actually defaulted --

Barber-Scotia lost its accreditation. And I'll say here, and I'll say it anyplace, if any institution loses its accreditation, it loses Title IV eligibility. And once you lose Title IV eligibility --

DR. FRANCIS: It's a death penalty.

MR. WATSON: No matter how large your endowment may be, it's only -- at some point your institution is going to have to close, close its doors. And that is why Barber-Scotia actually -- they lost their accreditation and Title IV aid.

Most of our institutions are heavily relying upon tuition, which that tuition is funded through Title IV student aid.

DR. FRANCIS: Well, for somebody who has been at this for a while, I can assure you from the day one, I have said all along,
irrespective of borrowing money, if you lose
any steps in financial aid in Title IV from the
government, you're out of business.

I mean -- and, fortunately, thank God for
every administration in Congress over the many
years that we've been, financially it has been
there and it continues to be there. But it's
not a day that we should not be trying to keep
Title IV.

And that is -- I mean, that is the answer
to your question, that when you lose the
accreditation, you lose Title IV funds with
students, it's your backbone, and the bottom
falls out.

Yes. Sam, you wanted to say something.

MR. BACOTE: I just wanted to say, as
the DBA, it's part of our job to advise the
Department really the likelihood of the school
making payment. And prior to the loss, it was
not believed that that would occur. So we
believed the school could make those payments.

And then the loss occurred.

MR. HANSEL: To follow up on that --
but, you know, your point -- to your point,
Dr. Hughes, your question is, are there lessons
to be learned from the default. And I would
tell you that both the Department, the
designated bonding authority, and our counsel
Patty Wilkinson, have worked together to try to
look at the Barber-Scotia situation to see,
okay, what are the lessons to be learned from
this in terms of making sure that security is
properly documented, making sure that there's a
full understanding of how these loans are
secured.

Dr. Francis has talked a lot before about
the fact -- you know, the nature of this -- the
general program with the cross-collateralized
escrow. To a certain extent, you know, all of
the borrowers are put together.

And so if one has a problem, it becomes a
problem for the body of the borrowers. And so
it's very important for the Department, the
designated bonding authority, and our counsel
to work together to make sure that these loans
are as secure as possible, partly to protect
the Department's financial interest and the
interest of the federal taxpayers, but also to
protect the financial interests of all of the
program participants who are pooled together.
And so we really have, I would say,
tightened up how we look at that. Not so much
tightened up in terms of the loans that we
make, but make sure that everything is properly
documented and secured in such a way, you know,
hopefully, this won't be an issue ever again.

DR. STRICKLAND: Mr. Chairman, I'd
just like for the record to say to Mr. Watson
that though he is 90 percent correct, he's not
100 percent correct, that an institution can
lose its accreditation and move back into
viability.

I happened to take over one in 1994 I knew
was going to lose accreditation within a year,
and lost financial aid. And it's now restored
and part of SACS and all and thriving. So
there's some leadership kinds of things that
often take place that --

DR. FRANCIS: No question about that.

DR. STRICKLAND: -- offset that
statement.

DR. FRANCIS: But it's a major -- it
is a major factor. I think it was in an answer
to Dr. Hughes, what was the --

MR. HANSEL: What was the
precipitating factor.

DR. FRANCIS: Where was the link?

And that was the link.

DR. HUGINE: I guess the question it raises, I'll make this comment, when an analysis is made as to whether or not an institution has the ability to pay, I suppose that's more financial and based on enrollment projections. But is there another part that would deal with the programmatic aspect of it more towards, you know, is the institution in jeopardy of losing accreditation or other -- those programmatic factors, as opposed to just purely the financial factors.

MR. WATSON: Well, a couple things happened. Before I came to this program, I actually worked in Title IV. So when I came on board and I heard about the Barber-Scotia situation, I started thinking of situations in which a school could close programmatically.

Two reasons. One was called default rate. And so I asked Sam to actually make that part of our application.

DR. HUGINE: Okay. Okay.

MR. WATSON: The other piece, I'm
actually in talks now internally at the
Department with our accreditation staff to see
if we at some point can -- if there's a way in
which SACS or someone else can let us know in
advance when they're going to look at these
institutions, so we can start to have a little
more involvement with where an institution may
stand in its accreditation or get some insight
on accreditation, more than just what we have
today. So I sort of want to expand those
things. And that's something, I guess, lessons
learned and --

DR. HAYNES: I think we have to be
very careful.

DR. STRICKLAND: This is our
conversation at our last meeting, that SACS
should not be a part of this process.
I fully understand the fact that you want
to know whether or not a school is reasonably
expected to continue, but I think that you will
destroy the program if you begin to use SACS as
a vehicle by which you determine -- I know
you're not saying that.

MR. WATSON: Right.

DR. STRICKLAND: But we need to be
careful when we go down that road.

DR. HAYNES: The Department, as you know, Don -- the Secretary recognizes accrediting bodies. We don't actually do that. So we have to keep that separation there and not invite or encourage the regionals to do things that they think they're doing at our request. So we have to be very careful about that.

MR. WATSON: Just let me clarify for the record. I was not suggesting that SACS or anyone else be involved in our process. What I was suggesting, that you can see an institution -- and, again, we need information from the institution. And that's where we requested information from.

But if we're about to make a loan on an institution, and all we're relying on is documentation that's, say, ten years old, in their accreditation, then we need to -- and we know it's not going to be accredited again, we need to ask the more -- we can ask some more pointed questions.

The Department does have regulations which will guide us in some idea of what happens in
accréditation. So we can ask more pointed
questions to the institutions, not -- I'm not
suggesting at all to go to SACS or anyone else
other than the institution. That's who we work
with, the institution, to get information from
those institutions.

So that's what I'm looking for, to ask the
institutions more questions about their
accreditation and where they stand. You know,
if you have anything that we need to know -- I
mean, because we want to be a helpful body, not
necessarily just to make loans, but, again, we
want the institutions to last.

DR. HUGINE: And you are correct. I
don't think that we want the Southern
Association coming in making that kind of
assessment and determination. But, again, if
you go on the financial side, you bring in
experts, you bring in bonding persons who kind
of review the books and be sure that everything
is in order.

It would seem to me that, not SACS, but
the program itself could have similar persons
that come in and look at the information which
is provided to make some assessment. They
aren't passing judgment on the accreditation of the university or none of that, but they are assessing the information that's been presented just as you would assess the financial information to see whether or not there's a likelihood that this institution would be able to maintain its accreditation.

DR. FRANCIS: And that's a part of your system.

MR. HANSEL: I would tell you, that's part of it. It's important to note that Barber-Scotia lost its accreditation, not as part of the tenure process. It lost its accreditation very suddenly as a result of certain actions that the university had taken. I don't want to really go much further into that. But this was not part of its normal review, and it's really not something, frankly, any of us could have foreseen.

DR. FRANCIS: I think that we said last meeting -- and Dr. Strickland raised it -- we've had bad experiences -- or let's put it allegedly information being provided that should not have been provided by the Association.
DR. HAYNES: Yes.

DR. FRANCIS: We don't want to -- we want to separate the two things. However, the issue stays with the HBCU Capital Financing Plan with the institution. And all of those questions that you have to answer, whether it's enrollment, what programs you're going into, what it looks like, which is important wholistically, but not passing on -- now, accreditation is a matter of public record so that if, in fact, you were on probation, for an example, that's public record. Sure, that's one of the questions we ask, how are you doing with respect to dealing with that? That's a legitimate -- that's a question that goes to the institution, not to SACS.

MR. WATSON: Exactly.

MR. HANSEL: That's exactly right.

MS. WILKINSON: Couldn't you think about instituting policies and procedures that would have on the front end of a loss of accreditation type of monitoring with the school, and then to establish some policies in what you would do in a generic situation if a school lost its accreditation?
Because we sort of went through the Barber-Scotia -- and I think that there were ideas on the Department of Education side, but I think you have to be very careful in terms of stepping over the line and getting involved in how Barber-Scotia resolved its situation. So it seems that you have to really consider as a board all the policy issues and how you want to proceed with the school if you ever got into the situation again.

DR. HUGHES: Let me raise a question, because I'm concerned about Barber-Scotia, but I'm also concerned from a larger perspective. There is an aspect of this that clearly relates to managerial accountability. And I know that it is the responsibility of the management of institutions to be accountable. But when it's very apparent that that's not happening, at what point does something else kick in?

No, it should not be SACS, but at some point there should be a check on fiscal accountability. And I even wanted to ask Dr. Broadnax that, because I know what he walked into, but it's very, very important that
we raise those questions and decide how to give
assistance.

DR. FRANCIS: Well, I think that's
absolutely correct. I think you put your
finger on it. It inures back to management of
the institution, that if it is having problems
with this agency over here, that you know what
those are you. You go to the right side for
consultants to handle the problems that have
been identified, but you don't go to the agency
that's evaluating you. You go to an agency
that says how can we get auditors in here to
make sure that our auditing report is right, to
get a look at what is the inventory of the
prospects of students and so forth. I think
it's really back to management without
question.

And for the record, or not for the record,
but for the record, right now in the Higher
Education Act there is a major battle going on
with respect to the accreditors' concern about
the federal government's entry into requiring
certain things of accreditors that will come
back to the institution.

And the basic argument is that you should
have the institution's management, its board, its presidents and the like in control of what it is they do and that they do their own inventory about "self-evaluation."

And all the accreditor is supposed to do is what an auditor does when you audit your books. They only come in and say, "You said your mission was this. You're doing this. Does that fit?" "Yes, it does." "No, it doesn't." And it's not that they will tell you what to do.

And I think it all comes back to we have to be in control of our fiduciary responsibility. And that's why I've always said -- and the Doctor here knows it -- he was in this business -- we have to be involved in the accrediting process so that the accrediting process doesn't "ask for things that are impossible given the circumstances of higher education in terms of people."

I think if we keep it in that context -- but you have to build some Chinese walls. And I can just tell you watch the current passage of the Higher Education Act. And if, in fact, some of the language that's in the House
Bill -- it's in the Senate Bill and whether in
the Senate bill it will "be amended" to protect
the institutions through -- now, it's the
accrediting agencies that are complaining about
it.

So let me just -- so we understand what
you said and we understand what I think has
happened. I started the question by trying to
find out what is the future for Barber-Scotia.

And I think what I'm hearing is, like in
anything else, if, in fact, by some reason a
plan is developed, funds are forthcoming,
obviously the Department will look at that.
But in the meantime, like any other, I guess,
bank loan from any bank, until that happens,
the foreclosure process is ongoing.

MR. WATSON: That's correct.

DR. FRANCIS: Okay. Any other
questions on that report?

(No response.)

DR. FRANCIS: And we go back to you,
Mr. Executive.

MR. WATSON: The next item is the
results of the GAO audit. Last year the
program -- the Government Accountability Office
audited the program about this time last year,
asked us to look at several things. I guess
about three weeks ago we actually closed the
audit. So the audit is completed.

Some of the things we did to close the
audit was continue having these board meetings
at least twice a year. Inform individuals of
how the process works, overview of the process.
And we did that by creating frequently asked
questions on the Department of Education's Web
site. Customer satisfaction survey that we
send out to borrowing institutions and everyone
at least 15 days after the loan is closed.

We also -- there was an issue about
Federal Financing Bank fees in which the DBA,
had held those fees. Those fees are now being
transferred to the Department of Education.
They're also included in what's called the
Department of Education Cash Model.

DR. FRANCIS: Would you explain that.

MR. WATSON: It's just -- not a lot
of individuals look at this program as just
having the Department of Education and the DBA
designated bond authority, but another partner
in this is also the Federal Financing Bank,
which is an arm of the Treasury.

The Federal Financing Bank charges .125 percent, which is attached to a payment of a loan as sort of a servicing transaction fee, if you will. And that -- the DBA was holding that fee. The GAO felt that this was the Department's federal money and it should come into --

DR. FRANCIS: Goes back to the Department of Education.

MR. WATSON: Initially, it's supposed to go up to the Federal Financing Bank.

However, the Federal Financing Bank --

DR. FRANCIS: The Treasury.

MR. WATSON: Right. The Treasury said you all keep it. And so that's exactly what we're doing. And that money is being transferred, because as payments come in, a portion of the payment is Federal Financing Bank fees. So those monies are being transferred to the Department on an ongoing basis.

DR. FRANCIS: And that money goes into the Department's treasury, so to speak, not the Federal Financial Bank treasury?
MR. WATSON: Right. And the way you look at it, the Federal Financing Bank vehicle, the escrow, comes into play when looking at the subsidy for the program.

