HISTORICALLY BLACK COLLEGE AND UNIVERSITY CAPITAL FINANCING ADVISORY BOARD

ADVISORY BOARD MEETING

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HISTORICALLY BLACK COLLEGE AND UNIVERSITY

CAPITAL FINANCING ADVISORY BOARD

Friday, July 30, 2010

U S Department of Education

555 New Jersey Avenue, NW

Board Room

Washington, D C 20001

Before board composed of the following:

Dr. Norman Francis

Mr. Don Watson

Dr. Lezli Baskerville

Dr. Trudie Kibbe Reed

Mr. Johnny C. Taylor

Dr. Donald J. Reaves

Dr. Robert M. Franklin

Mr. John S. Wilson

Dr. Henry Givens, Jr.

Dr. Michael Lomax

Dr. Adena Loston

P-R-O-C-E-E-D-I-N-G-S

DR. FRANCIS: This meeting is called to order. Let me welcome all of you here this morning. Most of you came to Washington. Any time yesterday, it was quite a chore. Trudie had to come in early this morning. I spent 6 hours waiting at the airport and got in here at 2 o'clock this morning, so, I am not a happy camper.

(Laughter.)

DR. FRANCIS: But all of you who did make it, thank you for coming.

Let me say that we have -- we are outvoted, Lezli. We got, how many -- one, two, three, four, five, six -- seven, is that right, new members, and you and I are the only ones that were here the last time. So we had better do some politicking if we want to get things passed here.

DR. BASKERVILLE: Seniority counts for something.

DR. FRANCIS: Let me welcome President Rob Franklin of Morehouse College, Dr. Henry

Givens of Harris-Stowe, and Dr. Adena Loston from St. Philip's, Dr. Donald Reaves from Winston-Salem State University.

I have to say to you I covered Winston State -- how many years ago this would have been? You weren't there then. It had to be 8 years ago.

DR. REAVES: From the conversation we had it sounds like 8 years ago.

DR. FRANCIS: I was fortunate to be a part of a four-member team that looked at all the colleges and university, University of North Carolina, including the college of arts. I had Winston-Salem State as one of my four. You are very well, happy to have them here.

And then, of course, Trudie, who has been with the committee now 4 years --

DR. REED: Six years going into my seventh year.

DR. FRANCIS: I just told Dr. Franklin that time passes when you are a college president. It seems like you just got there, but actually it has been almost 10 years there working on the forward now.

But welcome, certainly, to Dr. Trudie Kibbe Reed.

Diane Suber, President Suber could not make it, and did call us because of the weather and everything else that happened to us here. And Dr. John Wilson, who is the executive director of the White House Initiative, will probably be here in a few minutes.

So, we are here, and let me say as I welcome you, this will be an important meeting. You have had a lot of materials to read. Some of this can be confusing if it is your first time with this.

And our executive, Don Watson -- this is a one-man show. If I could do anything, I would probably try to get you about three other workers, because he really has more in his wagon than he can pull sometimes. He has given you a lot of material and in my little discussion with him, I said let's make it easy. I'm jumping ahead but I want you know --

DR. BASKERVILLE: I'm sorry, Mr. Chairman, it gives me great pleasure to introduce to this group my new colleague, Mr. Johnny Taylor, who is the new president and CEO of the Thurgood Marshall College.

DR. FRANCIS: Yes, I missed him. I'm sorry. I'm going to say something about Thurgood Marshall.

DR. BASKERVILLE: From Florida.

DR. REED: Very important.

DR. FRANCIS: We just took him off the list.

(Laughter.)

DR. FRANCIS: We have Tom. What we are going to go through today in the good 2 hours we have are very important items. And I said to our executive to make it as clear as possible for you to get an understanding of where the HBCU Capital Financing Program issue is. We have a summary here that Lezli and Mr. Taylor and certainly Edith Bartley, were -- John, welcome.

MR. TAYLOR: Thank you.

DR. FRANCIS: Having been at this for a couple of years if we can, in fact, get some approvals, if not on all of these hopefully all of these, we will move the HBCU Capital Financing Program in a greater way to help more HBCUs.

And Don is an expert at explaining these. Lezli and Ms. Taylor, and we have got (inaudible) here too. We were fortunate to have (inaudible) as the (inaudible) UNCL work on this for the last -- well, years, I remember about 3 or 4 years now. And it is coming to a point now where we think we have vetted it with institutions that have applied, didn't make it, some who have admitted because of the good help that Don and Dorothy has given them.

And we can expand this program greatly if and when we can get the changes made. We only advised -- we advised the Secretary and obviously if any of us ever made a loan, and some of us have, we have to balance the ability to identify what the loan will be used for and the capacity to pay it back. It is not a welfare program, you have to pay it back.

But there are difficulties in making bond monies available and the like. And if you do it in the outside market, which I have been in, it is not easy. And this is created for HBCUs to make it easier. And we need to make it easier than perhaps it is today.

So, that is what I challenge here is. And then, you will see it at the end of your kit that we will get to -- hopefully we will spend a lot of time talking about -- one of the things we would like to change to make it possible for more of our schools to be involved.

And obviously, the third step is Congress has to put money in the pocket. It is happening and it happened more in the last 2 years, and Don says we can make it to 2012, then we will help and try to put more in. That is our goal for the day.

Let me do a roll call in here. President Franklin.

MR. FRANKLIN: Present.

DR. FRANCIS: President Givens.

DR. GIVENS: Here.

DR. FRANCIS: President Loston.

DR. LOSTON: Here.

DR. FRANCIS: President Reaves.

DR. REAVES: Here.

DR. FRANCIS: President Reed.

DR. REED: Present.

DR. FRANCIS: President Suber we know is not going to be able to make it.

Mr. Taylor, President Taylor.

MR. TAYLOR: Here.

DR. FRANCIS: And the executive director of the White House Initiative Dr. John S. Wilson.

DR. WILSON: Here.

DR. FRANCIS: Thanks for being here. We have a quorum, and I'm going to go directly into asking you to approve the recording of the meeting of December the 12th, 2008. I'm using that very distinctly, approve the recording, because Lezli and I will be the only ones who were really there who could say that did or did not happen. So, we are only asking that you approve the recording as fact of the meeting was held on Friday, December 12th.

So, if I can get a motion?

UNIDENTIFIED SPEAKER: Motion.

DR. FRANCIS: Second?

UNIDENTIFIED SPEAKER: Second.

DR. FRANCIS: Any questions you may have we will hopefully cover those, but you can certainly ask them now. You have read that whole transcript. I will give you A plus, plus. But Mr. Watson did cut it down.

(Seconded)

DR. FRANCIS: So, all of those in favor of that recording of the facts, please signify by saying "aye."

(Chorus of "Ayes.")

DR. FRANCIS: All opposed. That is behind us. Now we will go directly into the executive director's report.

