Department of Education

HISTORICALLY BLACK COLLEGE AND UNIVERSITY CAPITAL FINANCING PROGRAM ACCOUNT

Fiscal Year 2011 Budget Request

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For the cost of guaranteed loans, $20,228,000, as authorized pursuant to part D of title III of the Higher Education Act of 1965 ("HEA"):[1] *Provided*, That such costs, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974: *Provided further*, That these funds are available to subsidize total loan principal, any part of which is to be guaranteed, not to exceed [$178,221,000]<u>$279,393,000:</u>[2] <u>*Provided further*, That these funds may be used to support loans to public and private historically Black colleges and universities without regard to the limitations within paragraphs (1) and (2) of section 344(a) of the HEA</u>.[3]

In addition, for administrative expenses to carry out the Historically Black College and University Capital Financing Program entered into pursuant to part D of title III of the HEA, $354,000.[4] *(Department of Education Appropriations Act, 2010.)*

NOTE

Each language provision that is followed by a footnote reference is explained in the Analysis of Language Provisions and Changes document which follows the appropriation language.

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Analysis of Language Provisions and Changes

Language Provision	Explanation
[1] For the cost of guaranteed loans, $20,228,000, as authorized pursuant to part D of title III of the Higher Education Act of 1965 (``HEA"):	In accordance with the Federal Credit Reform Act of 1990, the requested language appropriates $20.228 million in subsidy for new loans to be made under the HBCU Capital Financing program. No loans may be insured under the program that would require subsidy above this amount.
[2] *Provided further*, That these funds are available to subsidize total loan principal, any part of which is to be guaranteed, not to exceed [$178,221,000]<u>$279,393,000:</u>	The requested language limits the amount of bonds that may be insured under the HBCU Capital Financing program to $279.393 million in fiscal year 2011.
[3] <u>*Provided further*, That these funds may be used to support loans to public and private historically Black colleges and universities without regard to the limitations within paragraphs (1) and (2) of section 344(a) of the HEA</u>.	The requested language allows the program to make loans in fiscal year 2011 without regard to the language in HEA section 344(a) paragraphs (1) and (2) that sets limits on the amount of the program's loan authority that can be devoted to private versus public HBCUs.
[4] In addition, for administrative expenses to carry out the Historically Black College and University Capital Financing Program [entered into] pursuant to part D of title III of the HEA, $354,000.	In accordance with the Federal Credit Reform Act of 1990, this language appropriates funds to administer new loans, service existing loan obligations, and provide technical assistance to prospective and existing program participants.

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Amounts Available for Obligation
($000s)

	2009	2010	2011
Discretionary appropriation:	$10,354	$20,582	$20,582
Transfer to Career, Technical and Adult Education for State Grants (P.L. 111-32)	-65	0	0
Subtotal, adjusted discretionary appropriation	10,289	20,582	20,582
Mandatory appropriation:	1,319	2,748	0
Subtotal, adjusted discretionary and mandatory appropriation	11,608	23,330	20,582
Total, direct obligations	11,608	23,330	20,582

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Obligations by Object Classification
($000s)

	2009	2010	2011
Full-time permanent....................................	$96	$138	$141
Awards...	0	4	4
Benefits..	25	34	35
Subtotal, personnel.................................	121	176	180
Travel...	13	32	32
Rent to GSA..	6	8	8
Communications...	1	0	0
Other services...	131	116	111
Training..	2	6	6
Goods/Services from Government..............	1	1	2
Information technology services/contracts...	12	13	13
Supplies...	2	2	2
Subsidies for credit program.......................	11,319	22,976	20,228
Total..	11,608	23,330	20,582

[1] Excludes $65 thousand in unobligated funds transferred to the Career, Technical, and Adult Education account to help support the Adult Education State Grants program. Authority to transfer available funds that would otherwise lapse was provided in Section 804 of the Supplemental Appropriations Act, 2009 (P.L. 111-32).