And we spoke earlier about the escrow and how the escrow was being affected from -- borrowers' escrow was being affected. But the Federal Financing Bank fee comes into play, too.

The final thing that the Department actually does is issue a letter of credit.

Once the current borrower's escrow is depleted, the Department issues a letter of credit.

DR. FRANCIS: All right. Next is the independent review.

Any other questions on that? Sorry.

Please ask any questions as the director goes over the results of the GAO audit.

Did everybody get a copy of that, of the Advisory Board? Do you know? I'm talking about the GAO report.

MR. WATSON: The actual report itself, I did not -- you won't find in your notebook, but my last director's report had the recommendations as well as our action items. I
can provide you all with an actual copy, if
that's what you want.

DR. FRANCIS: I had the pleasure of
getting one early right after it was released.
And I think it might be some good reading for
you to see what an audit of this program was by
the GAO.

And our executive, what he has done is he
has picked out some of the main things the
audit said we should be doing as an
organization, right?

MR. WATSON: Right.

DR. HAYNES: Norm, I would agree with
that, because you need to see the entire report
to get some sense of the tone, because it's
contained in there, and just to see the
experts, you need to --

DR. FRANCIS: It would be helpful.

Those of you who would like to have a copy,
just tell the executive and you can read that
and get a picture -- get a picture of it.

All right. The next is the independent --
you said the independent review of the DBA, the
handling of loan funds. That sort of ties in
with the one above it. It's right after -- it
says the handling of loan funds and associated
fee. That was in your outline for your GAO
report.

MR. WATSON: That's something --

we've already completed that item as well. We
actually had someone going to review the DBA,
to see if there were any programmatic changes
we needed to make, how can we improve the
program, those sort of things. We actually did
that.

And later on you'll see our program
objectives for the upcoming year and some
things that we're going to do. And those are
things that we're going to work on, what the
independent review actually told us. The
suggestions they gave us, we're going to look
at some of those things.

DR. FRANCIS: The last thing I'm
looking at on page 1 of 3, we're requiring the
DBA to submit quarterly reports on the status
of the program.

MR. WATSON: Right. Those quarterly
reports was also part of the GAO --

DR. FRANCIS: Uh-huh. Right.

MR. WATSON: The GAO basically was
saying that we need to monitor the DBA a little bit better, have a little bit more management control. Those are some of the things we're doing. Having quarterly reports for marketing activities, what kind of institutions we're looking at, what kind of institutions we're loaning to. Part of the report said we weren't looking at small institutions. We were only looking at large institutions.

DR. FRANCIS: It's interesting. It talks about student enrollments, types, locations as well.

MR. WATSON: Right. Those are part only because, although as part of our marketing program we visit many institutions, GAO just felt that the program in lending money only loaned money to institutions at certain levels.

But, again, I think most people need to realize that this program, no matter what institution you are, you have to meet the credit criteria to be able to repay the loan.

So if you're a small institution and you meet that, we have no problem in lending money to you. This report just shows what institutions we're reaching out to and that
kind of thing.

DR. FRANCIS: Okay.

DR. STRICKLAND: Is there -- was there a written review, the independent review of the DBA? Was that written?

MR. WATSON: It was a written review. It's a written review of their suggestions, things they found, things they were required to look at, things we asked them to look at.

And -- let's see -- I think it's page 3 of 3 where it says 2007 Program Objectives and it reviews the four areas in which we're going to be working on over the next year or so.

DR. FRANCIS: Let's run through, then, and get to Dr. Strickland's question. On page 2 of 3, it starts the areas of work that we'll be doing, is it not, if I'm looking at this correctly?

MR. WATSON: On page 2 of 3, actually, we're going to talk a little bit about the program cap and some statutory things that are going on. And the Secretary supported it.

DR. FRANCIS: Right.

MR. WATSON: The performance
assessment rating tool is another measurement,
another way to re-look, sort of monitor the
management program.

And then page 3 of 3 actually gets into
more what Dr. Strickland was talking about.

DR. FRANCIS: Okay. Okay.
MR. WATSON: So if you want to go to
page 3 of 3, you can do that.

DR. FRANCIS: Let me ask if there are
any questions on page 2 of 3. The first part
of 2 of 3 talks about the fact that we reached
our limit, right?

MR. WATSON: Right.

DR. FRANCIS: Over the last few weeks
we've briefed the Secretary on that. The
option -- the Secretary chose to do several
things apparently. Change the escrow
requirement to provide for our risk premium and
origination fee, and to increase the program's
insurance authority $1.1 billion.

MR. WATSON: Right.

DR. FRANCIS: And what follows are
the specifics.

MR. WATSON: Yes. And just to let
you know that the House -- the Secretary's
options and these proposals actually went all the way to Congressman Miller's office.

However, in the House itself, the only things in there is increasing the program insurance authority. The other piece about changing the escrow requirement did not make it all the way through to the Congress.

DR. HUGINE: I would like to, I guess, have some discussions of the advantages or disadvantages of what's being suggested here versus what exists currently.

One of the things I see is that neither -- and maybe I don't understand this -- but neither the origination fee nor the premiums will be returned to the borrower.

MR. WATSON: Yes.

DR. HUGINE: That's different from what's in existence now?

MR. WATSON: That's different than what's in existence now. What happens today with the escrow fund, if the escrow fund is returned to the borrowers in the case that --

DR. HUGINE: It's not used.

MR. WATSON: It's not used for delinquent payments or defaulted payments, you
turn it back to the borrower.

The other piece of that is that you have institutions who say that they don't want to be tied to -- their escrows be tied to someone else. And this is a way to get around that.

The funds wouldn't be returned because there would be a reserve fund. In theory there would be -- and all of this is -- we hadn't laid down how we'd actually implement it. But in theory what would actually happen is the reserve fund would actually have -- be kept aside for any defaults, for the Secretary to use in the case of defaults. But the origination fee and a risk payment would be attached which would give you somewhere near the 5 percent that you would pay now. It's just that you wouldn't get the money back.

DR. HUGINE: So assuming that there are no defaults, then what would be the advantage of that to what we do currently?

Notwithstanding if we don't have a default in the program -- and we've only had one, correct?

MR. WATSON: One.

DR. HUGINE: Then you've got a pot of money, some 5 percent or so that's being held
that the institutions will not get back.

What's the benefit to the universities, to the institutions, of that?

I know -- there's always a risk. I mean, the current process has a risk because we're all tied together.

MR. WATSON: Right.

DR. HUGINE: But assuming that you do not have any future defaults, what would be the advantage of not returning the 5 percent versus leaving it the way that it is?

MR. WATSON: Well, there's a couple things going on. Let me just go back a little bit. These options came out of HBCU week when the Secretary announced that she would be looking into -- someone had told her that -- it was the issues with universities in the program, current borrowers and borrowers who were interested in the program have not borrowed found that having this escrow requirement the way it is in today's program was a problem.

In that HBCU week she actually said that she would look into changing the escrow requirement as well as increasing the program
insurance authority. There was several options. And part of this -- and let me just give you a little more history. Part of this is that there's a subsidy cost. When the program was first created, the program was created at zero subsidy, which means there was -- the default risk was zero. Today the -- it went from 10 -- I'm sorry -- from zero to 10 percent of a subsidy. In the current environment the -- we have a deficiency of about 6 or 7 percent on subsidy, which the program still needs to be a zero subsidy program. And so the Secretary -- we have to have money from someplace to say this is what we're going to do in the case of a default. This was just one of the options. But, of course, that did not make it to the Congress. And if this board has other suggestions, we will look at that. But this was a way to get around institutions saying they didn't want to have their collateral tied in with someone else. It also seemed reasonable because it was -- a risk payment would be attached based on credit risk and that kind of thing. But the
origination fee -- I can't recall -- 3 percent
origination fee would be something very similar
to what someone would have to pay anyway in
getting a loan.

DR. BASKERVILLE: I'm sorry. On the
origination fee -- I don't know which
legislation or which iteration of the
legislation you all are looking at now, but it
was not my understanding that that would be
nonrefundable.

And as we worked with staff on it, there
were a couple of things that were attractive.
One was that the pool itself would be increased
to $1.1 billion so there would be additional
dollars. There would be --

DR. FRANCIS: Let's go down the line
because I'm starting to make a list. That has
been done now, right? The Secretary has
recommended to the Congress to do the 1.1?

DR. BASKERVILLE: 1.1 billion.

DR. FRANCIS: Okay.

DR. BASKERVILLE: And then the cap
would be raised to -- oh, that's the 1.1
billion. There was an origination fee, the 3
percent origination fee.
Now, when we responded in support of that -- and in our discussions we never talked about any irrevocable origination fee. I need to look at the language and see if that's what it says. But we supported a revocable fee. And then in terms of the risk premium, there was no cap in the legislation that the administration advanced, but we suggested that the risk premium could in no case exceed the 5 percent that they have under the existing bill -- under the existing legislation.

So there would be the 3 percent origination fee and a cap on the risk premium of not more than 2 additional percentage points so that the institutions that were high risk would not have to put up more than they presently do, which is the 5 percent. And the other -- the very attractive piece was the elimination of the pooling requirement that's in the current legislation. And all of our members have said that the pooling requirement is troubling because they're carrying the risk and the burden of someone else.

So that was the legislation we looked at.
And, Don, I'll look at -- I don't know what you're looking at right now. I need to revisit it. And, certainly, if it is the administration's intent that it is an irrevocable fee, then we need to be clear in our comments against the irrevocability of the origination fee.

MR. WATSON: And, again, these were only options that were provided to the Secretary. Some of the things that you're actually talking about are probably -- a borrower paying 2 percent risk premium is really, really expensive.

MR. HANSEL: It would be at the high end. Not to exceed.

MR. WATSON: I mean, that's -- DR. BASKERVILLE: So it could be none.

MR. WATSON: Right. Exactly. It could be none.

DR. FRANCIS: What's the current?

DR. BASKERVILLE: It's a 5 percent pooling requirement presently.

MR. HANSEL: With no risk premium.

DR. BASKERVILLE: With no risk
premium.

DR. FRANCIS: So the 5 percent that you have just described is similar to what happens now except that you pay a 2 percent risk premium. Is that what I'm hearing?

DR. BASKERVILLE: The 3 percent origination fee, and not to exceed a 2 percent risk premium.

DR. FRANCIS: So it could be zero you're saying?

DR. BASKERVILLE: Correct. But you still don't have the pooling requirement. So for the strongest institutions that are vehemently opposed to this pooling requirement, you don't have that. Then for the weakest, they would be in no worse position than they are now because it would not exceed the 5 percent.

DR. FRANCIS: The difference in all of what we are saying is whether or not this is returned at any point in time?

MR. BACOTE: That's correct.

DR. FRANCIS: In the current in the pooling, it's returned that which is left. It sounds like -- I guess you do an insurance.
You buy insurance, hope you don't die soon.
But if you don't die, you still don't get your premiums back. And so I think that's what I'm hearing here. As a trade-off for being in the pool, you buy the insurance with the hope that nobody --

DR. HUGINE: Uses the insurance.

DR. FRANCIS: Exactly. Exactly. But you don't get your money back.

DR. HUGINE: And maybe there is a point in the middle -- obviously, I understand the risk factor, because, obviously, if you do it in the private sector, you may have to pay private mortgage insurance. So that's not atypical.

But the compromise might very well be the risk insurance up 2 percent, but some portion of that 3 percent be returned to the institutions.

DR. FRANCIS: I think that's, obviously, what ought to be looked at, because of the things we have learned in the program, and much of what I have read, is that the institutions, HBCUs, have found it more expensive to do this program than in the
private sector.

So what we want to do is bring it down in here to be more competitive. And if the deal breaker gets to be, say, the risk fee premium, that could be a deal breaker.

DR. HUGINE: Uh-huh.

DR. FRANCIS: And what we're trying to do -- now, I must confess, the deal breaker talking strictly for me was I didn't want to be in the pool because -- that was the deal breaker. And I stayed in the private market.

In the current thing, we're not in a pool, although we are going to have a trust escrow fund to cover, I assume, what it is that may happen to us. But I'm not worried about what happens to Dillard, because they're never going to default. But even though I love them, I didn't want to be in the pool with them, and she didn't want to be in the pool with me.

My point is every bucket sits on its own base in what we are now. Now, the question is: What do you pay for that? And I think what I'm hearing is the government is saying with a zero subsidy risk, we've got to have something that meets the law. And, Lezli, you may want to
look at that.

DR. BASKERVILLE: Yeah. In fact, I've got to go over to the Hill. We're trying to come up with some language with the staff today, which is why I couldn't be there. So I'll make sure that their intent is consistent with my understanding that this would be revocable.