This is Mr. Don Watson. And I can't say to this Board enough that he has taken on this

Herculean task, and some of you around here, of course, have been visited by him and there are many others that he brought in. And I want to say personally since I have been with this a little while, not a long time, I want to thank you for your work.

MR. WATSON: Thank you, Mr. Chairman. If it is okay with the Board, I actually would like to reverse the two agenda items. I would like to introduce our new Designated Bond Authority. They are no longer new. They have been with us for about a year now. I would like to reverse that, and introduce them and then go into my report, if that is okay with the Board?

DR. FRANCIS: Okay.

MR. WATSON: It is interesting because, for the first time we actually have bond counsel, DBA and our trustee in one room during the closing.

I will start out with -- I'm not sure how you want to do it, Cristal Baron Rice Financial Products; William Fisher, Rice Financial

Products, Gail Davis, there is something I see -- oh, David Womack, Rice Financial Products. We have Craig Robertson, part of the trustee of New York Mellon. He is located here in Washington, D.C. We also have Darrington (phonetic) of Bank New York Mellon from Chicago. We have our bond counsel, Patti Wilkenson. We also have Keirston Wood with Bryant, Miller.

And from my other side, I have Sally Warner, and this is actually -- and Sally has an intern with her as well. Yes, this is our general counsel for the most part, we deal with these groups of people that I work with from the education side.

So although I'm one education person for the program, this is the group of people that help me bring it along as we close deals.

DR. FRANCIS: With this array I want to make a loan.

(Laughter.)

DR. FRANCIS: We have everybody here we need. The Secretary is not here. But we welcome you and thank you for serving us. We need all of you can give us and advice from counsel. Thus, it is very important to this country. I'm not sure everybody understands this every now and then, but we keep telling it every year that they open the Congress how important the HBCUs are, we will have to continue to tell that story for many years to come.

UNIDENTIFIED SPEAKER: Thank you.

DR. FRANCIS: Okay, Don, tell us what you have been doing.

MR. WATSON: My director report for the July 30, 2010 meeting.

Mr. Chairman, Members of the Board, I'm pleased to present this report to you on HBCU Capital Financing Program. This report provides the summary of the information that I reported at our last meeting, as well as the new information. And I sort of conducted it that way because we have so many new board members I think it would be a benefit to the members to know exactly what my last report contained, as well as to give you updates on the progress of those status items.

A decision memorandum was sent to the Secretary of Education, Arne Duncan, to determine whether or not the trustees should extend more time to Barber-Scotia or to secure default or to get the lender to contract with an outside realtor to market the campus for sale. The Secretary did approve that recommendation to market and sell the campus of Barber-Scotia. It is in progress now.

We are actually going through a marketing agreement and a real estate contract to make sure the terms are okay. We will actually share the information with Barber-Scotia once our attorneys have looked at it. And we have sort of three sets of attorneys. We have bond counsel, general counsel's office, as well as the trustee counsel. Once they look at it, then we will send it out to Barber-Scotia and have the document executed.

DR. FRANCIS: How long has this been on the agenda now? It predates you, I know. Anybody guess, 6, 7 years?

MR. WATSON: It has been on the agenda prior to 2008 when the Board made the decision to send a recommendation to the Secretary. It had been on the agenda for 4 years. And it is a campus, and to be realistic, nobody buys campuses every day. And in the business that we are in, the majority of our collateral is in the form of real estate. So, it makes it difficult to market and sell a campus for which the economic hub of that community was -- (inaudible)We are still pursuing our remedies according to the loan agreement.

DR. FRANCIS: I want the Board to know that this Board has been working with Barber Scotia, the Secretary's office and the like, and we did everything humanly possible to save Barber Scotia. And I say this because I remember at the last meeting the question was, you know, what do we do, do we sell now, later and the rest?

I think the Board took the position to do everything humanly possible, legally possible to do so. And it reached the point, given what you are going to hear later, that it not only impacted Barber Scotia, but it impacting all of the other schools that were in the pool.

And I will just say it now, because it is going to come up, being in the pool meant that when an institution is not able to pay its own bill, that everybody else in the pool must pay that bill. And so what you are doing is draining the escrow account of all of the other schools. And it got to the point that it was not impacted not just Barber Scotia, but the other schools that were paying the bills.

So, we didn't want anybody -- this is sort of the sad case to think that everything was not done, it was. And now the end has come in the sense of selling the campus. Okay.

Any questions on that? I think it speaks for itself more than anything else.

All right, Don.

MR. WATSON: Next are the results of GAO audit, 2006 GAO, Government Accountability Office. I am part of the program. I have cited many management issues as well as programmatic issues. We closed the report in November 2007. However, every year after the GAO, Government Accountability Office, comes back to the department and assures that we are still doing all the things that we promised to do, as well as to see if there is anything new that we are doing to improve the program, things of that nature.

If you look in the manila folder, which is a part of your original packet, the manila folder actually has the original GAO report and the 2009 letter in there to update, the latest update to the GAO regarding the program and how we are implementing the recommendation.

I will say that the GAO -- we accepted all of the recommendations of the GAO except one. The GAO asked that we have semiannual payments for bond. The Department of Education decided not to accept their recommendation, and the decision was made, one, now we get -- 2007 I started receiving the delinquency reports for individual borrowers who pay late. And to allow this institution to go

6 months in debt is a much higher burden for an institution than to afford an institution's debt monthly.

So, it was better for the opportunity to get in at an earlier stage to say what is going on before we have a situation where a borrower is too far behind to come back. It allowed us the room to get in on a very early basis, get in, start to work with them and see if we can come to a solution of how to resolve their delinquency before they get into a default situation.

MR. FRANKLIN: Point of information on that point. Does this report specifically address the Barber-Scotia situation, lessons learned, cautions about going forward?

MR. WATSON: No, sir. That is something that from a programmatic standpoint worked with the DBA, bond counsel, our general counsel to try to work out, as we go through programs and started to see things that happened. That is something we go through to see what ways we can actually improve things.

Later in the report -- I guess I will bring it up now. We have a piece of software called Future Perfect which we are trying out in institutions, plans financial planning a little better. So, we are working with things like that.

As some of you may know, I'm on the road a lot, the DBA is on the road a lot to visit institutions to make sure they are doing the information reporting, to see if there are any issues or any problems or anything of that nature that we can come up with, so we can sort of head off, as I said, any problem before they are --

DR. REED: In reading the report, if I have the right report, on pages 18 and 19, I think they discuss that. I don't know if there is any definitive on that all the way through, but they do highlight the problem.

MR. WATSON: They highlight the problem --

DR. REED: (inaudible) -- Solutions to the highlighting of the problem.