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Summary of Changes
($000s)

2010	$20,582
2011	20,582
Net change	0

	2010 base	Change from base
Increases:		
Built-in:		
Increase in personnel compensation primarily for the enacted 2 percent 2010 and proposed 1.4 percent 2011 pay increases	$138	+$3
Increase in benefits for the Department's share of health, retirement, and other benefits	34	+1
Program:		
Increase in Goods/Services from Government	1	+1
Subtotal, increases		+5
Decreases:		
Decrease in other services	116	-5
Subtotal, decreases		-5
Net change		0

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Authorizing Legislation
($000s)

Activity	2010 Authorized	2010 Estimate	2011 Authorized	2011 Request
Federal administration *(Federal Credit Reform Act of 1990, section 505(e) and Title III, part D, HEA)*	Indefinite	$354	Indefinite	$354
New loan subsidy *(Title III, part D, HEA and Federal Credit Reform Act of 1990, section 505(e))*	Indefinite	20,228	Indefinite	20,228
Total appropriation		20,582		20,582

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Appropriations History
($000s)

	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
2002	$208	$208	$208	$208
2003	211	208	208	207
2004	210	210	210	209
2005	212	212	212	210
2006	210	210	210	208
2007	190	N/A[1]	N/A[1]	209
Supplemental (P.L. 109-234)	0	0	0	304,560
2008	188	188	188	185
2009	10,354	10,354[2]	10,354[2]	10,354
2010	20,582	20,582	10,354[3]	20,582
2011	20,582			

[1] This account operated under a full-year continuing resolution (P.L. 110-5). House and Senate Allowance amounts are shown as N/A (Not Available) because neither body passed a separate appropriations bill.
[2] The levels for the House and Senate reflect action on the regular annual 2009 appropriations bill, which proceeded in the 110th Congress only through the House Subcommittee and the Senate Committee.
[3] The level for the Senate allowance reflects Committee action only.

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Federal administration
(Federal Credit Reform Act of 1990, section 505(e)
and the Higher Education Act of 1965, title III, part D)

FY 2011 Authorization ($000s)

Federal administration:	Indefinite
New loan subsidy costs:	Indefinite[1]

Budget Authority ($000s):

	2010	2011	Change
Federal Administration	$354	$354	0
New loan subsidy costs	20,228	20,228	0
Total	20,582	20,582	0
Full-time equivalent employee	1	1	0

[1] Although the amount authorized for subsidy costs of new loans is indefinite, section 344(a) of the HEA limits the aggregate principal amount of outstanding bonds insured, together with any accrued unpaid interest thereon, to $1,100,000,000, of which not more than $733,333,333 may be used for loans to eligible private HBCUs and not more than $366,666,667 may be used for loans to eligible public HBCUs.

PROGRAM DESCRIPTION

Since fiscal year 1996, the Historically Black Colleges and Universities Capital Financing Program has provided HBCUs with access to capital financing for the repair, renovation, and, in exceptional circumstances, construction or acquisition of educational facilities, instructional equipment, research instrumentation, and physical infrastructure.

HBCUs, which have played a prominent role in our Nation's history, have significant needs for capital improvements. However, in most cases these institutions cannot access traditional funding sources at reasonable interest rates. The HBCU Capital Financing Program provides HBCUs with access to low-cost financing to fund infrastructure improvements. This program has made low interest loans available for capital improvements to some of the Nation's most vulnerable institutions of higher education, which have allowed these institutions to make improvements to their capital stock, especially academic facilities and student living-quarters. Under this program, the Department is authorized to provide financial insurance to guarantee up to $1.1 billion in loans and interest to qualifying HBCUs—$733.3 million for private HBCUs and $366.7 million for public HBCUs.

In order to limit the Federal Government's exposure to incurring losses due to defaults and delinquencies, 5 percent of all loans are deposited in a pooled escrow account from which loan payments can be made in the event of defaults or delinquencies.

The HBCU Capital Financing Advisory Board, appointed by the Secretary, advises the Secretary and the Designated Bonding Authority (DBA) as to the most effective and efficient means of implementing the program. The DBA, also selected by the Secretary, provides for the operation of the HBCU Capital Financing Program, which includes raising bond capital, making loans to eligible institutions, charging interest, and providing for a schedule of repayments. Direct loans are financed through the Federal Financing Bank and guaranteed loans are financed through the private market, with all loan payments fully insured by the Federal Government.