DR. FRANCIS: Okay.

DR. BASKERVILLE: Now, the other thing is that there is a Cohen Bill that's got some momentum because some of our members -- I think five of our members are attempting to legislate so that they can get in. And the Cohen Bill is not all bad, but I have a general problem, and it makes our lives more difficult when we try to legislate or do policy to impact five people.

But there's -- in the Cohen Amendment, in order to be eligible for the funds, you have to be a Part B institution, which is no problem. You would have to have limited financial capacity to effectively modernize your campus and compete for students. You'd have to show that you had a decrease in -- that the student
body had an increased declined over a ten-year period, that the institution had long-term debt under $10 million, that they had endowment under $15 million and some other thing. Oh, net assets, I think it is, right? Net assets under $15 million.

Well, that -- when we looked at that against what the administration was proposing, we -- "we" meaning the collective HBCU community representatives -- UNCF, NAFEO, Thurgood Marshall Group -- supported with the modifications that I just indicated the piece that the administration was showing, because our calculations showed that there were only about five or so institutions that would get in under the Cohen Bill. But they have a team of lobbyists here and they're aggressively seeking support for it. He want those five, but we want a wide range of others to be able to participate.

DR. FRANCIS: Lezli, we have a representative from Lemoyne-Owen that is going to be making a presentation to us in the public comment side which covers what you've just said.
DR. BASKERVILLE: Okay.

DR. FRANCIS: What I think we're dealing with now, which you can be a big help, if indeed there is a "constructive alternative" to what's on the table in these options now wherein the legislation -- I'm talking strictly now about the origination fee and the risk fee premium and the question of return to the institution if, in fact, there are no defaults in this.

And you've got to be very careful with that, because if you had one default, you know, you lose the ball game in a sense. You've got to have -- it's got to be nobody defaults because you -- you're either in a pool or you're not in a pool.

And so if you're not in a pool, which is positive for me, and if, in fact, there are no defaults, can the 3 percent origination fee be returned in that circumstance? That would be giving merit for good behavior, so to speak.

And if that is a consensus of the Advisory Committee's recommendations to the options of the Secretary, I think we may want to comment on that or pass that. That's not dealing with
the issue you're talking about. That's dealing
with how can we make the program more inviting
and competitive for HBCUs. Am I summarizing?

DR. HUGINE: Yes.

DR. BASKERVILLE: Correct. I really
actually need to step off for a while, because
I've got to run over to the Hill now on this.
And I will expect some additional information.

But, Mr. Chairman, is it appropriate or
are we as a body able to submit something in
writing to advise Congress as they're trying to
make final decisions on this?

DR. FRANCIS: Well, what I just
described in trying to summarize this I think
would be appropriate, but only that at this
point in time.

DR. BASKERVILLE: Okay.

DR. FRANCIS: Only the fact that what
you have just questioned, and we're all wanting
to find out are we correct. And the executive
director may be very correct about that. And
if he is, then what we're saying is, would you
consider in the legislation in order to keep us
out of a pool, in some way return monies out of
the 3 percent side for those who are in the
program where there are no defaults. I think
I'm hearing that.
It's the only way -- it's hard for me to
describe it, because on the one hand you're not
all locked together in my Louisiana law of in
solito anymore. You know, you are separate.
And so it almost has to be that everybody has
got to be no default.
Now, if you go with history, you may be
winning because you've had only one in the
years. So it's worth -- it's worth the risk of
trying to get some of that 3 percent money
back, so --

DR. BASKERVILLE: Is that worth the
risk, that is the consensus of the Advisory
Board?

DR. FRANCIS: That's what I was
trying to get.

DR. BASKERVILLE: Let me run to this
meeting, and I'll have some other information.

DR. FRANCIS: Lezli, before you
run -- before you run, strictly on this point,
is there any opposition for what I've just
described? Namely, that in keeping with the
option to separate those out of the pool, the 3
percent and 2 percent that's being recommended,
which should be no more than 5 percent, no more
than 2 percent that currently we believe would
be -- would not be returned, we are
recommending that at least 3 percent of that
money would be put back to the institutions,
returned to the institutions where there are no
defaults?
Is that -- I'm saying it as best I can in
describing that. And if there's no objection
to that, I'll take a motion to put it on, we
pass it as a recommendation of this Advisory
Council.

DR. BASKERVILLE: Okay.
DR. FRANCIS: That's strictly on this
point. Can I get a motion to do that?
DR. MYERS: I so move.
DR. FRANCIS: Second?
DR. HUGHES: Second.
DR. FRANCIS: Any questions about it?
(No response.)
DR. FRANCIS: All those in favor
state properly by saying aye.
DR. STRICKLAND: Aye.
DR. HUGINE: Aye.
DR. MYERS: Aye.
DR. HAYNES: Aye.
DR. HUGHES: Aye.
DR. BASKERVILLE: Aye.
DR. FRANCIS: Nos?
(No response.)
DR. FRANCIS: Motion is carried.
That's our recommendation.
DR. BASKERVILLE: Okay.
DR. FRANCIS: Not members of Congress, but we would recommend to the Department of Education that they pursue this in their passage.
DR. STRICKLAND: Lezli, we still have time to address the other issues that you raised about the five schools --
DR. FRANCIS: Yes. Yes. That's --
we will have the presentation from Le moyne-Owen.
DR. BASKERVILLE: Yes, sir.
DR. FRANCIS: Well, go for it right, not left.
DR. BASKERVILLE: I'll be back.
DR. FRANCIS: And, hopefully, you'll
come back when we get the presentation, because
there are --

DR. BASKERVILLE: Tell me -- may I
get a sense of the timing, because I want to
coordinate so that I am on when --

DR. FRANCIS: Well, we are moving
rather nicely and deliberating. We're not
cutting anybody off. We're down -- we
really -- we're down to -- we passed the
program data. We're in the program -- I mean,
we're on the board side.

We've talked about Congressional support
to increase the cap, which has happened. And
that was the discussion that we just had that
we went into, of course, aspects of increasing
the cap which had this origination fee and risk
fee in it. But we would be going next to the
current capital needs of Historically Black
Colleges, the needs can be met through the
program.

DR. STRICKLAND: Have we finished
with the director's report yet?

DR. FRANCIS: What?

DR. STRICKLAND: Have we finished
with the director's report yet?
MR. WATSON: Almost.

DR. FRANCIS: Almost. Almost. We have about three more bullets left of his report.

DR. BASKERVILLE: Don, may I call you on your cell phone when I need to be reconnected?

MR. WATSON: Yes, ma'am.

DR. BASKERVILLE: Okay. Thank you very much.

DR. FRANCIS: Do that. And I'd say in about 20 minutes. Stay where you can talk on the phone.

DR. BASKERVILLE: Okay. Thanks.

DR. FRANCIS: All right. Cut that off.

Now, Mr. Executive, let's go about the current capital needs. What tab are we under, 8?

MR. WATSON: Actually, it's on 9.

DR. FRANCIS: Wait a minute. Wait a minute. We have to increase the program insurance authority. I think that's where you are, right?

MR. WATSON: Right, unless there's a
question on that. I think we've gone through that with Lezli.

DR. FRANCIS: So that says the authority -- now, the authority here, it says the insurance authority would not be apportioned by public or private use.

MR. WATSON: Well, again, these are the Secretary's recommendations. This is not what was -- I wanted to inform the board what the Secretary was thinking, not what the Congress has actually done.

DR. STRICKLAND: Who's informing the Secretary's thinking of these?

MR. WATSON: I'm involved, the Deputy Assistant Secretary of the Office of Postsecondary Education, the Assistant Secretary of the Office of Postsecondary Education, the Office of the Congressional Liaison, members from the Secretary's office herself.

DR. FRANCIS: Is the Treasury involved?

MR. WATSON: No, the Treasury is not involved. I've been updating the Treasury of what our ideas may be, what ideas are floating
around, but the Treasury isn't involved in this.

DR. FRANCIS: Well, to Dr. Strickland's point, on the one that says insurance authority would not be apportioned by public or private use, you're saying that's the Secretary's, but what does the Congress --

MR. WATSON: The Congress wants to leave it just like it is today where two-thirds of the dollars will go to private institutions, one-third will go to public institutions.

DR. FRANCIS: And that's how it is now currently?

MR. WATSON: Yes.

DR. FRANCIS: And the Congress has not been persuaded to change that?

MR. WATSON: Right.

DR. FRANCIS: What's the betting odds in Las Vegas about that? Who is winning?

MR. WATSON: Congress is winning.

The Secretary brought it up because having that flexibility, it would allow the Secretary to make loans to individual schools as they came available. In the past it's been very difficult to have states borrow through the
program. Most states higher education --

DR. FRANCIS: Refuse to --

MR. WATSON: They have some state laws now where they either refuse states to allow it.

DR. FRANCIS: But it doesn't cut out public institutions?

MR. WATSON: No, it does not. We just want the percentage to go away. In fact, in the original option, it gave the Secretary the option if she saw that public institutions weren't coming in, to set money aside. But she wanted that flexibility to do that herself but not to have the Congress to say this is what's going to happen.


DR. HUGHES: What, in fact, is the history regarding public and private use of funds?

DR. FRANCIS: Sam, do you have a --

MR. HANSEL: For public borrowers.

MR. BACOTE: The par amount is 525 committed on private. It's about 110 -- well, 110 on public. That gives you some ratio there, too.
DR. FRANCIS: Okay. All right. Five to one.

MR. HANSEL: Right. Right.

MS. WILKINSON: Don, did you say -- when we saw the bill, it came out of Congress. And we asked about the public/private split. And you indicated that you were going to try and get that taken away. Have you all tried and you cannot?

MR. WATSON: I've actually asked -- well, this committee -- well, I've actually asked folks -- the folks I mentioned earlier that I'm working with about it. There hasn't been any feedback yet on it. But, of course, whatever this committee suggests, then I'll go back and relay that to the group as well. I mean, based on what's happening today, we'll probably have about $150 million to lend to private institutions.

MR. HANSEL: We're going to run out of money first.

MR. BACOTE: You'll have excess capacity for the public.

MR. WATSON: I won't say that because we want them to pass that, but --
MR. HANSEL: We're going to hit up
against the private cap first.

MR. BACOTE: We'll have money sitting
there for the public.

DR. FRANCIS: So right now the
private use has been, you said --

MR. BACOTE: About 525.

DR. FRANCIS: 525 million.

MR. WATSON: And for the record, when
the audience speak, if you're speaking, can you
say your name so the court reporter can capture
it.

DR. FRANCIS: And it's been about 5
million and 1 million on --

MR. BACOTE: 100 million.

DR. FRANCIS: Okay. And the current
law has it as what proportion to what
proportion?

MR. WATSON: Two-thirds for private,
one-third for public.

DR. FRANCIS: Okay. So you're within
that format currently? You're at 20 percent.

You have a third that you can use, okay? All
right. So nobody so far has been hurt, but the
cap is always going to be a problem.
MR. BACOTE: If we hit the 1.1 in theory, then we will have about 650ish, 675 in the private.

MR. HANSEL: 740, I think you and I figured out yesterday.

MR. BACOTE: We have 525 now, so --

MR. HANSEL: About a couple hundred million.

DR. FRANCIS: What's the likelihood our getting at 1.1 appropriation into it?

MR. WATSON: We've been -- to increase the cap and leave it at today's proportions, it looks pretty good. And that's part of where the next part of my report comes in.

DR. FRANCIS: Okay. Good segue.

MR. WATSON: The Office of Management of Budget does what's called a program assessment rating tool. What that tool is designed for is to assess government programs, see how they're working, see if they're needed, how they're performing, and that sort of thing. And just last week I met with them as well as members of the Budget Service and other members in the Office of Postsecondary
Education to talk about what kind of -- how we're going to rate the performance of this program.

And we looked at -- looking at revenue, looking at change of revenue of the institutions who borrowed through the program, how can we decrease the subsidy in the program as well as delinquent payments, and what we call persistence, which is a measure of first-time, full-time degree-seeking students.

And to look at those things and how we're going to assess how these borrowers in the program are performing at those levels.

Defining the appropriate measures in doing these surveys -- I sent out the survey, I asked the institution or any program how they'd rate the program if it was their program. Also, Dr. McNealey, who isn't here, provided some assistance in that as well. And that's how we came up with the persistence performance measures.

But the performance measures for programs who participate in Title III have always been an issue, because they put the net out for a broad group of people, but I sort of kept this
very internal to individuals who actually
borrowed from the program to get their
feedback.

