

Department of Education
HISTORICALLY BLACK COLLEGE AND UNIVERSITY
CAPITAL FINANCING PROGRAM ACCOUNT

Fiscal Year 2013 Budget Request

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For the cost of guaranteed loans, [~~\$20,188,000~~] \$20,150,000, as authorized pursuant to part D of title III of the Higher Education Act of 1965 (“HEA”), which shall remain available through September 30, 2014:¹ *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 [~~\$367,255,000~~] \$320,350,000:² *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 section 344(a) of the HEA.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, [~~\$353,000~~] \$352,000.⁴ (Department of Education Appropriations Act, 2012)

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
<p>¹ For the cost of guaranteed loans, <u>\$20,150,000</u>, as authorized pursuant to part D of title III of the Higher Education Act of 1965 ("HEA"), <u>which shall remain available through September 30 2014:</u></p>	<p>In accordance with the Federal Credit Reform Act of 1990, the requested language appropriates \$20.150 million in subsidy for new loans to be made under the HBCU Capital Financing program. This amount will be available for obligation for 2 fiscal years. No loans may be insured under the program that would require subsidy above this amount.</p>
<p>² <i>Provided further</i>, That these funds are available to subsidize total loan principal, any part of which is to be guaranteed, not to exceed [\$367,255,000]<u>\$320,350,000:</u></p>	<p>The requested language limits the amount of bonds that may be insured under the HBCU Capital Financing program to \$320.350 million in fiscal year 2013.</p>
<p>³ <i>Provided further</i>, That these funds may be used to support loans to public and private historically Black colleges and universities without regard to the limitations within section 344(a) of the HEA.</p>	<p>The requested language allows the program to make loans in fiscal year 2013 without regard to the language in HEA section 344(a) that sets limits on the amount of the program's loan authority that can be devoted to private versus public HBCUs.</p>
<p>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, [\$353,000] <u>\$352,000.</u></p>	<p>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.</p>

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Amounts Available for Obligation
(dollars in thousands)

Appropriations and Adjustments	2011	2012	2013
Discretionary appropriation:.....			
Appropriation	\$20,582	\$20,541	\$20,502
Across-the-board reduction (P.L. 112-10)	-41	0	0
Across-the-board reduction (P.L. 112-74)	0	-39	0
Subtotal, discretionary appropriation	20,541	20,502	20,502
Mandatory appropriation	<u>94,601</u>	<u>11,658</u>	<u>0</u>
Subtotal, discretionary and mandatory appropriation	115,142	32,160	20,502
Unobligated balance expiring	<u>-3</u>	<u>0</u>	<u>0</u>
Total, direct obligations.....	115,139	32,160	20,502

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Obligations by Object Classification
(dollars in thousands)

Object Class	2011	2012	2013
Full Time Permanent.....	\$128	\$137	\$139
Full Time Temporary.....	3	0	0
Awards.....	4	0	0
Benefits.....	<u>34</u>	<u>36</u>	<u>36</u>
Subtotal, personnel.....	169	173	175
Travel.....	18	24	23
Rent to GSA.....	8	8	9
Communications.....	1	0	0
Training.....	3	6	1
Goods/Services from Government.....	1	2	3
Information technology services/contracts...	14	14	12
Other services.....	133	124	128
Supplies.....	3	1	1
Subsidies for credit program.....	<u>114,789</u>	<u>31,808</u>	<u>20,150</u>
Total.....	115,139	32,160	20,502

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Summary of Changes
(dollars in thousands)

2012.....	\$20,502
2013.....	<u>20,502</u>
Net change.....	0

Increases:	<u>2012 base</u>	<u>Change from base</u>
<u>Built-in:</u>		
Increase in personnel compensation, including salary and benefits	\$173	+\$2
<u>Program:</u>		
Increase in Rent to GSA	8	+1
Increase in Other Services	124	+4
Increase in Goods/Services from Government	2	<u>+1</u>
Subtotal, increases		+8
Decreases:	<u>2012 base</u>	<u>Change from base</u>
<u>Program:</u>		
Decrease in travel	\$24	-\$1
Decrease in training expenses	6	-5
Decrease in information technology services/contracts	14	<u>-2</u>
Subtotal, decreases		-8
Net change		0

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Authorizing Legislation
(dollars in thousands)

Activity	2012 Authorized	2012 Estimate	2013 Authorized	2013 Request
Federal administration (<i>Federal Credit Reform Act of 1990, section 505(e) and Title III, part D, HEA</i>)	Indefinite	\$352	Indefinite	\$352
New loan subsidy (<i>Title III, part D, HEA and Federal Credit Reform Act of 1990, section 505(e)</i>)	Indefinite	20,150	Indefinite	20,150
Reestimate of existing loan subsidies (Federal Credit Reform Act of 1990, section 504 (f)) (Mandatory)	<u>Indefinite</u>	<u>11,658</u>	<u>Indefinite</u>	<u>0</u>
Total definite authorization				
Total appropriation		32,160		20,502

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Appropriations History
(dollars in thousands)

Year	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 (PL 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	20,582 ⁴	20,582 ³	20,541
2012	20,582	20,541 ⁵	20,541 ⁵	20,502
2013	20,502			

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 allowances 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 levels for the Senate allowance reflect Committee action only.

⁴ The level for the House allowance reflects the House-passed full-year continuing resolution.