MR. WATSON: Dr. Reed is referring to

the GAO report itself. The GAO report actually highlighted Barber Scotia for the reason of the escrow issue. The escrow issue is one of the reasons that GAO went out and talked to institutions.

That was something that institutions -- that was one of the characteristics of the program the institution favored the least, that was to have their escrows if they are not in default or delinquent, their escrow is being used to pay another institution's default or delinquency.

DR. REED: They cite it as a weakness in management control. It is in here noted.

MR. WATSON: It is in there, and as we get further down, and as Dr. Francis mentioned we will get to that in the recommendations.

But also, I want you to know that is something that the Department of Education has no authority over. The escrow is actually a tax code provision, and it literally takes an act of Congress to change.

DR. REED: Thank you.

DR. FRANCIS: You will hear escrow a lot for the next half hour, how to get rid of it or pack it up and the like. It is a rainy day fund that gets wasted if you don't do all of the other things every month, payments and so forth.

It is just a personal one for me. I have reading of it (inaudible) talk about pooling. I don't like pooling, and in Louisiana call that (inaudible) in Toledo we're all in this together. I have a lot of friends, but I am not going to make a loan with all of them.

(Laughter.)

DR. FRANCIS: Pooling is not a favorite word. (inaudible) talk about they we have three options on the pooling that that may help. In any event, that is a weakness. Okay.

DR. REED: One other question, and that is the problem with the Southern Association of Universities support institutions that engage because of that material weakness, to our knowledge.

DR. FRANCIS: Well, the only way I think

it would come up, Dr. Reed, would be in the accreditation process for fiscal, when the folks who come in and look at all of our fiscals, what is your debt, how are you paying it, and so forth, are you in danger, and the like.

I think what Don was saying in the recommendation to continue to look at it monthly, you try to at least help the institution. And I will just say it now because we have got Lezli sitting here. There are -- there are institutions that we met with in Atlanta and the like that do -- and all of us need help, there is no question of that, but to try to remind ourselves that the HBCUs capital program financing is for capital financing not operations.

And if you stepped into the operations side, you are like in any bank (inaudible), it is hard. So, we are going to talk about something and we want to recommend that the Secretary get the authority to do -- to help a school that may take the money out of our HBCUs capital financing but not for a loan, but for a grant to prepare one to get a loan. And that is --

DR. REED: I raised that because I think it could be an implication if we don't address it properly. I just want to put that on the table.

MR. WATSON: In the escrow account, if you look at any other bond issue, you have other bond issues, if you look at the escrow account, very similar to a reserve account. The only issue here is that you are sharing it with other individuals who have a default situation.

In explaining the program to individuals when we go out to the schools, we also explain to them that if you were to lose your entire escrow, it equates to about half of percent of half a percent. So, if you had a half percent throughout the current loan rate, are you doing better? Can you do better with us or can you do better with another lender?

Although the DBA only gets paid only for making loans, it is in our best interest to do the best for institutions. So, if you can get a better rate some place else, then we will certainly help you get that rate some place else. We also offer ourselves as a resource.

UNIDENTIFIED SPEAKER: Has the escrow been a disincentive for getting schools to participate?

MR. WATSON: I will let the Chairman speak to that.

(Laughter.)

DR. FRANCIS: The disincentive is the pool. So I'm going to put my little egg basket here. But I'm told that if Don doesn't pay his, he could borrow from my pool or get out of my pool. So, it gets to be a disincentive not because it is an escrow, but the escrow is a pool. And we have these three options, and we are not going to spend a lot of time going over all the details.

But we are trying to make a recommendation on how you could do that better while still protecting what the DBA will tell us, what the government will tell us you have to pay default back, and I have to find some way to pay it back.

And, so, when we talk about that one, there are ways that can be done and it doesn't -- it doesn't escape paying it back. It makes it easier, perhaps, for you to come in, if you know that you are not tied to me, it is not going to be -- (inaudible)

MR. WATSON: And I can also say that if you look at the escrow, our 5 percent escrow, calculate that, look at that and comparing to our 5 percent to any bond issues to equal dollar amounts, if you look at what your reserve requirements would be, and if it is more than 25 percent calculated debt service maximum that 25 percent weren't makes (inaudible) is much more than our 5 percent escrow.

So, I mean those are the kinds of things I think in time people are not explaining when they are talking about the escrow to benefit. But when you look around the table, there are institutions including yourself who have participated in the program at one point in time.

So each institution has its own, but as I explained the program, I just don't explain it to the escrow, because one individual will tell you that is what is bad.

But again, I'm the federal government, I have to disclose full disclosure. We are not in it just to make the money, but we have the same -- remarkably, at the end of the day we have the same constituent groups, too. The Department of Education wants more students educated and graduate; we want more -- we at the institutions want more students educated and graduate. So, we are serving the same population in a sense. So, however we get to that point, I'm willing to help you get there.

But, again, I want to explain everything to you, not just the escrow is a bad thing. The escrow has provisions, because you no one else in the world can borrow at Treasury now except HBCUs and the federal government.

Now, if you go and somebody else is telling you something different, and they are laying that out you are comparing the 5 percent escrow against the 25 maximum debt service, then you weigh the two and say which one is the better value program. And I think that is a piece and that is why, you know, I travel, because -- that is why DBA travels.

While we are talking to people, they will understand that fact that it is just not the escrow and the escrow is the bad thing because you have to share it, but if you lose it, what happens if you have to put that money up for the maximum debt service (inaudible) -- of those things.

Again, we are the federal government. You know, we are probably the most lenient lender out there.

DR. FRANCIS: We will get back to that when we get those recommendations.

DR. LOSTON: I have a question about that. In terms of institutions that are in default, I don't know how many --

MR. WATSON: Just the one.

DR. LOSTON: Just the one that we are

dealing with now.

MR. WATSON: And for some bragging rights here, if you look at any portfolio of any lender in the world, lending is half of your focus. If you look at Barber Scotia, no matter whether you look at it from a dollar value or if you look at it from the number of institutions in the program, what number of loans we made in program, it is less than 1 percent.

Any one of those -- and when we are -- you know, when we are out there in the market, we are not just competing with -- the Department of Education is not competing with itself, we are competing with Bank of America, we are competing with bank, (inaudible) so we are competing with other lenders out there.

So, in looking at that and comparing their portfolio to ours -- and although I have been in the position for about 3 years, we have one year of not making loans, so we have made almost $700 million dollars in the last 2 years. So, we if look at that as the kind of dollar value of what we do over the next 5, 10 or 15 years, then we will be a major player.

DR. LOSTON: My question is, it becomes just this one institution.

MR. WATSON: Okay.

DR. FRANCIS: I want to get those recommendations.

MR. WATSON: Yes, sir.

DR. FRANCIS: That is the future.