And, also, that informed the Office of
Management of Budget, although these may be the
measures, that other things that our borrowers
would like for us to see to measure to improve
performance. We'll look at those things again.

I hope this will be an --

DR. FRANCIS: Ongoing.

MR. WATSON: -- ongoing process where
we're actually looking at how we measure the
program.

And how we measure this program on
performance, also, I think, will have a bearing
on some of the things we talked about earlier
and how a lot of institutions were doing well,
tell us how you're doing well.

So if an institution has fallen on some
hard times, we can maybe provide some
assistance through our current borrowers and
that kind of thing.

And we talk about also creating something
called technical assistance which will help the
institutions push these numbers up.
DR. FRANCIS: Questions on this?

(No response.)

DR. FRANCIS: Okay. Where are we now?

MR. WATSON: Page 3 of 3. And it's -- the Commerce Bank is listed there. I wanted the board to be informed that TD Bank Financial Group and Commerce Bank Corp. announced that TD Financial Bank would acquire Commerce. TD Financial is actually a Canadian bank.

I've talked with our general counsel about this. She suggested that we don't look at taking any action on anything until it's actually final. I talked with the Treasurer as well. I haven't heard back from him yet. But we don't see any -- we don't see any need right now to be concerned about this merger. It's about a year away or so.

DR. FRANCIS: So at this point, this is information that a definitive agreement for TD Bank to acquire Commerce Bank is in the making?

MR. WATSON: Right.

DR. FRANCIS: But that has not been
finalized, is what I'm hearing?

MR. WATSON: Right. That has not yet been finalized.

DR. FRANCIS: Okay. And it is being reviewed or at least being discussed by Treasury and general counsel.

MR. WATSON: Right. That's the Department of Education general counsel.

DR. FRANCIS: That's what I meant, general counsel for the Department of Education.

Nothing we can do now.

DR. HUGHES: Are there any anticipated pros and cons of a merger versus a non-merger for the HBCUs initially?

MR. WATSON: The only thing that possibly could be a concern would be a Canadian bank -- because the way this program works is that the DBA actually issue bonds which the Treasury buys. That's why we want to have a conversation with the Treasury.

But at this point, we don't see -- that would be the only thing, but we don't see that would hold any bearing as well. The DBA itself is actually a private corporation in
Pennsylvania, not -- and not Commerce. So it most likely won't affect how the program operates.

MR. HANSEL: And we don't -- Derek Hansel on behalf of the designated bonding authority.

At this point, based on conversations with bank staff, we don't anticipate any changes. There have been no changes that have been highlighted as needing to occur. The staffing is going to continue to be the same. We've had the same staffing at the designated bonding authority for about five years now, and we expect that to be continuous and maintain the continuity that we've had during our tenure as DBA.

DR. FRANCIS: But we don't know what's going to happen for sure?

MR. BACOTE: Again, it's in process.

And once the DOE counsel gets back with us on whatever it sees as concerns, issues, if any, we'll then be prepared to respond to if it requires adjustments, whatever.

DR. FRANCIS: We just want to keep close tabs.
MR. HANSEL: Absolutely.

DR. FRANCIS: It's a foreign bank, and, you know, stockholders are stockholders. And what are the socioeconomic sensitivities always play into this.

MR. HANSEL: Mr. Chairman, I can assure you that there are not two people more interested in the outcome of this than Mr. Bacote and I. So we are keeping very close tabs on it. And we will make sure, obviously, that the Department is fully informed and that this board is as well.

DR. FRANCIS: For the program itself, it's well designed for assistance to the HBCUs. And we don't want, as I used the word before, deal breaker in where it starts to become a bur under the saddle. So --

MR. HANSEL: Neither do we.

DR. FRANCIS: Okay. All right.

That's information for the record. Program review, did you cover this?

MR. WATSON: I think this is where Dr. Strickland's question was going a little bit earlier.
DR. FRANCIS: Okay.

MR. WATSON: -- about the written report.

Because of the massive paper with the minutes and other things, I sort of highlighted some of the things that we looked at, four different sections: review of different fees, the escrow fees, FFB fees, cost of issuance. And under each of those, I've actually listed things that we'll be working on to try to improve the program and to have more written procedures in how things are done.

DR. STRICKLAND: So you'll take a closer look at the issuance cost?

MR. WATSON: Cost of issuance, yes. Actually, I talked with some borrowers about that earlier. I believe it was in May, June, when we closed the last bit of loans. But we're going to take a look at the cost of issuance and develop some guidelines on how the cost of issuance is actually broke down, those sort of things.

DR. STRICKLAND: Whether or not they can be lowered or --

MR. WATSON: We're going to take a
look at the entire process. And whatever the
process is and outcome, we're going to make
sure we document those procedures so it's
actually part of the record.

DR. FRANCIS: And, again, I'm sure a
measure of all of this has to be how
competitive we are, you know, because if an
institution leans, say, to wanting to do this
with HBCU capital but finds in the private
market that they're better off -- like any
competitive business, we want to look at it and
say, now, how can we tell the Secretary and the
Congress and everybody else -- well, it's nice
to say you've got a program for us, but it
doesn't meet the private side. So let's look
internally.

If that's what this is going to be a part
of, I think we're in total support of that.
Its competitiveness is still important because
it's important for us to pay as little of a
cost factor. That's why we got the program.

DR. STRICKLAND: And, you know, the
original thought was, is this would be a better
deal for our colleges. It would not have the
same rigid requirements that are required from
a bank. So that sensitivity still needs to be present, incorporated in the implementation as it was, you know, in the development of this.

DR. FRANCIS: Exactly. And that's part of what we talked about last time and now we talk about stuff today. Your marketing has to be strong enough to say to an institution you're better off in this HBCU Capital Program than you are in the private side.

And we're getting there, but I don't think we're totally there yet. And part of what we talked about in that 5 percent in that origination fee is one aspect of that.

Okay. Assessment and internal controls.

I'm leading you a little bit. Are you ready to go there?

MR. WATSON: Yes. This is just very basic. Talks about basic guidelines of what our servicing requirements would be, selection process, how we would receive loans, distribute funds, those sort of things, how we want our institutions to borrow from the program, those things.

Some of these things are actually in our Agreement to Insure, which is the contract
between the Department of Education and the designated bonding authority. I think this sort of needs to be something a little more comprehensible of what's actually in those documents.

DR. FRANCIS: Good. Good. Good.

MR. WATSON: Again, as I spoke of earlier, part of the GAO report, although we're receiving the quarterly report, probably put some time frame on when the reports want to be.

You got some other items that can be in the reports and that sort of thing. We're looking at receiving our first annual report in January.

That's it. If there's no questions --

DR. FRANCIS: All right. Okay. What we're looking at here is just information regarding --

MR. WATSON: What we did last year.

DR. FRANCIS: -- what we did last year.

MR. BACOTE: In fact, since the last meeting.

MR. WATSON: But you'll find it behind -- there's things -- this is going to be
a book that you will have for each meeting. So
those objectives that you're looking at now are
actually things that we've already completed.

DR. FRANCIS: Okay. All right. I'm
just going past -- I'm just going in my tabs.

MR. WATSON: We can go back to tab 6
now.

DR. FRANCIS: Okay. 6 is the charter
you're talking about?

MR. WATSON: Right. I just want to
point you to the charter because the charter is
actually going to address some of the things
that we're looking for from the board and just
going feedback from the board on what -- we
can talk about the Congressional support and
program changes and things like that which may
change after we hear from our guest. But
the -- and we covered most of that, too, when
we talked about the Secretary's options, what
her thinking was.

DR. STRICKLAND: How do you define in
your charter qualified colleges and
universities?

MR. WATSON: I'm sorry?

DR. STRICKLAND: How do you define
qualified? You have stated qualified when
you're talking about colleges and universities.
How is qualified determined or defined?

MR. WATSON: Let me clarify a couple
of things. The charter is actually the charter
for this board, not for the program itself.
But the program defines eligible institution by
Title III B of the Higher Education Act, which
is the same for all other Title III
institutions.

DR. STRICKLAND: I thought you were
trying to change it a bit.

MR. WATSON: Oh, no. No.

Dr. Haynes, do you want to expand a little
bit on the concept of what you're doing?

DR. HAYNES: Go head.

MR. WATSON: We had an issue where
institutions want to become part of the
Historical Black College and University
designation. Is that what you were talking
about?

DR. STRICKLAND: No. We're fine.

We're fine. I understand now.

DR. FRANCIS: I'm at -- back here.

The last these questions, current capital needs
of Historically Black Colleges and
Universities, what tab is that under?

MR. WATSON: Actually, it's not under
a tab.

DR. FRANCIS: You just want to talk
about it?

MR. WATSON: Well, I just wanted to
hear from the board what your input was and
what -- if you had any input, capital needs of
the program, anything we need to try to look
at.

DR. FRANCIS: Well, just from this
view -- and I'll certainly ask everybody to
join in -- I think what's happened to
Historical Black Colleges and Universities
hasn't changed. The need for capital
improvements, the need for refinancing, debt
service -- and that first one I think was
spoken -- both were spoken to quite eloquently
by Dr. Broadnax with respect to that.
I mean, he found himself -- and I would
say that a number of new college presidents, as
well as many who have been at it, but
particularly new college presidents come in and
find they have got capital needs, deferred
maintenance needs, debt service needs, so
that -- those are hallmarks of the program that
still exist out there.

I think what is happening is the
exacerbation of those three areas of coming
from "HBCU's ability to compete with other
institutions," particularly well-financed
institutions as well as state institutions.

And you can't do that unless you have funds in
those first three categories, because those are
daily reminders when every president gets up in
the morning about how he or she is going to
cover those matters.

And this program has been a big help in
that. And that's the reason we spend the time
trying to cut the costs of the program. So we
can use most of that money in those areas.

Now, I'll stop with that, and then say to
the members, add some other things that are out
there, what I call wolves at the door that
we're facing as well now. This program won't
cover all of that. That's why we got Title III
and some of those others, but in terms of this
program, or the other things we want to add to
that. Marvalene.
DR. HUGHES: I was just thinking that, like you, I observe anecdotally a lot that is needed by various institutions. I think what I would like to recommend that we do for the future is conduct some kind of survey or assessment so that we have more information based upon the actual status of HBCUs rather than talking in isolation about them. Because I could go down and list and name a number of them.

DR. FRANCIS: Some of this we're picking up in your surveys from the current people who are in the program?

MR. WATSON: Right. And I'll tell you some things that have actually come up. Short-term financing has come up. And we've seen that with some current borrowers who -- we don't offer that in the program, but in trying to assist them, we've seen that as an issue.

But in it getting the surveys out -- I must admit getting surveys back has been -- that's been very difficult. I was hoping when we send out -- the next survey I send out, hey, maybe get something great. But I'll try to shorten the survey to get that kind of
information. But it's been very difficult to
get surveys back.

DR. HAYNES: Let me say I think that
the present board of advisers for the White
House Initiative on Black Colleges has also
been wrestling with these same kind of issues,
getting good information on the status of
institutions.

And I think we can probably join forces
here and go with a unified front to conduct
what I think is a much needed needs assessment,
if you will.

And I think if we go on the record saying
we will do this -- our board meeting meets on
December the 8th in New Orleans right before
SACS, and I'll put this on our agenda. I think
the board would probably be in support of this,
because that's what's missing right now, the
data on what really is going on in our
institutions. It's inconsistent. Even the
Wall Street Journal article that I have talks
about the data is incomplete so we really can't
make a proper assessment of where our schools
are standing and the like. So I think we can
join forces.
DR. FRANCIS: Yeah, we can. Particularly -- I guess in surveys it's difficult. I've got to tell you, college presidents all around this table, we could spend all day just answering surveys. So what we have to do is choose the one that's a priority.

And this one would have priority. It's the question of developing the culture in an institution about how important the program is. Once you do that, then they'll be knocking on your doors for it. But that's going to be just -- have some patience. That's going to be part of that.

MR. HANSEL: I recommend that. I mean, relatively shortly after we took over as the designated bonding authority, we did, in fact, try a written survey of all of the HBCUs. I want to tell you that I think our response rate was somewhere in the 15 to 20 percent range, which, frankly, just didn't get there.

I like the way that you're characterizing it. Instead of characterizing it as a "survey," characterize it as needs assessment. It's something that's going to require,
frankly, a lot more follow through, a lot more
handholding with chief financial officers and
financial staff to really get results that are
meaningful and informative.

DR. HUGHES: I don't mind putting
some reasonable consequences such that people
would be required to participate if, in fact,
in the future they expect to request support.
And if they don't, they don't need to respond.