Federal Administration

Funds for this activity pay the Federal costs for administering the HBCU Capital Financing Program. The administrative costs for this program include the personnel compensation and benefits for 1 full-time equivalent (FTE) employee, overhead, and other administrative services. The FTE reported in this account reflects the Department's estimate of the staff time devoted to administering the program. This estimate does not include FTE associated with the Department's centralized services, which are reflected in the Program Administration account in the Salaries and Expenses Overview. The major non-personnel costs include support for the HBCU Capital Financing Advisory Board and a contract with the DBA to provide technical assistance workshops.

Subsidy Costs

In the first 10 years that the HBCU Capital Financing Program operated, there were no delinquencies or defaults. The rigorous application and credit review process imposed by the Department and the DBA was credited with ensuring that institutions receiving loans under this program had the ability to comply with the terms of their loans. However, in 2004, Barber Scotia College lost its accreditation with the Southern Association of Colleges and Schools. As a result, students enrolled at Barber Scotia College were no longer eligible for Federal student assistance. With approximately 90 percent of the College’s students receiving some form of government assistance, this rendered the College unable to service its debt under the program. Barber Scotia College has one $7 million loan under the program, of which $6,484,260 is currently outstanding. In addition, there will be a total of $4,066,186 in interest due over the remaining life of the loan. Since March 2005, Barber Scotia College’s principal and interest payments have been made from the pooled escrow account. The DBA, which holds the loans that are guaranteed through this program, initiated foreclosure actions against Barber Scotia College to recover funds owed.

Following emergency supplemental appropriations[1] in fiscal year 2007, the Department awarded approximately $400 million in loan guarantees to institutions affected by Hurricanes Katrina and Rita. These loans were exempt from the pooled escrow requirement and limited to a maximum interest rate of 1 percent, increasing Federal liability and interest subsidy cost.

[1] The Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006 Sec. 2601 waived HEA provisions 343(b)(2) and 343(b)(8) and required the Secretary to pay any interest in excess of 1 percent for loans to institutions affected by Hurricanes Katrina and Rita

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Funding levels for the past 5 fiscal years were:

	($000s)
2006	$208
2007	304,769
2008	185
2009	10,354
2010	20,582

FY 2011 BUDGET REQUEST

The Administration requests level funding of $20.582 million for the Historically Black College and University (HBCU) Capital Financing Program account for fiscal year 2011. The request includes $354,000 for administrative expenses and an additional $20.228 million for loan subsidy costs for new loans under the program.

The $354,000 in administrative expenses will be used to maintain technical assistance services. These services prepare eligible institutions to access capital markets by enhancing their fiscal stability. For presentation purposes, the full-time equivalent and administrative costs financed by this account are also included under the justification materials in the Salaries and Expenses Overview.

The Administration's request includes $20.228 million for loan subsidy costs. The Department anticipates that the requested subsidy amount will be sufficient to guarantee $279.4 million in new loans in fiscal year 2011. The Department is currently in discussions with eight institutions seeking loans in fiscal year 2011, totaling over $250 million in expected loan demand, and expects additional institutions will seek loans in fiscal year 2011.

Under this program, the Department is authorized to provide financial insurance to guarantee up to $1.1 billion in principal and interest to qualifying HBCUs—$733.3 million for private HBCUs and $366.7 million for public HBCUs. Currently, the Department has outstanding guarantees of approximately $625 million, and is authorized to guarantee an additional $266 in loans to public HBCUs and $209 million to private HBCUs. The Department expects that demand for loans by private HBCUs will exceed the statutory loan cap for private HBCU loans in fiscal year 2011. Thus, the request includes appropriations language that would allow the Department to make loans in fiscal year 2011 without regard to the language in HEA section 344(a) paragraphs (1) and (2) that sets limits on the amount of the program's loan authority that can be devoted to private versus public HBCUs.