MR. WATSON: We have -- the Higher Education Opportunity Act of 2008 requires the Department of Education to list -- to publish in the Federal Register notice or Request for Proposal of a designated bond authority. We did that. We went through a process, selected a committee, a Department of Education voice who acted as contact with the program, direct contact with the program.

Going through that selection criteria that was posted in the Federal Register Rice Financial Products had the highest number of points, so that is how they were selected as the designated bond authority.

And the contract it is not a normal contract that you have -- the Department of Education has. It is called an agreement to, insure and that was signed on August 19, 2009. So they have been in place since August 19, 2009.

The Board's charter, as an advisory board we have to have a charter that is renewed every 2 years, every 2 to 3 years. And in your welcome packet for new members I sent that out in your welcome packet, the charter, which tells you the responsibilities of the Board, the number of members, the type of members on the Board, that sort of thing.

DR. FRANCIS: Program activities.

MR. WATSON: Program activities. The first time in 2008, the time came when we didn't have any subsidy to make loans. So, even without that, we still did very limited marketing activity -- marketing activity, but the interest of the program became great. Word of mouth is the best marketing that we have been able to use.

The loan capacity for fiscal 2009 was 61 million. Those funds were loaned to the Talladega, Florida Memorial and Bennett College for Women.

UNIDENTIFIED SPEAKER: Thank you very much.

MR. WATSON: Thank you, Madam President.

Manual loan capacity for fiscal year 2010 is currently one of $78 million. So far those funds have been loaned to Shaw University, Lane College, Harris Stowe University and Bennett College for Women, Tuskegee University.

For fiscal year 2011 we have about 16 institutions that have shown interest in the program. And that list grows. As of yesterday I added another institution to the list.

The range of enrollment include anywhere from 600 to 12,000 students. And they request loan amounts from 10 million to 100 million, totaling more than $505 million. And as I update this number $655 million.

However, the administration's budget for fiscal year 2011 is 278 million.

The program had an active loan projects at Talladega, Bennett College, Florida Memorial, Harris-Stowe, Tougaloo College, Tuskegee, Dilllard University, Xavier, Southern University of New Orleans.

In addition to meeting with officials at HBCUs with current construction projects, the program has met with officials from Central State, Wiley College, University of the District of Columbia, Wilberforce, Denmark Technical College Edward Waters, Allen University, South Carolina State, Albany State, Hampton University, University of Virgin Islands and Alabama A&M. And with which each of these either to discuss potential projects and loan financing or to give more information about the program and more detail and see campuses.

When we visit campuses, we just don't -- I know a lot of people when they visit campuses, they want to sit in the president's office and that is where they meet, or a board room. I want to see the dorms where students live. I love to eat in that cafe. I will call you and tell you I'm coming a day order, not to meet with you just in your cafe getting something to eat. They have good food.

(Laughter.)

DR. FRANCIS: Good food is part of getting approved.

MR. WATSON: The academic building, student housing, the cafeteria, those are places where our constituents are, the students, where they live and where they live every day. So, I like the so that when we are looking at financing, potential financing.

DR. FRANCIS: The association of friendly (inaudible)

MR. WATSON: It is a very friendly visit. In my mind it is very different. When I'm on a campus it is very easy for me to look at a dormitory and say -- if there is leaking water, for example, it is very difficult to tell me leaky water than for me to actually see the leaking water.

I have some institutions that I could bring the alum. I would say there is one institution I can bring alum from 1971 and '72 that actually walk the campus and talk about the history of the program. And it becomes very interesting process, because they are telling you exactly what they see.

As president you may see one thing. I was at one school and all they wanted was a volleyball court, but the president said I want dormitories, I want this, and the students were saying all we want is a volleyball court.

(Laughter)

MR. WATSON: I said we can probably make that happen. But it becomes very interesting.

This summer we plan to restart the delivery of 3,000 (sic) copies of our newsletter, both electronically and through U.S. mail to HBCUs presidents, CFOs and members of this Board, present Board of Advisors, as well as other members of the HBCU community.

Okay. I guess you all get a preview now of what is coming up.

DR. FRANCIS: That is the new -- that is the marketing?

MR. WATSON: This is part of our marketing, but as I said I think the best market is word of mouth market this goes out to sort of lending institutions to let them know exactly what is being done with our financing.

We also give a little information about some financial terms. So it becomes a very interesting piece of work.

DR. FRANCIS: I hope we don't outstrip the money that is available. That means we have to work hard with respective representatives to keep pulling money in the pool. I say this for the record, and that is the most important in the end result because it is obvious that we just listen to what you have just given us, that more people will need the help and there is going to be money available.

MR. WATSON: And just to continue with

the report as we go through the newsletter. The program is working with program DBA, bond counsel and trustee to create a bond financial workshop and seminar. What we are actually seeing is that as the institutions go the bond financing, there are some things we think the presidents need to understand and CFO need to understand, and to get that not just in the eyes of those that come into the program, but to all HBCUs.

We are trying to figure out the best format, whether it will be webinar, have it in different locations, and of course, we want to make sure it is convenient and cost beneficial for you all. So, that is something we are working on now.

We are also, as I mentioned earlier, we are working to provide strategic financing consulting through a Microsoft software. Future Perfect Software is a Microsoft base you don't need anything special. It is something that you already have on your laptops, on your desktops to offer the strategic financial planning.

Right now we are looking at it will be offered as a limited -- on a limited basis to our borrowers in the program now, as we go through looking at what may be some strategic support to improve the financial status.

And the program we were -- the next meeting we will have a demonstration of how Future Perfect actually works, but this software is actually so unique that if you want to build a dormitory, a 500-bed dormitory, just to look at your finances and say you are not ready at this point, this is what you need to do, increase your enrollment by this number, or increase our employee contribution help plan by this number, and 2 years you can do it. If you don't want to do it by this percentage, do it by this percentage and maybe get there before this.

So, it is an interesting piece of software. I think that will be a unique feature to HBCUs. This is actually something that we are offering through technical assistance, which is also a statutory mandate that we provide technical assistance --

DR. FRANCIS: We will see that.

MR. WATSON: This meeting I think you need to focus on the recommendations -- these recommendations that we have for Congress also came out of the Higher Education Opportunity Act of 2008. And so, Congress has been waiting for these recommendations.

And the Secretary has presented these recommendations to Mr. Clyburn's office as an understanding of what the community wants, but this Board, as you all should know, provides recommendations not to the Secretary of education but also to the Congress (inaudible) the way to HBCUs campuses and how to change the program and make modifications to the program to do exactly what it said programs functions.

DR. FRANCIS: Any questions of our executive? As you can imagine, he is the one-man show, and that is a lot of work.

Don, that is a good report.