DR. STRICKLAND: Part of the
problem --

DR. FRANCIS: You might have a
constitutional problem there. When I leave the
presidency, I'm going to practice law. I don't
think you can do that.

DR. STRICKLAND: You know, the one
problem is in the course of a year, we get
about 75 needs assessments, surveys, whatever
you want to call them. And they have no
meaningful outcome or results to us as we fill
them.

And so something has to be a part of that.

Say, okay, money is available, number one. The
cap has been raised, so now there's money
available. It's appealing to you because
you've got 1 percent interest or whatever, you
know.

And the other factor is that the issue of
accreditation comes into play from both -- from
both sides. It may be that this kind of
activity would help an institution secure and
maintain accreditation, and yet you say if
you're not very close to having it, we can't
give you the money. So we've got to have a
kind of rethinking of this process. How do we
make this money really available to
institutions that really need it?

I mean, I realize that my brother in South
Carolina State might have needed it, but I
don't think he needed it as much as School X
who has having problems with SACS. And if they
could redo their campus, refinance -- make
their residency centers appealing, getting
academic facilities, that would make them a
stronger institution in the long run.

And so we also got to keep on the table
those kinds of thoughts as we look at redoing
the legislation or interpreting legislation.

And someone has to be at the table to say that.

And very few people ever come to the table
saying that because they're looking at schools
who they know can pay back, who got a decent
bond rating, etc., etc. And yet to me, this
program ought to have some real meaning for
those institutions who only need this impotence
or thrust in order to make them stronger and
make them viable accredited institutions.

DR. HUGHES: We have 103
institutions. We're not that big to get lost.
And I'm just saying that we should expect more
of ourselves and of our institutions.

DR. STRICKLAND: Absolutely.
DR. FRANCIS: No question.

DR. STRICKLAND: Absolutely.
DR. FRANCIS: It's just that I don't
think you can make a requirement. There's a
case in New Orleans right now in the morning
paper where a judge wants to put a lawyer in
jail because he got somebody else to represent
a client who did it pro bono. And breaking the
law -- the judge is breaking the law. And you
just can't do that. It's a long story. My
only point is you have to be careful if you tie
in consequences.

DR. HUGHES: You can expect it,
1 Dr. Francis.

2     DR. FRANCIS: Oh, yeah, but you can't
3 require it. We've got so many requirements
4 right now, I have to add a new VP for every
5 rule that comes out.
6     All right.
7     MR. WATSON: The same would apply for
8 Dr. Strickland's comments. We have to follow
9 the letter of the law. Unless the law changes,
10 we have to go with the criterion --
11     DR. STRICKLAND: And my only thinking
12 was we ought to work sometimes by changing
13 laws. That's what I was saying. Legislation
14 ought to be changed. That's all I'm saying.
15     DR. FRANCIS: And we've made some
16 progress, but it's one step forward and two
17 steps back. But you have to keep moving
18 forward with it. No question about it.
19     MR. WATSON: Dr. Strickland, attached
20 on that second bullet, how can we meet those
21 needs through the program other than what we're
22 doing, now, just to reiterate, you know, there
23 need to be some changes in the law itself
24 giving more flexibility to those institutions.
25     DR. STRICKLAND: I'm only saying we
must have a willingness to do it. We must be proactive in doing it. And it's been on our table all the time. As the board we have to state it, and as the person in charge you have to carry it, you know. Otherwise, it won't happen. Nothing is going to change because we want it changed. Lobbyists are certainly effective, but those of us who are involved in the process ought to continue to restate it and work toward it.

MR. WATSON: So you all wouldn't mind if I had that as an agenda item so we can keep it in the record every time?

DR. FRANCIS: Oh, absolutely.

DR. HAYNES: We could make a resolution to that effect.

DR. FRANCIS: I think it's one that's understood, but if you want to have it as a resolution, fine.

DR. HAYNES: Because that goes for the record.

DR. FRANCIS: Yeah. Want to make it?

DR. STRICKLAND: So make it. You can restate it.

DR. FRANCIS: Would you describe
it -- and I'll put it on the table -- the fact
that -- and I'm assuming what I heard you say
is that part of our responsibility in reviewing
the program needs of HBCUs, we first ought to
have good data, and that we should put that
data in relationship to what the program
objectives are as it relates -- as it relates
to the law, but if in deed the law is not
consistent with achieving those, we as an
advisory group would be aggressive in
recommending those changes, as we have done,
and ask our executive director to keep that
aggressiveness and the monitoring for us. Is
that okay?

DR. STRICKLAND: That's it.

DR. FRANCIS: And you'll make that
motion?

DR. STRICKLAND: I so move.

DR. FRANCIS: Who will second?

DR. HAYNES: Second.

DR. FRANCIS: All those in favor,
please state properly by saying aye.

DR. HAYNES: Aye.

DR. HUGHES: Aye.

DR. HUGINE: Aye.
DR. MYERS: Aye.

DR. STRICKLAND: Aye.

DR. FRANCIS: Opposed.

(No response.)

DR. FRANCIS: The motion is carried.

I think that will keep us moving forward.

MR. WATSON: The last item before public comment, I guess we can --

traditionally, what we've done, I've checked Dr. Francis's calendar and then send out some dates for everyone to see when and where we're going to have the next meeting. If that's okay this time, we'll do that.

DR. FRANCIS: And we'll see what might be a good place and you may recommend that. And we want to make sure we don't overburden you and try to make it where all of us can get there and out.

And it's also good if we're able to visit sometimes places where the program, like here, has been helpful, to have a president come and talk about it. And maybe have a place where a program -- president who has been in the program talk about the program, its positives and its negatives, if there are negatives and
the like, which will help us. That's where the
rubber hits the road really, okay?
If you'll look at your watches, we have
public comments at 12:15. Not bad for people
who can't cooperate.
Okay. Do we have public comments? And I
think we will get a presentation from
Lemoyne-Owen. Is that it?
MR. WATSON: Yes.
DR. FRANCIS: If you can put -- you
know, put that chair and have any of your staff
with you, Mr. President. You can identify
yourselves.
Mr. President, the floor is yours. We
welcome you here. And I'll ask for the
recorder, you'll state your name for the record
and any of your colleagues that you ask to make
a presentation will do the same thing.
DR. WATSON: Thank you very much.
I'm Johnnie B. Watson currently serving as
interim president of Lemoyne-Owen College.
Thank you for this opportunity, Chairman
Francis. To our distinguished colleagues and
members of the board and guests, again, my name
is Johnnie B. Watson, interim president of
Lemoyne-Owen College. Joining me are Jim Dugger to my left, vice president and chief financial officer of the college, and the college’s financial adviser to my right, Bridgette Chism. Thank you for the opportunity to address the HBCU Capital Financing Advisory Board.

Lemoyne-Owen College located in Memphis, Tennessee has a rich history that dates back almost 150 years. I have been personally associated with the college for 50 years. I enrolled as a student in 1952 and almost -- 1956, and almost 50 years to the date, I returned as the interim president of the college. I've also served on the board of trustees. And I am the recipient of an honorary doctorate from the college. So I have some ties to the college.

The college was founded in 1862 and has survived -- has strived to provide academic rigorous curriculum and adequate physical resources to its student body. However, as many of you know, Lemoyne-Owen is currently fighting for existence. A steady decline in
enrollment over the last ten years coupled by
aging facilities and our current probationary
status has Lemoyne-Owen College struggling to
survive. We're on probation primarily due to
financial instability.

That being said, things are slowly turning
around for us. Next week I will be attending
the Southern Association of Colleges and
Schools that will convene in New Orleans. And
we look forward to receiving reaffirmation of
our accreditation. I'm extremely positive of
that as Mr. Dugger will cite when he goes over
some figures with you.

I appreciate the opportunity to be here
with you today and hope that each of you
received my earlier letter this week.

Now, I'd like to introduce Mr. Jim Dugger,
the CEO and vice president -- CFO. I can't
give my job away. He is the CFO and vice
president -- to discuss my letter in greater
detail. Particularly, the college's financial
issues and our need to relate it to the HBCU

MR. DUGGER: Good afternoon. I just
want to begin by saying that I'm part of HBCU.
I attended Alcorn State University and received a BS degree in business administration. My first job was also at an HBCU in the business office of Mississippi Valley State University. But I went on to obtain an MBA from Ohio University and a CPA and a certified internal audit designation.

I spent my career starting in public accounting with Arthur Andersen in Milwaukee. I spent approximately 20 years in corporate America at Wisconsin Bell, Ameritech Service, and Ameritech Corporate where I retired in 2000 as comptroller of the investment management group responsible for a $80 million budget, the accounting and financial reporting as well as bank relations for over $25 billion in pension and savings plan investments.

And now I've gone full turn. I'm back at an HBCU at Lemoyne-Owen College. When I arrived at Lemoyne, I found that we had a $1.5 million deficient as of the end of 2006. We were projecting an increased deficient at the end of 2007.

We have put together a short-term plan to eliminate our short-term problem. We have gone
out and secured funds for approximately $6.6 million over a three-year period. That takes care of our short-term problem, but at the end of that three-year period, we must have a long-term solution in place.

If you look at our income statement, there are two items that play the major role in our financial position. One is student revenues, and the other is debt service costs. They both are intertwined. If you can't get the students, you can't get the student revenues. If you don't have the facilities, you can't get the students.

We've looked at means of getting low-cost capital. And we find that the HBCU Capital Financing Program is our only option, but we need low-cost capital at modified repayment terms. There's probably 10 percent of the schools that are in our same position.

If you take a moment and step back and look at the HBCU Capital Financing Program as a $1.1 billion business, with 103 customers over the 11-year period, you probably provided service to 25 percent of those customers.

We've identified at least 10 percent of your
customers that are in the same position that we're in that need low-cost capital with repayment terms that are different from the current program.

The current program offers one product. And we think that you need more than one product. And that's why we've gone to Congress members and presented a product that we think that will help that 10 percent of the schools, because we're in dire need. If we don't come up with a long-term solution very quickly, we're not going to survive.

So we ask for your support in coming up with an additional program to help those HBCUs that are in dire need of financing.

MS. CHISM: I'm Bridgette Chism, and I'm the financial adviser to the college and a friend of the college. I've been involved on -- UNCF chairman for several years and was kind of helping the interim president before Jim came and have also shared this with a colleague from North Carolina, which is my home State, Andrea Harris, who is president of the North Carolina Institute for Minority Economic Development and a Bennett alum, Bennett
President Hughes, you talked about accountability. The one thing we -- in doing all this is -- to put clear, this is not about mismanagement and not willing to do -- not be accountable. This is, as Jim pointed out, looking at there's only a couple places on your income statement that you can make significant change.

As President Broadnax spoke about, you know, you've got -- you've got human capital, your payroll. That's your biggest expense. You guys know that. But the debt service is -- you know, for us right now is probably 10 percent of our revenues, that cost, which, of course, is killing the operating cash flows for the institution. That's your day-to-day survival.

So we wanted to offer, President Francis, is how do we make this program more robust. And that's where the legislation change came, because right now there is one product, because the legislation offers one product. And the special product came because of a natural disaster, which is unplanned.
We would submit that for the 12 or so institutions that we've come up with, that natural disaster is now. And it's not because it's been mismanaged. It's just because of simple mathematics. If your revenues are declining, your expense -- your borrowing, your debt service is continuing to grow because of that percentage, you just don't have any money left over to operate the school.

So how do you fix it? You fix it with cheaper cost of capital. That's why we were wanting the rates lowered from 5 percent to 1 percent. We want a deferment period so you have a chance to catch your breath, if you will, because now that debt service payment can go to your deferred maintenance.

You know, President Broadnax mentioned 76 million. I submit probably every school has a deferred maintenance number that's pretty high that's unfunded which is a requirement of SACS, that you fund these. And that you have a way of getting a lower cost of capital to do your facilities so that you can be competitive, because that was the other issue, are we competitive for the future?
And Andrea will speak to this, but, you know, when times get tough, even the fed doesn't increase the rates. They lower them. When banks -- they want banks to borrow from other banks at 4-1/2 percent, but if a bank -- a financial institution gets into trouble, they go to the Federal Reserve Desk and they get a discount rate of 3-1/2 percent so they can get out of trouble.

So this notion of applying increased costs because of risk, because a school is in trouble, only exacerbates the problem. It's counterintuitive to the entire world banking financial system. So as a body, it's important that we raise -- if we're going to make a program, that it is a federal program, that, quite frankly, our legislative team thinks that is making a tremendous difference in HBCUs. We can't qualify for it, or it's not competitive in our market. So, you know, we've got a huge disconnect going on.