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PROGRAM OUTPUT MEASURES ($000s)

	2009	2010	2011
Number of new loans:			
Private HBCUs	4	4	5
Public HBCUs	0	3	5
Total	4	7	10
New loan volume:			
Private HBCUs	$61,000	$100,022	$135,286
Public HBCUs	0	$78,199	$144,107
Total	$61,000	$178,221	$279,393
Total number of loans:			
Private HBCUs	28	32	37
Public HBCUs	7	10	15
Total	35	42	52
Total awards:			
Private HBCUs	$563,857	$663,879	$799,165
Public HBCUs	$116,114	$194,313	$338,420
Total	$679,971	$858,192	$1,137,585
Total outstanding awards:			
Private HBCUs	$524,383	$624,405	$759,691
Public HBCUs	$100,015	$178,214	$322,321
Total	$624,398	$802,619	$1,082,012

PROGRAM PERFORMANCE INFORMATION

Performance Measures

This section presents selected program performance information, including, for example, GPRA goals, objectives, measures, and performance targets and data, and an assessment of the progress made toward achieving program results. Achievement of program results is based on the cumulative effect of the resources provided in previous years and those requested in fiscal year 2011 and future years, and the resources and efforts invested by those served by this program.

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Goal: To improve loan recipients' overall financial stability and enhance their ability to attract, retain and educate students

Objective: *Total revenues and investment return will increase for loan recipients.*

Measure: Maintain a high percentage of borrowers who increase revenues and investment return annually.

Year	Target	Actual
2006		69
2007		
2008		
2009	70	
2010	70	
2011	70	

Assessment of progress: This performance measure is the percentage of HBCUs that experienced an increase in revenue over the prior year. This measure is one gauge of improved institutional financial stability and capability to fulfill their educational mission. Loans that fund capital and infrastructure improvements are key assets for providing quality postsecondary education. Some HBCUs have significant cash flow problems, which capital improvements from this program are expected to help ameliorate. Revenue is a strong indicator of an institution's success at maintaining or increasing enrollment, expanding fundraising activities, and ultimately the institution's financial stability. The ability to maintain or increase revenue suggests that an institution will be able to service its debts and maintain its operations. This measure helps to assess the financial solvency of borrowers, which is a gauge of default potential. This measure is calculated as the number of HBCUs in the program that have experienced an increase in revenue over the prior fiscal year, divided by the total number of HBCUs in the program, and multiplied by 100. The data source for total revenues is the National Center for Educational Statistics' Integrated Postsecondary Education Data System. Data for 2007 will be available in August 2010.

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Objective: *The delinquency rate of loan recipients will improve.*

Measure: The delinquency rate of loan recipients		
Year	**Target**	**Actual**
2007		13
2008		23
2009		
2010	14	
2011	14	

Assessment of progress: The delinquency rate—the percentage of loan payments received between 11-59 days after the due date—indicates the financial stability of borrowers. The ability to make timely payments reduces the likelihood of default. It also indicates successful monitoring, technical assistance, and enforcement by the Department and the Designated Bonding Authority (DBA) in administering the program. The delinquency rate for 2008 was 23 percent, a significant increase over the prior year level. This increase was largely driven by delayed payments from State institutions, which have since made payments on time. Data for 2009 will be available in March 2010.

Goal: To improve the capacity of program borrowers to improve student success and provide high-quality educational opportunities for their students.

Objective: *Maintain or increase the persistence rate of first-year students at borrower institutions.*

Measure: The percentage of first-time, full-time, degree-seeking, undergraduate students who were in their first year of postsecondary enrollment in the previous year and are enrolled in the current year at the same loan recipient institution.		
Year	**Target**	**Actual**
2006		63
2007		64
2008		62
2009	64	62
2010	65	
2011	66	

Assessment of progress: New and improved physical facilities can help an institution of higher education increase student persistence. Many of the loans have provided support for student housing and many of the borrowers have explicitly cited lack of adequate student housing and facilities as a reason for high attrition rates on their campuses in their loan applications. The borrower persistence rate for 2009 was 62 percent, the same as the prior year, which is slightly lower than the rate for all HBCUs, which decreased from 64 percent in 2008 to 63 percent in 2009. This measure relies on data taken from the Integrated Postsecondary Education Data

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System maintained by the National Center for Education Statistics. Data for 2010 will be available in December 2010.