We are making strives and as we segue

into the recommendations want to repeat that the Secretary has, in a sense, seen from the work that has been done by perhaps, Thurgood Marshall and the United Negro College Fund presented to Mr. Clyburn almost exactly what it is that this board going to talk about, which means, in effect -- that is why I said I think it is very promising (inaudible) -- if we confirm what it is that has been submitted by the organization that the Congress has looked for assistance for passing legislation and we are able to endorse and enhance it, then the Secretary will have not only what the major organizations that represent HBCUs have said, but that his Board of Advisors have now looked at it and said the same thing.

So, sort of closing the circle came in a way and I think that is why I was anxious to get to these recommendations. A lot of work has been done and I want to compliment the organizations. We have representatives here. And it is great work and just didn't happen overnight. In fact, about 2 years ago, we really did some battling, what it is we were going to say, how we were going to say it and the like.

And I think we have come to this point that it is clear for those who live with it. And for us we are not the last word on this, but it is hopefully we are the word that will be heard because we have lived it and we have vetted it and we think it would pass muster, if indeed the Secretary supports it and the Congress also supports it.

So I'm segueing into the recommendations.

DR. MALVEAUX: You know, I would like to just take this opportunity, first of all, to bring you greetings from Bennett College for Women, where (inaudible) we education and develop their 21 (inaudible).

DR. FRANCIS: And $21 million.

DR. MALVEAUX: And then, secondly, I want to commend Don. He has worked with us very closely and he deserves all kudos. He really needs more support. He is one person. He has been with Bennett on two occasions. He has eaten in the cafe, walked through the dorms, worked with Ms. Harris and Mr. Pristell, and it has not been a smooth path.

The fact that it has not been smooth has nothing to do with Don. It has to do with administrative challenges that are there. So, I just want to, first of all, say on behalf of Bennett College that we are very grateful for his work.

And we have come a long way. I think the first time we had a conversation it was not a very pleasant conversation. And it had nothing do with him, but again with the fact that HBCU capital access had an entire -- we had (inaudible) our entire campus for a mere $8 million, which as an economist that just struck me as odd, at best.

And, Norm, you know, you and I talked about this -- Dr. Francis, I said this is crazy. But Don has been extraordinarily flexible. He has worked with us in terms of what our vision was for restructuring. And thanks to his diligence we have the first new construction on Bennett campus in 28 years.

He was able to come to us in October for our groundbreaking. We are happy to have him there. Ms. Harris and Mr. Pristell, who had been working very closely with us -- and Ms. Harris, of course, is Bennett class of -- I always forget -- '70? Okay. I was going to give you '72, but, yeah, you are old.

(Laughter.)

DR. MALVEAUX: You can't get '82, '82 won't take you.

(Laughter.)

DR. MALVEAUX: But as indicated the two of them have work very closely. So I wanted to take this opportunity to give Don kudos.

And I want to say that one of our recommendations really must be to make sure that he has the support that he needs. When I think about the number of us that there are, in fact, it is one person running from here to there to the other place, we really need him to have a little bit more support.

DR. FRANCIS: Before you came in, I talked about how his wagon was full and the one-man band. And as a chair I will personally make a recommendation at the end that the Board have the (inaudible).

DR. BASKERVILLE: Mr. Chairman, I just want to suggest that one of the recommendations that we did make is now included in the Section 6. It should be up at the top, but it is that more staff be provided, additional dollars so that additional staff can be provided to support the outstanding work of Mr. Watson. That was an official recommendation that the Board did make.

In the absence of the extra dollars having come through so far, has anything been done to shift existing staff to make sure that you have the support that you need? Do you want to add this?

MR. WATSON: I will let Dr. James Law address that. I now report to James Law so I will let James --

DR. LAW: Good morning. My name is James Law. Currently I am the director institutional development and undergraduate education services. First of all, welcome to Washington, D.C., congratulations to the new board appointees. Some of you I know from other experiences, Lezli, John, Adena, Mr. Fisher.

About 6 or 8 months ago this program was put under the umbrella of institutional development and undergraduate services. So, I'm still learning it, and I could not ask for a better person to shepherd me through it and keep me briefed on the nuances of the program.

The Department of Education or the Office of Postsecondary Education is undergoing a restructuring that is supposed to become effective on October 1st or sometime thereafter. In the meantime, once this program was put under my umbrella, I have shared with Don that whatever other resources we have for support staff, technical assistance, whatever else he needs, I'm trying to make staff available to him.

Being the perfectionist that he is, often he has difficulty telling us I need help. And I told him repeatedly, when you need something, please let us know, we have the support staff. But he is pretty much a one-man shop. We understand that.

One of the arguments that I'm putting forth to the powers above me is the that we do need more support staff and other help for this program. So hopefully, once this restructuring gets put in place, we can begin to move forward to get more staff that we need for all of our programs, and this is one of the ones that is at the top of my list, recognizing that he is doing quite a lot by himself. And we are trying to change that.

So, I want to thank again for offering to do this very important program. We recognize how important it is and the good work that it does with all of our other minority serving institutions programs. And we are going to do all that we can do to strengthen the support that he has.

DR. FRANCIS: This Board is going to give you all the help you need in addition. And when that organizational chart is finished, we will make sure that everybody understands it. We really appreciate this.

Do you have TDY? When I was in the army, we had TDY, temporary duty, so when we can't get you permanent, we get you TDY. Anybody know about that? You know.

UNIDENTIFIED SPEAKER: It is under a different name.

DR. WILSON: We call them details.

DR. FRANCIS: Well, we are going to have details.

(Laughter.)

DR. FRANCIS: This is very serious because what all has been going on since this program started and the things that have been done, you know -- you can see the increase in the work, and, of course, the increase in the money. We are going to work on the other side but Don can't continue to do that.

I had a governor over the weekend, I won't call his name, but he had a favorite expression, he said you can keep loading the wagon and not worrying about the mule. So you either take things out of the wagon or you get a couple more mules to pull the wagon. And I -- don't get that wrong expression.

(Laughter.)

DR. FRANCIS: The point is you can't -- you can't keep putting things on the plate -- and we do this in colleges, too, that we don't distribute the labor force and it is not good. So, you know, he and I keep in touch and I'm concerned about it, because we can't lose you. You know, I don't want you to have a time saying I need 4 weeks off. My goodness, everything will fall apart because Don has learned the business very well.

Came out of financial aid, right?

MR. WATSON: Yes, sir.

DR. FRANCIS: This is big financial aid

and it is serious. And I want to say this, and all of you know that I have been in this a long time and I have lived every one of the 42 years from the day I started presidency, fighting people who talk about, is there a reason for black colleges, justify black colleges. And then after you do that, then you have to fight to get the money to make it what it is, and the like. And we have been resilient and we are still at it. And this is a program that will bring it to another level, and I think you are seeing that.

So, we need the help, and I'm happy, Dr. Laws, that you are in the reorganization and Don will have a good godfather.

UNIDENTIFIED SPEAKER: Can I use your quote about the mules?