And, you know, since you voted on the resolution to create some legislation -- that's how this started, so that we can do exactly what the fed does. When someone gets in
trouble, needs to get out, needs a true
economic recovery plan, financial recovery
plan, you have a mechanism for lower cost of
capital to get you through.

And that's kind of, as Jim came in, how do
we do this for our institution and the other,
you know, 12 or so institutions, which, quite
frankly, about 15 schools, individual schools,
have taken part of this program over the last
11 years. Some schools have done multiple
loans, but, really only 15 new schools,
individual schools. And that's about the same.
So, you know, we just want some other
options for the program to make it more robust.

DR. FRANCIS: Any comments?

MS. HARRIS: As Bridgette said, my
name is Andrea Harris, and I'm from North
Carolina. And I'm here just out of an overall
concern about the future of HBCUs.
I am an HBCU graduate. I am president of
an organization that was started by the
Legislative Black Caucus, significant supporter
of our state legislature, and always had strong
ties to all the historically black colleges in
our state and done my part to try to help
support them, both public and private.

But at this particular point in time, I think there's a window of opportunity. We have more HBCUs, four-year institutions in North Carolina than any other state in the South. So, naturally, I have a very vested interest. And I also have a vested interest because I believe that HBCUs are critical to the economic future of our community and of our states and our nation.

I want to just share something which would maybe give you some idea about -- one of the most recent efforts on our part is to try to do a better job at first educating the HBCU community in North Carolina and others in general around the growing and mounting debt that our students have.

And if we just look at the HBCUs, HBCUs collectively, our students in 2006 had a little over $900 million worth of student loan debt. That's almost a billion dollars worth of student loan debt with terms that I consider predatory where those students are not able to qualify if they fall on hard times to have their student debt included in bankruptcy.
I think that where we are as a nation in some respects when it comes to the cost of college and the mounting student debt may be sinful. So college students are now joining with us around the country, and we are working with Congressional leaders and others to try to make some change.

The one thing I do celebrate about my state is that we don't always just accept what is. I am around the corner from an institution that tried to work with the minority business and didn't have enough money and had a bake sale and raised a thousand dollars from a bake sale. And today that institution is the Self-Help Credit Union with a billion dollars worth of assets.

And it has created an organization called the Center for Responsible Lending that's headquartered in Washington. And I would ask that you work closely in partnership with that institution.

I ask that because I think that the window of opportunity to change the terms of loans so that our institutions can service their debt that is affordable that we can put them on
sound financial ground for the long term and
they can sustain that financial stability is
now.

Bernanke was in Charlotte on yesterday
suggesting to the banking community in North
Carolina -- as you know, we are home to
Wachovia and Bank of America -- that interest
rates will probably be lowered again.

The Secretary of the Treasury yesterday
was speaking about what will -- steps will
probably be taken to deal with subprime
mortgages.

And I think it is important that we note
that most people who have subprime mortgages
are not always people who have credit problems.
The greatest evidence of that is here in
Atlanta where African-Americans with the large
number of subprime mortgages, whether perhaps
intentionally or unintentionally, steered into
higher cost loans than -- while they qualified
for more favorable terms.

So I just ask for your leadership. And
I'm asking that while we have this opportunity,
when everybody is looking at credit, when
everybody is looking at credit and looking at
how we change the standards, we change this for
our colleges and for our students, if we don't
do it now, then I think we will have lost an
opportunity.

The danger is that -- you know, I'm from
Durham, North Carolina. And I say to folks,
you know, that we used to be the Black Wall
Street of America, the true Black Wall Street
of America with North Carolina Mutual and
Mechanics & Farmers Bank and Mutual Savings &
Loan. And during the Great Depression no black
people suffered in Durham, North Carolina
because of our economic infrastructure.

But what we see today is that that has
eroded and we don't have that wealth. If we
lose this opportunity, then when the bottom
falls out of white working class America, I
hope we understand what's happening in the
black community. We should not expect
contributions to increase from alarms in the
next generation. They won't have the
resources. We should not expect after this
credit crunch that our schools -- we will have
whatever the number is you say we have today,
y他们将不会存在除非我们利用
this opportunity.

I am only here asking you for your leadership and your courage not to simply accept what is the tradition in the financial community. If we had done that in Durham, we would not have a billion dollar financial institution today.

And if you need additional resources to help address this, then we are offering whatever resources we have in our state, whether that be the resources that we can pull upon in the banking community in Charlotte, whether that be the Center For Responsible Lending, and anyone, to help us move forward. I'm begging -- I am really here taking advantage of their opportunity to beg you for your leadership in making sure that we get some different language in this legislation, because if we don't do it now, I think we'll lose an opportunity long term.

Let's make sure that if we can put loans on hold, put them in abeyance, lower the interest rates, do away with the high prepayment penalties. And look at what others are doing now, not just accept what is, but
let's take the -- let's be bold and have some
courage. So I'm asking for your leadership in
at least taking a further step including other
institutions, but changing how we do business
in a way that allows us to sustain our schools
and put them on sound financial ground but give
them a resource.

You know, the one difference here is
you're talking about a governmental program.
You're not talking about a private sector
program. And I've been -- Bridgette has been
trying to help me stay calm in understanding
how a governmental program sees itself as
needing to have the same level of even greater
protection than the private sector.

I mean, if it's going to be a governmental
program, let's take advantage of an opportunity
to do what this initiative was intended to do
to start with, to help our neediest schools,
but do it in a way that does not harm people.

I mean, let us not step on people. Let
us, you know, really find ways to put them on
sound financial ground. We don't have a lot of
time to make that happen, but I ask that you do
this. We know that most of our schools are not
institutions that have been -- intentionally
been derelict in trying to achieve their
mission.
And so just as those who have started
HBCUs didn't start all these institutions
simply by looking around and saying, here's
what is, so I'm going to accept what is, but
had the courage to go a step forward and make a
difference.
I thank you for your leadership and your
commitment here and for being so indulging of
allowing me to talk on.
DR. FRANCIS: Mr. President. You
tried to give away that interim, but you're
still president.
DR. WATSON: Can you help it?
They've slowed down the search. Can you help
them a little bit?
DR. FRANCIS: There may be
questions -- Lezli, as you well know, is the
president of NAFEO. And she was starting to
talk about this program. And she, obviously,
is very interested in the HBCU Capital. And I
think she was getting into the very specifics
that you're talking about.
And I picked up -- and you may have heard this already, and think it's the kind of question that needs to be asked. What I picked up from her was that the program, what is currently listed in the criteria and so forth is designed for schools that meet that parameter now.

And the question is, is it one that would keep out others, the other institutions that need as well, because it is -- it is pretty focused, as such. How do we respond to what I think her question was going to be, if we're going to do it, can we do it for all institutions?

MS. CHISM: Right. And what we did is we listened to her comments and we expanded the criterion, I mean, because, quite frankly, we think if you have a series of products within the HBCU Capital Financing Program, then, really, you have three different products and you apply under the product that makes sense for your institution. And, so if -- you structure it like that. So if we're going to act like a financial institution, then let's just have different product offerings.
And in hearing what she said, we expanded against the definition of an affected institution that would fall under product number 2 under the HBCU program. So we expanded so that instead of -- I think she was thinking of a limit of 5. In making the expansion it created an avenue for 10 or 12 or whoever fit this, but it was -- we just showed any student enrollment decline over the last ten years. So it didn't have to be a continuous decline. That changed the dynamics. And, also, the endowment was a marketable security, if you will, cash, stocks, so that -- of 20 million. So that added some additional schools. And then net marketable securities of 20 million. So we took her -- the feedback that she had heard so that -- that's net -- so that more -- so that it would be applicable to more schools in the 103 client base, if you will, but recognizing that this would just be one version of a product within this program making it more robust.

DR. FRANCIS: Where is -- go ahead.

I don't want to cut anybody off. I wanted to
follow -- you talk about an opportunity and
dealing with legislation, dealing with the
Congress. And, yes, you have to be aggressive
and you have to -- timing is very important.
And, unfortunately, you go through a maze
of committees and staff and the like. Where is
your current proposal?

MS. CHISM: And because --

DR. FRANCIS: I say the current --

MS. CHISM: The current amendment --
because they're in the business of higher
education and running other things, we did
engage a group, the Carmen Group. Julia, if
you would like to give us an update.

MS. ERHGOOD: Sure. Sure. I can
speak to that.

Right now, as you know, the Higher
Education Act was approved by the House
Committee, and we wish for it to go to the
Floor.

All of this language that Bridgette has
been discussing, that is not currently in the
bill. So there is no separate piece of
legislation that has been introduced by
Congressman Cohen, who represents Lemoyne-Owen,
or any other member.

DR. FRANCIS: Okay.

MS. EHRGOOD: But I will say that

there is certainly an appetite, a strong

appetite among a number of the members of the

committee of the Congressional Black Caucus and

then those members that represent the

individual institutions that have been

recognized as needing the help. They want to

help. And there is still an opportunity to do

so on the Floor. When the Higher Education Act

goes to the House Floor, there's an

opportunity.

DR. FRANCIS: Has the Senate --

MS. EHRGOOD: The Senate has passed

this bill. It did that earlier this year. So

the Senate Bill is closed, but with the

House --

DR. FRANCIS: How did it close with

respect to what we --

MS. EHRGOOD: There is nothing in the

bill to increase the cap for the program. It's

really silent as to any additional change.

DR. FRANCIS: It stands silent?

MS. EHRGOOD: That's correct. So the
opportunity that exists --

DR. FRANCIS: Has to be in the House.

MS. EHRGOOD: -- is to have been in

the House and then to keep that in Congress.

DR. FRANCIS: Go ahead.

DR. HUGHES: I think we have to start

somewhere. And I'm hearing that we lost the

first window, and maybe there's a second window

that you can come under.

There are principles of economy and

economics that I hear which make a lot of sense

to me, particularly when you associate them

with how this market works today in the United

States, and how the Treasury works, for that

matter.

So it seems to me this is a species that

really needs to be silently developed and

disassociated -- by the way, this is just my

opinion -- disassociated from the principle of

Katrina, because I can see you closing

yourselves off by that.

But if you develop that strong principle

of how this economy works, even including the

housing market as it exists today and the kind

of adjustments that are made in interest to
accommodate that, you've got some sound
principles, I think, for a good rationale in
moving forward.

DR. FRANCIS: And the question is how
much time? Maybe you can answer that?

MS. EHRGOOD: Sure. It's unknown.

We always have to be prepared for something to
happen anytime. It's unrealistic that the bill
will go to the Floor in December, but it is
possible. We'll know more this coming week
when Congress returns.

More likely, the bill will go to the Floor
after the new year. It could be a month. It
could be two months. From our perspective, we
have to be prepared for it to happen in the
middle of December.

And while it's not ideal in terms of, as
you said Dr. Hughes -- you know, we believe we
have done a lot of due diligence to make sure
that we are doing this in an appropriate way to
really optimize the benefits of the program.

We want there to be no misunderstanding
about what we're trying to do. And that's
really why President Watson and his staff have
come here before you today. But that being
said, as you're alluding to, Dr. Francis, this train is moving, and we want to be on the train.

And with your support for what we're trying to do, and whether we slightly modify the eligibility criteria or some other things, I think we can really be effective here. And I know that's important to Lemoyne-Owen. It's entire to the HBCU community.

DR. FRANCIS: Any other comments?

One of the issues -- and I was hoping that Lezli -- because Lezli is very much involved in this. I know Lezli was asked, Thurgood Marshall Group was asked, UNCF was asked -- I think there is some support there. There are questions that haven't been answered that you're seeing now that even if you were before that committee now you would be amending your original that might meet the requirements of some of the concerns.

There's no question about -- as we said earlier, the program that was constituted as an HBCU Capital Program in my view is an evolving one.

And you heard earlier, many of our
institutions, including my own, did a lot of
bond financing and we did not use this program.
And so this program has evolved and is
evolving. Now, how fast it's going to evolve
to the context of what you have described, I
don't know and I don't how fast -- I am not as
persuaded at this point in time, unless it just
flip-flops, Congress will do everything we want
them to. And the question is how much can we
get in a change now that we get another bite,
if we can.
The issue of lending is going to be around
at least for the next two or three years. I
can tell you from the student financial side or
loan side, financial literacy, the debt that's
being taken on by students, the question of
whether the money is being used for core
academic work as against others, that's an
issue that isn't going away.
And we just started to see it with the
money that went into Title IV came from the
subsidies from banks and the rest to pay for
the increase in Pell Grants and the rest. So
that's going to be around.
But we have got to get some things now if
we don't get everything now. The question is
what are they?