Other Performance Information

In 2006, the U.S. Government Accountability Office (GAO) conducted an examination of the HBCU Capital Financing Program. The objectives of the study were to review: (1) HBCU capital project needs and program utilization, (2) program advantages compared to other sources of funds and schools' views of loan terms, (3) the Department's program management, and (4) new loan provisions enacted in June 2006 to assist in hurricane recovery efforts. GAO noted in the report that HBCUs have extensive and diverse capital project needs and that the HBCU Capital Financing Program provides them with access to low-cost capital financing and flexibilities not available elsewhere. The report also noted that the Department had taken steps to improve the program that included increasing flexibility by providing schools with both fixed and variable interest rate options, allowing for larger loans, affording schools with more opportunities to negotiate loan terms, and increasing marketing efforts for the program. The report also noted specific weaknesses in the Department's management of the program.

GAO's recommendations are presented below, followed by a description of the Department's actions to address them.

- *The Department should regularly convene and consult with the HBCU Capital Financing Program's Advisory Board. Additionally, the Department and the Advisory Board should consider the feasibility of alternatives to the escrow arrangement. If the Department determines that statutory changes are needed to implement more effective alternatives, it should seek such changes from Congress.* The HBCU Capital Financing Program's Advisory Board now meets twice each year.

- *The Department should enhance communication with HBCU Capital Financing Program participants by (1) developing guidance for HBCUs, based on other schools' experiences with the program, on steps that applicants can take to expedite loan processing and receipt of loan proceeds, and (2) regularly informing program applicants of the status of their loan applications and Department decisions.* The Department has taken a number of steps to improve communication with HBCU program participants and address this GAO recommendation. The Department studied the experiences of past borrowers and used the findings to develop guidance that will allow applicants to expedite loan processing. Further, the Department developed a customer satisfaction survey that is sent to borrowers after they have closed on a loan. This survey asks borrowers to rate the level of service at every stage of the process and asks borrowers to recommend improvements to the loan process. Using the results of this study and borrower feedback, the Department has developed a Question and Answer section on its website that includes an overview of the loan process, a list of the information commonly needed to process a loan, and information about what a school can do to expedite the loan application and closing processes.

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- *The Department should change its requirement that borrowers make monthly payments to a semiannual payment requirement.* While the Department understands institutions' preference for semi-annual rather than monthly payments, the potential for default, as well as each institution's potential exposure from the default of another program participant, leads the Department to believe that it would be imprudent to implement a less frequent payment schedule.

- *The Department should ensure that the program subsidy cost estimation process includes as a cash flow to the government the surcharge assessed by the Federal Financing Bank (FFB) and paid by HBCU borrowers and pay such amount to the program's financing account. Additionally, the Department should audit the surcharge funds held by the DBA.* In response to this recommendation, the Department audited the funds held by the trustee on behalf of the program generated by this FFB surcharge. The Department worked with the DBA to develop a protocol for regular transfers of these fees into the program's financing account. In fiscal year 2009 the contract for the DBA was recompeted and awarded to a new entity. The new DBA is required to transfer the FFB fee to the program's financing account quarterly. In addition, the DBA must provide a detailed monthly report of all borrower activity, including FFB fee and escrow balances.

- *The Department should increase monitoring of the DBA to ensure compliance with contractual requirements and ensure properly marketing the program.* In response to this recommendation, the Department retained an independent firm to audit the DBA during fiscal year 2007 to assess the handling of loan funds and associated fees. This audit assessed the DBA's record-keeping function and determined what documents the DBA needs to obtain to complete its files. To assist the DBA, the Department developed a checklist indicating required and optional documents to include in a complete file. The Department uses this list to monitor record-keeping. After each closing, the Department ensures that the borrower's loan transcript file is complete by cross-checking the pre-closing document list with the actual closing document list and actual documents presented at closing. This process will be carried over to the new DBA, which was selected in fiscal year 2009.