DR. FRANCIS: That was off the record.

UNIDENTIFIED SPEAKER: I'm going to contribute it to a unnamed governor.

DR. FRANCIS: He was a good governor. He went to jail.

(Laughter.)

DR. FRANCIS: If there are no other questions for the report, thank you.

DR. BASKERVILLE: I have one question. What is the cost of the Future Perfect software to the institutions, and are there funds to cover that from the Department's budget or do we need to raise the money?

MR. WATSON: Yes, ma'am. The money actually will need to be raised. It's a product that -- if I get a call from you (inaudible) Edith and Thurgood Marshall asking about technical assistance, there is all a figure of 400,000, those kinds of numbers, I was once told that was my salary. As a federal employee, if someone said you have a 400,000 salary, I wonder where is the rest of my money.

(Laughter.)

MR. WATSON: But that is part of our -- part of that money does include my salary, but the majority of that money goes toward technical assistance, my travel budget, things like that. So, if we can increase the technical assistance portion of that budget, I guess we can sort of determine with a vendor how much that will cost. I guess a half million dollars. That way we can actually send it out to more HBCUs.

But this year we have to put and energy in the program and start it up with another HBCUs it is like two or three maybe four or five, something like that.

Will can address --

DR. BASKERVILLE: One of the things I have tried to do with Future Perfect and just briefly let's talk about what it is. And it is really a strategic planning tool. It is not going to replace Banner, it is going to replace any of your other financial models that you have in software. And this was actually something that was developed early on by some former college CFOs and is a tool that you mainly see in Ivy League schools.

So, what we have been able to do in negotiating with the programmer is to negotiate another version of Future Perfect that fits, you know, our institutions, because what it was initially developed for you had a lot of research one institutions. And they were much larger, much more complexed entities.

We have been able to go work with the program and create a software, for lack of better terms, you can call it the HBCU version of Future Perfect, that will actually fit our needs. As Don explained earlier, it allow you to do a lot of different things in forecasting and basically making sure that your spending priorities match what you state your priorities are.

By creating this version specifically for HBCUs, we have been able to drastically reduce the cost, because some institutions that have used it that are research one, the cost for the software and for the training and everything else runs hundreds of thousands of dollars.

We have been able to cut those expenses down in our version to, quite honestly, a third of what those costs are. And we think that there are some more economy to scale, because we think the product is scalable that we can draw the costs down even further.

So, that is what our, you know, task is. And unfortunately we can only use that for those institutions that are in the program. But we kind of view ourselves, the DBA and my team, as a little bit different, in that we are research for the entire community. So we are really trying to figure out ways that we can make the license and the software available not just to the participant in the program, but to the entire community.

MR. WATSON: That's Dr. Baskerville, where I was coming from with such a large number, because the (inaudible) dine like is to available to the institutions to come into the program, but potentially every institutions is eligible to come through the program. We have some who come for some reason, some rule, who need some more support. And we want to provide that support.

And it is just not for those institutions who -- you know, we have great institutions, we have great, you know, strategic planning, great CFOs, but we also want (inaudible) to use this program as well to sort of augment what they already have. And that is why, you know, I think it would be great if we can offer it to all, whether they are (inaudible) in loan the program or not.

DR. FRANCIS: That is one of the reasons that you asked the question because in these recommendations one is to get the Secretary the flexibility to provide monies to institutions that are preparing to apply and to get the assistance to do it, so that when they step up to the plate, they can make the best case.

And if that recommendation, I think if it were to be accepted, we could expand it to say those monies would go for things like the strategic planning software, where it would not have to come necessarily out of the top your budget, but be a grant to the overall institutions that need this.

And just let me say that for those of us who are in this business and present throughout this table, when the President of the United States decided to cut out the loan payments to outside providers and do direct lending, and we discussed this -- I know our meetings at UNCF we made a recommendations that the Secretary make grants to those institutions that have not been doing direct loans to get assistance to do direct loans, because one of the problems was that schools that were not doing it were going to be at what -- behind the eightball.

So, The Secretary got $50 million of technical assistance, and the same thing would applicable to HBCU Capital. Give him the latitude to make the grant to help schools get ready for applications for Capital Finance, which could make it easy for the DBA and make the process more streamlined and effective and the like. But these do -- we know about technology. It costs --

DR. WILSON: I want to just underscore that, because I was down just north of Atlanta at a meeting at the top of a talk I gave, I made that announcement to the HBCUs gathered there, that there was $50 million --

DR. FRANCIS: Under direct loans.

DR. WILSON: And just had a conference call yesterday and had about 30 HBCUs come on the line to discuss their readiness for direct lending. And I believe we have some more as a result of that conversation, some more hits, I will say. We are sending a SWAT team to HBCUs campuses that feel in any way that they are unready for this.

So we believe we are going to have 100 percent. And if there are any that are in crisis in a couple of weeks when they go to register, it would not be because we did not reach out and said look now is the time. We have about a half dozen HBCUs now who are getting what we call SWAT team help.

DR. FRANCIS: Well, the reason I raised it about direct lending is it is making the recommendation there is a precedent for this. It is no reason to say we can't get technical assistance.

I'm not too sure that the direct loan thing might have gone as smoothly as it did because there was opposition from many schools. I'm not talking about just HBCUs that had never done direct lending saying, my God, I don't know how to do it. That $50 million was put in there to help them.

DR. WILSON: For everybody.

DR. FRANCIS: So that we have the precedence. Anytime we get precedence, it makes it easier -- if this is the first time we have done this? No. It's in here.

MR. WATSON: And the piece that Dr. Francis is referring to is actually one of the recommendations under Item 2 in our recommendations. It is under Item 2 proposed pros and it is the fourth bullet.

But if we can get back on the list and go in that order, I think we can probably keep everything on schedule.

DR. FRANCIS: If you look at the clock, you have done very well. And it is actually 11 o'clock, we have a good hour, if you go to the back of the -- I think the back of your packet it is headed "Proposed Adjustments to the HBCU Capital Financing." And if you don't mind, if you are ready, we will start with the -- I have -- my list says the temporary interest rate for defined period of renovation is it consistent I want to make sure we are together.

So what the first one that you will see here is the elimination of pool escrow. Is that it? So we all on the same page.

DR. MALVEAUX: (Inaudible).

DR. FRANCIS: This is a summary of the vetting that has taken place in the community, which covers a lot of the questions that we had on this program. As we go through, it we will see it, you will recognize it.

MR. WATSON: This is no different from what you have been working with all along.

DR. FRANCIS: Let me see how we -- I got my little sheet here. I will put you got pooling right up front. Okay. Let's start.

Recommendation is, we recommend the elimination of the Pooled Escrow program and replacing it with an alternative program that reduces the risk, protects and reserves fee or escrow payments of individual institutions participating in the program, while not increasing the costs to those institutions.