MS. CHISM: And, Chairman Francis,
since I am from North Carolina --

DR. FRANCIS: We better get somebody
here from Tennessee.

MS. CHISM: Both my parents went to
Tuskegee. Actually, my mama was a
Ms. Tuskegee.

DR. FRANCIS: That's Alabama.

MS. CHISM: This is a Capital
Financing Advisory Board. We're talking about
the money and the economics. Your leadership
in being in front needs to trump protocol.

I am going to be direct right now. My
Wake Forest, Wharton MBA training, my friends
may be a little aggravated. What is the holdup
is we need three bodies, associated bodies that
have different visions, missions, and agendas
to agree to our amended -- to this legislation,
whatever form it's in. And, quite frankly --

DR. FRANCIS: And that comes from --

MS. CHISM: And that would come from
the Thurgood Marshall, NAFEO, and the UNCF.
And the only support that we have received is
from NAFEO in writing informally.

The other two institutions wanted for everyone 1 percent money, the 3 percent deferment. You know, these economic principles as you mentioned, President Hughes.

However, my legislative bodies are saying to me we will not fund that for everybody. So you have to give some sound rationale as to what is your definition of this. And the thesis is, well, if everybody can't get it, then we won't support it.

If only 15 schools have ever taken part of this program, then you already are inconsistent with your thesis. So all I'm suggesting is that you add another vehicle and allow for the same number of schools to participate as the current program. So you're not -- I mean -- so we get these situations -- protocol, and I'm like, no, we are -- lending and credit will always be here. That's an issue.

But as soon as Jim and I started talking about, okay, if we got this facility, well, you know, Jim, you're going to have to increase the cost of the dorm rate because it's going to be a new dorm, you got to pay for it, if we do it
Well, then you get the, well, they're going to have to borrow more. You get to the student side. So now we -- we can't keep operating in the same paradigm. So we really need to -- my ask to this body is help the other -- our legislative team is going to abdicate their power to three associations that don't have the same agendas to decide whether we can move forward with changing a legislative amendment so that we can have more options to this financing program, then, you know, we don't stand a chance.

So this -- somebody needs to say, come on, guys, let's get together, because a year from now I want to be sitting here -- because this is easy to fix when it's not mismanagement and it's just financial. Next year we'll sit here and we'll go, see, President Myers, the income from cash flow from operations is up because we didn't have to pay for, you know, our debt service.

MS. HARRIS: We didn't have to over collateralize.

MS. CHISM: And we built our new
dorms that are opening in fall '09 and my
enrollment is up. So, hello, the model works,
because it's just mathematical. So it's not
really deep strategy. It's just --

DR. FRANCIS: Have we heard from bond
counsels and --

MS. CHISM: Well, this is just our
own bond counsel.

MS. ERHGOOD: If I can just
interject, one of the other concerns that I've
heard is that by putting this other product --
making this available that it would imperil the
program.

And it's our understanding that -- of
course, we would never want to jeopardize the
program. And from listening to the discussions
today -- Dr. Hugine and Strickland, I do not
mean to put words in your mouth in any way --
but I sense that there is, you know, a
willingness to help the neediest schools, to
provide them with some assistance. And in no
way are these efforts meant to imperil the
program.

As a body, if you would believe that this
effort would not imperil the program, and if
that is something that could be communicated,
that would be helpful.

DR. HUGHES: Have you used the
need-based strategy or some need-based strategy
to identify the number of institutions that
you're trying to qualify for?

MS. CHISM: We did based on this
language. I mean, when we say neediest, it's
neediest from the sense of declining
enrollment, a tremendous amount of debt
already, tremendous for your size of balance
sheet and institution, the lack of endowment,
the lack of net assets, because 20 million is
not a lot when you're talking about, you know,
running a business, an institution compared to
some of our other schools.

So when we say neediest, it's defined by
this category. And we have -- as Julia said,
we have gone through and done a lot of
analysis. We actually have, you know,
solicited information from, you know, people
outside of our, you know, domain.

I mean, I have called the Federal Reserve
directly because there is an office in Memphis
which handles that region. And good luck,
sister. And we have talked to these financial
institutions across the country, the first and
third and largest financial institutions in the
country. So this is not done --

    DR. FRANCIS: What have you asked
them?

    MS. CHISM: Well, we asked them
about, you know, access to capital and how do
we get better terms for institutions you're
trying to turn around.

    This is about financial recovery. This is
not about trying to gouge an institution
because, you know, they're highly leveraged
already and they're trying to get a new dorm
facility, or charging them a premium because
they have very limited, you know, net income
because they have declining enrollment and they
have a high cost of debt service.

    So this is about other avenues, because if
this program isn't going to be available, we
still have an institution that must survive.

    You talk to other places that can --
there's more than one way to skin a cat. You
know, we want to work, and think this is a
great vehicle because it's already a
governmental program.

However, if we go back and we talk to our legislative body and go it really doesn't work the way you think it works, it's really not helping the way you thought it helped --

MS. HARRIS: Or if you look at the number of schools in North Carolina that the program has been able to help -- if you look at Livingston, Bennett, whatever --

MR. HANSEL: There's Shaw.

MS. HARRIS: We know the schools in North Carolina. If you look at these programs and you look at the terms, and I look at collateralization, I look at prepayment penalties, I look at some of the other terms, and I look at the mandatory arbitration language in the documents, etc., I get incensed. And when I share that with them, it's unbelievable to them.

So we're just saying, you know, if we can at least say let's look at another avenue and add that to what exists. And it is responsible language. It is not language that is not responsible.

And I do think that we have the support of
our delegation from -- at least in North Carolina and some within -- the leadership within the Center for Responsible Lending.

DR. FRANCIS: Let me get to the core in a way. I don't think there's a person -- I'll just speak for myself -- around this table who would not be interested very much in helping the neediest institutions. But I've got to tell you, I'm not so sure I know exactly what all of the various aspects of the plan are in terms of what you're asking for.

I mean, I'd be hard-pressed to support something I'm not sure I know with respect to, you know, what are the interest rates. I say the parameters which you are now changing, which is fine.

But in the long run the same thing that I think I would want to see is going to be what the Congressional committees are going to want to see as well as if you say -- who is asking for -- I know they asked UNCF, I know they asked NAFEO and Thurgood Marshall, but I don't think that's the last word on what is to happen. I don't think it is. And if it is, do they know exactly what your detailed plan is?
MS. CHISM: And I would just say that you are familiar -- and the only reason we reference the Katrina legislation, is because the only change to that legislation is the definition of affected school. Because, see, that's language in a process that you're very familiar with because you just closed against it. So everything is the same except for the definition of affected institution because it's based on economic. It's not based on a natural disaster.

So when you say -- so when I'm reading to you the four criteria -- and that's just to define affected institution. Everything else in the legislation is the same as that amended legislation to allow for that particular product to be introduced --

DR. FRANCIS: And still at 1 percent?

MS. CHISM: Still at 1 percent.

MS. ERHGOOD: But the other terms related to deferment you are willing to --

MS. CHISM: Yes. Because, I mean, that's how -- the original language is exactly the same. The feedback we have is, like, well, maybe you could have -- instead of a three-year
deferment, could you live with a two-year
deferment? I mean, those are negotiating
points. But to answer your specific question,
everything in that base Cohen Legislation that
Lezli referred to before these amendments is
exactly the same as the Katrina special
legislation --

DR. FRANCIS: Did I misspeak when I
said that Lezli had questions. You said
Lezli -- NAFEO has supported everything you've
said.

MS. CHISM: With some suggested
changes which we incorporated.

DR. FRANCIS: But not -- you just
incorporated? Not what the other two
institutions -- agencies have seen? You
separate NAFEO from the other two?

MS. CHISM: They were all sent the
same thing. NAFEO responded with a letter of
support.

DR. FRANCIS: With the amendments
that you just said?

MS. CHISM: With the amendments --
with those suggestions. And we did not have a
letter of support from the other two.
MS. HARRIS: And I think maybe the others were looking at if, well, we're going to go down this route, can we not just include everybody? Well, ideally, that would be the best -- the thing that we would all want to do, but how practical it is and -- it's not very practical. It's like, you know, getting -- you have the door open. So since somebody has cracked the door for a few institutions, can we just get it open a little wider. That's all we're asking. But if you try to open it up all the way, that's not going to happen, because that appropriation level would not be increased to allow that to happen in any effective way.

DR. FRANCIS: And the complaints of those who can't go into that door?

MS. HARRIS: That's right.

MS. CHISM: They still have the base program which --

DR. FRANCIS: But that's not the program you want.

MS. CHISM: That's right. Doesn't work for us. We started with our objectives to make this more robust and competitive, adding
some options.

MR. WATSON: Can I just make a point of clarification?

DR. FRANCIS: Sure. Yes.

MR. WATSON: I think a lot of people when hearing about the Katrina situation -- no matter what the interest rates are, what those terms are, you have to qualify for the loan. So I just want to make sure that's understood.

The other thing, Dr. Francis alluded to earlier talking about student loans. In getting those increases, we also have to give up something. And in talking about the 1.1, that came into play -- that came into play because of a subsidy issue. That was a difficult battle of trying to discuss how much this current method would pay every year if we increase that level to 1.1 billion.

So Congress is thinking about cost. And there's also a 1 percent Katrina. There's a hefty cost of subsidy. Not the 7 million, but -- this is almost more than the program in and of itself at 1.1. So you sort of have to think of all those subsidy costs when making your argument to the Congress or whoever else
about what's going to happen and what you need.

You have to sort of justify how those subsidy costs are going to play out.

MS. HARRIS: I think one of the things that I was suggesting is that perhaps if you use the model of what is happening with home foreclosures and how Congress is responding to that and how the financial community is responding to that, how terms are being changed, how the language is changing, what's happening within that leadership, both within the Congress as well as within the Executive Branch and within the financial community in the private sector, then we can use that as leverage, follow that same track, follow that same track, and we will be able to achieve what we are talking about even to a greater extent if we get the right financial minds around the table.

We have to have people who have effected this level of change. I'm just saying that we've got some folks. We know some of these people. Let's engage them to help us put more of our HBCUs on sound footing. They're willing to do that and walk with us in partnership.
And I think we have the ears of people in the financial community willing to walk with us on this.

DR. FRANCIS: And I'm saying I think it all goes in the pot. I would worry a little bit about using the subprime as an example because it could backfire.

MS. HARRIS: Well, I think basically what you've got is subprime if you look at it, right? You can kind of take this effort and you look at how it's structured now, and I almost think of subprime argument.

DR. FRANCIS: My point is people are so worried about subprime --

MS. HARRIS: All subprime isn't predatory.

DR. FRANCIS: Well, I grant you. But my point is, if you're talking about helping the neediest, they start thinking about, oh, now you're going to get another program where you're so-called going to help the neediest. But you're going to put a problem that gets a subprime. I'm not -- I'm talking about perception.

MS. HARRIS: I think we can handle
that. I really do.

DR. FRANCIS: Wait, wait, wait,

before you finish. I'm back where you are. I

can think if you put the creative minds and the

talent of people who deal with this, and put a

package together where you get UNCF, if you're
talking about them, and Thurgood Marshall and

NAFEO, and you say this meets all of the,

quote, concerns that people would have.

MS. HARRIS: I gotcha. Right.

DR. FRANCIS: My problem with that --

it's not a problem. It's the timing problem.

It's the timing problem. I don't -- I don't

think as part of UNCF I would totally favor --

and we said this in our last meeting. We want

to be able to expand.

First of all, we supported increasing the

cap, ruled by the Secretary and all. And we

said in April, if you read our transcript, that

we want to help the neediest. We've got to

find a way. If this model of the Katrina was

anything, can we work on that and how do we do

it?

And we didn't have an answer, I know at

that meeting, as to how. But our interest was
getting it done.

What you just said is how do we do it?

And there's still questions. My major concern is if we tailored two programs, if you will,

that you capture more of those institutions other than the ones you're talking about with the data to show that, I think you'd get -- I worry about those same institutions who are sitting out here and saying, oh, you tailored that for this, but we're still out here and you haven't helped us. When is our time?

And you say, well, your time is going to be next year. You say, but, no, my time is like yours, right now.

MS. CHISM: Well, I think 12 -- and considering only 15 schools have ever gotten a loan out of this program, 12 is not a low number.

I mean, I think that we have -- I mean, we are really trying to address that issue of not leaving anybody on the sidelines who qualifies right at this moment in time. And you still have the funding -- because it becomes competitive. We are under no illusion that you can't -- that you have to get through the
underwriting.