⁵ The level for the House allowance reflects an introduced bill and the level for the Senate allowances reflects Senate 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)

(dollars in thousands)

FY 2013 Authorization

Federal administration: Indefinite
New loan subsidy costs: Indefinite¹

Budget Authority:

	<u>2012</u>	<u>2013</u>	<u>Change</u>
Federal Administration	\$352	\$352	0
New loan subsidy costs	<u>20,150</u>	<u>20,150</u>	<u>0</u>
Total	20,502	20,502	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. The 2012 appropriations bill included language removing this limitation. The 2013 request includes appropriations language to remove this limitation for new loans made in fiscal year 2013.

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.

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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 \$7.0 million loan under the program, of which \$6.1 million is currently outstanding. In addition, there will be a total of \$3.4 million 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.

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Following emergency supplemental appropriations¹ in fiscal year 2007, the Department awarded approximately \$400.0 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.

¹The 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

Funding levels for the past 5 fiscal years were:

	(dollars in thousands)
2008	\$185
2009	10,354
2010	20,582
2011	20,541
2012	20,502

FY 2013 BUDGET REQUEST

The Administration requests \$20.5 million for the Historically Black College and University (HBCU) Capital Financing Program account for fiscal year 2013. The request includes \$352,333 for administrative expenses and an additional \$20.2 million for new loan subsidy costs. The Administration requests that loan subsidy be available through September 30, 2014. The Department has found that the narrow window for obligation of annual funds constrains the planning process for new program loans, decreasing the number of projects that can be considered for funding and limiting the Department’s ability to achieve the statutory mandate of ensuring that loans are fairly allocated among as many eligible institutions as possible.

The \$352,333 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 \$20.2 million for new loan subsidy costs and anticipates that the requested subsidy amount will be sufficient to guarantee \$320.4 million in new loans. The Department is currently in discussions with 29 institutions seeking loans in fiscal years 2012 and 2013, totaling approximately \$953.0 million in expected loan demand.

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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. The Department has reached the statutory limit for private loans and expects to reach the statutory limit for public loans in 2012. Thus, the Administration seeks appropriations language that would allow the Department to continue to make loans in fiscal year 2013 without regard to the language in HEA section 344(a) that sets limits on the amount of the program's total loan authority and on the loan authority for public and private HBCUs.

PROGRAM OUTPUT MEASURES (dollars in thousands)

<u>Measures</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Number of new loans			
Private HBCUs	1	8	7
Public HBCUs	<u>3</u>	<u>8</u>	<u>7</u>
Total	4	16	14
New loan volume			
Private HBCUs	\$24,400	\$183,280	\$160,179
Public HBCUs	<u>130,000</u>	<u>183,281</u>	<u>160,180</u>
Total	154,400	366,561	320,350
Total number of loans			
Private HBCUs	34	42	49
Public HBCUs	<u>11</u>	<u>19</u>	<u>26</u>
Total	45	61	75
Total loan awards			
Private HBCUs	\$809,555	\$992,835	\$1,153,014
Public HBCUs	<u>263,429</u>	<u>446,710</u>	<u>606,890</u>
Total	1,072,983	1,439,545	1,759,895
Total outstanding loan awards:			
Private HBCUs	\$730,015	\$906,295	\$1,313,193
Public HBCUs	<u>320,533</u>	<u>503,314</u>	<u>662,994</u>
Total	1,052,486	1,409,609	1,135,446

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

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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 2013 and future years, and the resources and efforts invested by those served by this program.

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: The percentage of borrowers who increase revenues and investment return annually.

Year	Target	Actual
2008		46
2009	70	63
2010	70	
2011	70	
2012	70	
2013	70	

Additional information: 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. Performance on this measure improved significantly from 46 percent in 2008 to 63 percent in 2009. The data source for total revenues is the National Center for Educational Statistics' Integrated Postsecondary Education Data System.

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Objective: *Improve the delinquency rate of loan recipients.*

Measure: The delinquency rate of loan recipients.

Year	Target	Actual
2008		23
2009		15
2010	14	32
2011	14	
2012	14	
2013	14	

Additional information: 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.

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
2008		63
2009	64	63
2010	65	64
2011	66	60
2012	67	
2013	68	

Additional information: 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 the lack of adequate student housing and facilities as a reason for high attrition rates on their campuses in their loan applications. To put into context the 4 percentage point decline in the persistence rate in 2011, the persistence rate at all HBCUs, including those institutions that are not receiving loans through this program, decreased by 2 percentage points, from 66 percent in 2010 to 64 percent in 2011. This measure relies on data taken from the Integrated Postsecondary Education Data System

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maintained by the National Center for Education Statistics. Data for 2012 will be available in December 2012.

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 that the HBCU Capital Financing Program provides HBCUs with access to low-cost capital financing 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 made several recommendations for improving program management.

The Department has fully addressed each of GAO's recommendations with the exception of the recommendation to allow borrowers to make semiannual rather than monthly payments, which the Department believes would increase the likelihood of delinquency and default. 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. In addition, following consideration of several alternatives to the current escrow arrangement, the Department will propose changes to the program statute to allow the escrow requirement to be waived for new loans in favor of a non-refundable fee to be paid in the form of a fixed percentage add-on to the interest rate.
- *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 Q&A section on its website (<http://www2.ed.gov/programs/hbcucapfinance/faq.html>) that

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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.

- *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 and developed a protocol for quarterly transfers of these fees into the program's financing account. In addition, the Department worked with OMB to make several improvements to the cash flow model used for subsidy cost estimation, including incorporating the FFB fee in the program's cash flows. Beginning with the fiscal year 2010 budget request, cost estimates include the FFB fee as a cash flow to the Government.
- *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 has been carried over to the new DBA, which began operating in fiscal year 2009.