So let's go with that. Don, where do you want to start? Do you want to retain the three -- let me read this -- just the outline you are seeing in front of you.

There are three proposed approaches. Each approached should be reviewed comparatively in consultation with the Department/Executive Branch in order to identify the potential costs HBCUs would incur under each scenario, and avoid any unintended consequences that may negative impact institutions participating in the program. That is the general rationale.

And A under this is now the meat and potatoes of all this. Retain the current escrow -- the first option, retain the current escrow requirement of 5 percent without pooling.

Now, you want to talk about that a little bit, Don?

MR. WATSON: Yes. That concept will basically remain at 5 percent escrow. The percent will remain the same. However the only difference -- the big difference there is that the 5 percent will be no longer pooled.

So, for instance, if my school, for example, had a 5 percent escrow and school B went into default, school B's escrow will only be used for school B. My escrow will still remain intact. If I put $52,000 in there, it will remain $52,000 in my account, unless I default or become delinquent, then I can use it for myself, but no one else can use it. That is the first approach.

DR. FRANCIS: That is the absolute approach of eliminating pooling of 5 percent.

Go to the percentage add-on.

MR. WATSON: Percentage add-on is another option where what we actually do is add up sort of a risk percentage to the interest rate.

If the interest rate is 4 percent, we may charge 4 and a quarter percent on the interest rate to capture the cost of what the escrow -- what it would take to replace any defaults or delinquencies.

So, in essence, it would work very similar to what you would see if you were in a commercial loan. If you have great credit, you get one interest rate. If your credit Is not so good, you get another interest rate. In this case, everyone in the HBCU community gets the same rates. So if it's 4 and a quarter this morning, if Treasury says 4 percent, then your rate will be 4 and a quarter; if the Treasury says it's 3 and a half percent, your rate would be 3.75 percent.

So, regardless of what the Treasury rate is, we will add .25 percent onto that rate or some sort of rate to do that. I'm using .25 because of budget service office recommended that that is the amount the interest increase we would need to capture that for the escrow in the case of deferment or default or delinquency.

DR. FRANCIS: Let's go to the C. The first one is eliminate pooling completely but keep a 5 percent. The second one is what you are now saying is that if you eliminate the escrow requirement, you do a percentage. Now to C.

MR. WATSON: Yes. And percentage add-on would not be returned. So, that is the key.

The other combination is sort of a -- C is a combination of the two. It has the escrow in place but it also has a percentage add-on. Again, the percentage add-on would not be returned, but the escrow fee would still be returned to the borrower. And that is another big piece.

So, if you have someone that has defaulted or is delinquent, your escrow is being -- your escrow is not returned to you until we recapture that delinquency or default.

So, in this case, you will still get that reserve account back, (inaudible) if you are in default -- who is in default or delinquent.

On the other part, the added percentage add-on you would not get that back. That would remain in the treasury to use for delinquency and default.

DR. FRANCIS: In all cases if you do not default and pay off your loan, you get your escrow back.

DR. REAVES: The (inaudible) add-on is a new fee?

DR. FRANCIS: If there are any additional add-on, right.

DR. REAVES: It is new. It has not been a part --

DR. FRANCIS: No.

MR. WATSON: At this point, whatever Treasury rates are, whatever they that is your interest rate. There are two other fees, Federal Financing Bank fee, and there is also a servicing fee.

And I want to give a little explanation of why the escrow -- the pooled escrow exist. I think a lot of people sort of don't look at that piece of it.

But the pooled escrow exists, that is

the feature that is one of the feature pooled escrow and the Federal Financing Bank fees are fees -- those fees are in place to allow HBCUs to borrow at the same rate of the United States Treasury.

Again, there is usually a letter of credit. You are using the letter of credit of the government, the United States Government. If you go to a private lender, you have to pay for that letter of credit, you have to pay for some enhancement, if you are able to do that in this market. So, that is something that is very different, though.

So those -- but again, the add-on percentage would be the same for all HBCUs across the nation, but will be a percentage add-on for the interest rate, the Treasury rate, that will not be return to the borrower.

DR. FRANCIS: Any question on that? It sounds complicated.

MR. WATSON: Just to make it simpler, it is very similar to if you pick XYZ bank, they are going to charge you a reserve fee, but you still have an interest rate. You won't the percentage add-on, it won't quote you an interest rate, it will just be a percentage add-on just like when the bank quotes you a rate.

They will not say because you are this, we will give you this rate or we are going to give you that rate. Your interest rate is this and that is what you carry on with. So it very much looks to school is as if you are a normal borrower, you will have reserve fee and you will also have an interest rate.

DR. FRANCIS: If you have a lot of money they will ask you to put up a $500,000 CD, and you will get a interest rate. We don't have that, so this is why we do that.

My point is, it depends on how strong you are. And we don't have enough money to put a CD in and say cover all of my loans, and I wouldn't default.

These three options are going to have to be weighed in respect to what impact they have for the school and what the government feels that it can be a (inaudible) off of. All right. The government is our CD.

MR. TAYLOR: I can see why we would make this proposal. Why would the government do that? The program right now, when you do the numbers, as you described it earlier, you can make a pretty compelling argument that -- I mean what is the case with -- I mean for why? I can redirect but why?

MR. WATSON: The case you are going to make for this is the percentage add-on is the cost. The government comes on the hook at the point in time that the entire escrow is completed, not just the individual schools, but the individual -- every institution that comes to the program, every institution that is currently in the program.

And what the benefit of the government will be in this case and we will do more analysis, depending on the recommendation, but what actually happens is that the government would have the .25

interest rate or whatever the add-on fee would be, would make the government hold at a certain point just as the escrow fee. It sort of takes the place of the escrow. And it no longer be pooled.

DR. FRANCIS: Are you going to get a explanation for that?

UNIDENTIFIED SPEAKER: I just have an additional question. The subsidy rate, is it ever affected or is that an (inaudible) alternative?

DR. FRANCIS: Subsidy rate, that is where the add-on comes. So, we don't -- I'm using is .25 as an estimate. And for board members I need to explain what the subsidy rate is.

It will -- it will still have to be -- the subsidy rate will have be included it that. So, if it's .25, the (inaudible) subsidy will remain 20 million for fiscal year. If the subsidy, if it becomes .3 percent to keep our subsidy where it is, and then we will have to make that determination. But we don't want the subsidy -- we can't say it is .1 percent and our subsidy instead of us asking for $20 million to make loans, we now have to ask for $100 million to do the loan.

So, we have to find a balance where the subsidy remains the same, because -- the subsidy remains the same but the add-on is not too strenuous for borrowers. We don't want a 1 percent add-on, because it just doesn't work. (inaudible) -- Now we wouldn't you want to regular market is providing.