All we're saying is that when we go through this Capital Financing Program, we now have another option. When I call Sam back -- we've been talking to him for almost two years. We want to apply under the HBCU program but under this criteria. And then he'll go all right. We're going through underwriting. We understand that process. No one is asking for a hand. We're asking for the tools so we can do our jobs and be held accountable.

DR. FRANCIS: And I think -- all I'm saying is I'd like to see what is it, what is it, and what would you be asking us now to do? My first point was what we said before, we want to help the Lemoyne-Owens of the world. We're all brothers and sisters in this. And none of us sit on a mountain so high that all of this doesn't touch us. So let's make sure that's understood.

But how you decided to get it passed and not have it reverberate in a way that they say, oh, we made a mistake. You know, we acted too quickly and so forth, I think that's extremely important.
But what we do today, it seems to me, can only be done at almost a 5,000 feet level rather than on the ground unless we had it as a drawn-out package almost the same way that you're going to have to do it, because the Senate -- and I can imagine that conference between the Senate and the House when the Senate didn't have any of it in and they started saying, well, how much of it we're going to buy of this.

And I want to make it, not only as palatable, but to help -- we were talking earlier about just the short-term cash needs of HBCUs. I mean, short-term. I mean, you know the wolf is at the door. We need 20,000, or we need 500,000, can this program help? And we're looking at doing that.

And what you're saying is, well, there's another dimension of this. And you have just described that dimension. How do we sell that?

MS. EHRSGOOD: And I think certainly this package should be distributed among the board. But I don't think -- today we're not looking for a yea or nay. We know that this is -- you've heard about it, but this is your
first real discussion about it. We want to,
you know, provide you with the information,
provide the opportunity for comments. I'm
happy to do that.

DR. FRANCIS: Well, let me just say
without question -- I'm not saying we did it
today. We did it last April. We said, you
know, this program that we were a part of was
good. How do we extend this now to programs
for the needy, and as an advisory council, we
would recommend it.

We started saying we've got to put more
money in the pot. Hopefully, we've got that
support. Now, how do you create that and
spread it further. So you've got that already.
And I think the question is how do you get
it in a detail that gets as close as we can to
helping, not -- I'm very serious about this
one. Not just what you've told us but others
outside the pyramid. Because you're
persuasive. You say time is everything.
Well, if I'm sitting over here and you're
talking about timing for you, what's my -- when
is my time? And I say my time is your time.
And how can you construct it to make it our
time? I mean, that's the way I would describe it. That's just a personal view.

DR. HUGHES: Dr. Francis, I'm aware that all of us around this table have talked about the limitations of the initiative as it exists. That was even pre-Katrina we talked about that.

And I think it's time for us to consider that a very serious issue so that we can make it more relevant and accessible to more institutions. Now, where we start, I don't know, but I do know that there isn't a person who believes that it hasn't been responsive to the HBCUs.

DR. FRANCIS: Well, this morning we talked about this trade-off, this pooling thing. I got to tell you, if that pooling thing was not eliminated, I don't know how many of the schools you just described would want to be in the pool.

MS. CHISM: We wouldn't.

DR. FRANCIS: My point is we've taken those steps. We've chipped away some of the major what I call Draconian parts of the program. And the question is how much more can
you chip away? And that's what your program
has to do.

MR. DUGGER: Well, one thing, we have
our institution and, say, a dozen institutions
out there that are in dire need of getting some
kind of low-cost capital now.

So if we do nothing, some of those schools
are going to fold. I mean, if we don't come up
with a long-term solution for our problem at
the end of the three-year period that we've
gotten grants from the city, state, county, and
United Church of Christ, we're going to be out
of luck.

I mean, we're going to be exactly at the
same point at the end of those three years that
we were last year. The accreditation people
are going to come back and say due to financial
instability, you're on probation again.

DR. STRICKLAND: Mr. Chairman, we
can't vote. We don't have anything to vote on,
a hard-and-fast piece of information.

Can we affirm our -- at least that there
ought to be some other criteria established
that would allow for schools that have great
need to become a part of this and then
encourage this body to, you know, work on with
Congress and even send out our affirmation to
UNCF and Thurgood Marshall as a statement?

DR. FRANCIS: I think we could craft
something to that extent that came from our
earlier feeling about it. Namely, that a part
of the concern of this Advisory Committee has
been the lack of its ability to get more HBCUs
into the program, this HBCU Capital Program,
and there are aspects of it that history has
shown to be counterproductive.

We have seen some strides. We made some
strides. And you could name them. One, the
pooling side that has been eliminated.

Although, we are concerned about one aspect
that eliminated, but we are working on that
now. And that our instructions and
recommendations would be for the Department of
Education with our concurrence would work to
change any aspect of the program that works
against helping needy schools in the HBCU
Committee.

Once you leave -- once you leave that, I
don't know what other elements you can put in
it. But I think this Advisory Committee is
not -- does not have closed ears and it's
against going and opening the doors for more
institutions.

MS. CHISM: And so maybe a good next
step, because what we don't have is a lot of
time and luxury. I think, Julia, you said
January. So we need -- our next steps would be
to get you the detailed information so you know
what it is we are discussing, and then a
timetable for the actions that need to happen,
because I recognize you also run major
institutions around this country and this may
not be the only thing you're working on.

DR. FRANCIS: We're got a few other
things.

MS. CHISM: And then if we can go
through those milestones, I mean, because --
and I know you're good at keeping the pressure
on. We'll put that in your hands.

DR. FRANCIS: Let me add. Some of
the things you said about the data you've
collected, the kind of things you have is
extremely important so that we can look other
institutions in the eyes that didn't -- because
of the fact that we -- you know, you didn't
want a Katrina. I can assure you. But it happened to us. And first time it happened in the United States. So that that was significant enough to get the attention of a Congress to help HBCUs.

DR. HUGHES: Finally.

DR. FRANCIS: Well, there's still a whole lot of things out there. And so that happened. And it was -- some cases people call it an act of God. I guess that's in part. But we know there was some things that were man made in that that caused it. But the point is this happened.

There are other aspects of challenges to other institutions, and this program was intended to help those institutions. Now, what are they, and what are the elements inside this program that's keeping this from happening?

All I'm saying, it has to be clear and demonstrative. And if you put the minds together quickly, there's no -- I've had no problems -- I've spent 40 years as a president. I've been fighting the battle of HBCUs and aggressively saying things people may not have wanted to hear. And if you read the Wall
Street Journal article of this morning about HBCUs, I'm on the record at the HBCU Conference saying, Mr. President, every September you have to remind people about what you mean. And people forget. And you're in that climate, and you're still in that climate.

So my only point is I think we've got to be aggressive and persuasive, but you have to be very clear of that, how it is going to meet the criteria that you have established that shows it's worth this program. If it's going to be anything, that's got to help the neediest schools.

DR. HUGINE: I don't think there's any question about that.

DR. FRANCIS: And that has our vote.

DR. HUGINE: I guess one of the things that continues to just send up a flag with me is the definition that you all are coming up with for a needy institution, because it seems to be counterproductive in the sense of what you're attempting to do.

You've used enrollment decline as a definition. And I guess in the world of business when you think of decline -- is there
some other way to describe what it is you're
trying to achieve? You seem to be going
backwards. You're identifying an institution
because -- I'm not saying the enrollment has
not declined. Don't get me wrong. But to use
that as a description of an institution, I'm
not sure you want to do it that way, because
what you want to do is you're trying to grow
capacity.

And so you are looking at institutions
that have the ability to grow or increase
capacity as opposed to these institutions that
have enrollment decline over the last four or
five years. So whatever it's worth.

And, President Hugine,
internally we agree with that wholeheartedly.
It was, again, trying to accommodate --

The HBCU leadership,
organization leadership.

Because from business you
would want --

The potential to grow.

That's right. That's
what this is about, long-term --

So the language was
changed so it would not look like we're saying
that this is the trend now, but somewhere over
the past decade there's been some decline. But
that is counter to what we really want to see
happen. But it was really in an effort to be
accommodating.

DR. HAYNES: Let me say something.
Andrew, I think you're right. I agree with
you. There's something that you have to
emphasize.

At the end of the day, any institution is
about providing an education. In other words,
so the students can achieve academically. If
you don't talk about that, it's irrelevant.
Why do these schools have to exist? They are
teaching.

I mean, that's not part of what I'm
hearing. And I think that falls on deaf ears,
because if you talk about declines, you've got
to talk about they exist to provide blah, blah,
blah. It's an academic institution.

Incidentally, no student goes to any
institution, or should go, unless it's for an
academic reason. There is no other reason to
be there. And we don't emphasize that enough
in the language pattern that we use as a community.
And I'm concerned about that. We've got to change that. We talk about declines, deferment, but that is for a reason. It's an academic issue that we're trying to attack. It's not football. It's not the band. But you see what I'm getting at?

MS. CHISM: Yes.

DR. HAYNES: And that's not a part of this.

MS. HARRIS: Dr. Francis, if I could I have one final comment.

DR. FRANCIS: We've got about five minutes.

MS. HARRIS: I won't say anything else. I do come from an economic development organization. And so for me, as I look around my state, and I look around the South, I see what's happening, whether it's in -- whether we're talking about science and technology or whether we're talking about how we're going to make our country competitive and what it is that this country has still as a positive in
comparison to other countries. What we have is
basically our ability to collaborate.

Everything else that we have other
countries have right now. But it’s our ability
to collaborate at the higher education level
between the private sector and the public
sector. And these institutions of higher
education allows you to do the research and be
creative.

So when I look at my community in
particular, and what does it mean for
African-Americans or people of color, then the
greatest asset we have in one respect are
HBCUs, because it is that education that is
going to cause us to become competitive.

If these institutions are at risk, then
that is of concern to me. I mean, we are
talking about our best and brightest. So if I
know that my community has 10 percent of the
wealth of white America, if I know that that
divide is growing, if I know that the next
generation that’s there now will be strapped
with student debt and servicing debt for 30
years and no economic opportunity, and that
that credit score because of that student loan
is going to keep them from getting jobs in the financial community and in the insurance community and security and anywhere else, then I know that I have to do something about that and try to partner with whomever I can, not only to try to make sure that we can lessen the debt for who are our best and our brightest, but, also, that we can put our institutions on sound financial ground, because there's nowhere else that our students go where a parent can drop their child off and feel that this one place is the place that's going to care about my child just as much as I care about my child. That is the one positive of an HBCU that I don't think we don't say enough about. But you are critical to the future of our country. And so I want to just thank you for letting me go on, but I want you to also know I value tremendously what you do.

DR. FRANCIS: Let me just tell you something. We had a meeting of the college presidents. Dr. Strickland was sitting around the table. This is just a tack-on. But don't drop your student at the church door and leave them without any money. And let me tell you
what's happening. I can't tell you how many parents are dropping their students at our doors without a dollar. And our receivables are unbelievable.

DR. HUGHES: May I say something?
DR. FRANCIS: Yes.
DR. HUGHES: Ask for a consideration of something. It's very clear that we have not engaged at this level on this topic before. And it has been very informative, for me at least.

I think if you can take from what we have given to you as feedback and listen to everything about how to expand this in a way that's going to make sense, even looking at the criteria that already exists in here and that's being changed, if we could come back with a product given a certain amount of time to reconsider, it might be valuable. But at this time we don't have what we need.

DR. FRANCIS: And I think they understand that.

I want to thank you, number one, and say, number two, time is of the essence, but you never know how things work, but being this kind
of optimistic and an entrepreneur, that if it
doesn't work with every effort now, that
doesn't mean we give up.

I think we start from where we have left
off and then start taking it on in a more
aggressive fashion with the kind of data you
have been talking about, because persuasion --
and nobody does anything out of the goodness of
their hearts. You've learned that.

And you have made a case. And time may
not allow us the entirety of what we want, but
as I sit here, this is not the last time we'll
be trying to change what's in here. It's just
been our second meeting.

So I want to thank you and let you know
you have the support of what we're talking
about, but I think it has to be with the detail
that would give us something to really bite on.

MS. CHISM: Thank you.
DR. WATSON: Thank you.
MR. DUGGER: Thank you very much.
DR. FRANCIS: We're all in the same
boat over here.

The meeting is now adjourned.

(Meeting adjourned at 1:26 p.m.)
CERTIFICATE

STATE OF GEORGIA )
COUNTY OF FULTON )

I hereby certify that the foregoing transcript was taken down, as stated in the caption, and the proceedings were reduced to typewriting under my direction and control.

I further certify that the transcript is a true and correct record of the evidence given at the said proceedings.

I further certify that I am neither a relative or employee or attorney or counsel to any of the parties, nor financially or otherwise interested in this matter.

This the 4th day of December, 2007.

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