They crunched the numbers, which ones of these is acceptable as a change for the program that is now number one?

MR. WATSON: Right. And I can tell you most likely just adding the escrow of 5 percent in our pool is not likely, because the cost of that.

DR. REED: That is where I was going. My question was option A and B are appealing, but it seems like option A may not be acceptable to the federal government.

Now, in option B it appears that the universities will not have the escrow account, nothing will be returned, but the federal government will more (inaudible). Am I reading this reading right?

DR. FRANCIS: The second option.

DR. REED: So my question is, does it make sense to look at an option that we know the U.S. Department of Education may not like? And it sees like A -- I'm just putting both hats on here -- do we legitimately have a good chance of even going with A? Again, that is the another way to ask.

MR. TAYLOR: That is my question, what is the case because when we go back --

MR. WATSON: Exactly. And as I explained in the subsidy, if currently 5 percent -- and I'm just going to give fiscal year of 2010, we have a $20 million subsidy to make $178 million in loans, okay. And that is depending on that pooled escrow that is also depending on Federal Financing Bank.

Now, if we actually take out the pool piece, then the dollar amount will increase above $20 million. When you go and ask for Capital

Finance, you won't be asking for $20 million, you will be asking for somewhere upwards of 20, whether it is 30 or 40 or 50 million. So that is why it is there.

But, again, it is about what -- what the amount of subsidy is that Congress is willing to live with.

DR. FRANCIS: And that let me just say this. I wouldn't take it out. You know in this business, in the fund-raising business if you don't ask, you don't get. If that is an option that is applicable to when the subsidy is raised, then you take it.

So, let's get all of the options. I think what the vetting was between not knowing (inaudible) this and Thurgood Marshall (inaudible) want to take about this, give all the options and let them crunch the number. Who knows, the 20 million may become 40 million as a subsidy, and that would then work.

So yes, sir.

DR. REAVES: The elimination of the pool

concept makes sense, I think, because it doesn't really pass the smell test. It just doesn't feel good.

The percentage add-on, however, is effectively nothing more than a tax. It is a new fee. It is a tax on the institutions up front as opposed to after the fact to cover the potential cost of the default. And I just think we need to be very clear about what that is, because it is pretty transparent that it is a tax.

DR. FRANCIS: And it is something you have to weigh as to whether you want to pay that in order to eliminate the escrow in some cases, it might be --

DR. REAVES: You are going to pay one way or the other.

DR. FRANCIS: That's right. Exactly.

MR. FRANKLIN: Let's be frank. The government says we are going to come and be the guarantor insurance for, and we are struggling. So, that (inaudible) you, not you, you, you. All of you are going to be in. So if one of you -- I guess if you or you, I'm saying that never met the smell test for me.

So I'm willing to say get rid of that and take one of the other option.

DR. REED: Mr. Chair.

DR. FRANCIS: Lezli wants to make a point.

DR. BASKERVILLE: I just wanted to respond quickly to the second one. The challenge was with the task and could never get your money back, regardless of your record.

DR. REAVES: That is why I call it a tax.

DR. BASKERVILLE: Option one we felt we could go after and get the resources, and we take up the plight that as over the program for years, that is the pool, so that everybody is not taxed when one of our institutions is recalled.

DR. REED: And based on what I have heard here and what I am sensing is that I think option A is the better one to go with. I don't know if it is time for --

DR. FRANCIS: We are going to give all three.

DR. REED: You are going to give all three?

DR. FRANCIS: Yes.

DR. REED: Do you rank them? I would move that we submit a ranking of A as number one, first priority. And I think the no-brainer, what number two would be which would be B. I just think that we ought to go in and be real clear what we are asking for, for a number one priority.

DR. FRANCIS: As I say, the three organizations that I mentioned earlier is depending on this. This is pretty much --

DR. REED: Sure, sure. Is it acceptable to move that we order them or does it matter?

DR. FRANCIS: We could get through all of them, but if there is no objections at the moment, we can come back to it. If there is something else that is in this -- I'm at that stage where I want to get rid of pooling that is why it is number one.

And I did participate in the bond issue but not in HBCUs capital because I was better off in the open market. So this makes it much more likely.

So, unless there are objections to what you understand about this, let's go on to the next one. But your comment is what do you think all of the organizations felt was a way to go.

DR. REED: Okay. Thank you.

DR. FRANCIS: I'm going to try to do this, what is on yours is "HBCUs Credit Enhancement Demonstration Grant Program." On mine that is what enhancement it is -- wait, it's up here somewhere. No, no, it is on my first page. I'm sorry.

Let's talk about that, because I think I just I covered that earlier, but let's talk a little about that. It is the -- the Board believes that the direct grant program could be an added component to the HBCU Capital Financing Program. The goal is to provide the Secretary with some flexibility in the investment of aid of institutions that may need one time direct grant assistance to assist in securing a loan or reduce the costs associated with -- (inaudible)

The grant program will allow the Secretary to make grants to HBCUs that meet requirements established by the Secretary and other specific criteria which may include but is not limited to: Long-term debt between 10 and 25 million; an endowment of 25 million; net assets under 25.

That is the criteria. But the Secretary would be able to do what he did under direct lending, prepare you to come to the table with consultant advice paid for, all of that, which our schools need to make sure when they make that proposal they are not going to impair the institution.

DR. LOSTON: Did I understand the demonstration correct, could you say more about how we got to the maximum of 2 million. What is the benchmark? What were the factors that were part of this 2 million as the figure?

MR. WATSON: Up to 2 million?

DR. LOSTON: Right.

MR. WATSON: Part of that up to 2 million piece is going to be looking at cost of issuance, assistance of cost of issuance and the fees you have to pay to get the loan, (inaudible) is used to pay a premium. If you want to refund your bond, for example, the bond itself is going to -- the interest rate today is higher than -- the interest rate today is -- when the bond is actually higher than the market rate, you have to pay a bond premium, be used for that. It could be used for part of what --

DR. LOSTON: I understood what it could be used for. Why 2 million not 3 million? Why 2 million not 1 million?

MR. WATSON: When you get a get a loan from us, 100 percent of everything is financed, and you are sort of not bringing anything to the table, you are not financing anything. All of your costs are literally in the form of a grant. And you have to sort of spread it across. You know, if you you look at a $15 million amount and you make seven or eight loans once a year, then one school may be out of luck.

Let's look at the technical assistance, schools may get in and say, well, we need the help for cost for this. And that could be the seven or eight loans you make in a year. And the school will actually need the Future Perfect software, won't have anything. So we have to limit it at some kind of amount -- up to amount so we can actually have something to work with on a broader base.

DR. FRANCIS: I was just reminded, Edith from the charter schools set the precedent on this, meaning the grant to help charter schools get operating and running. So, we have another precedent. So it is making (inaudible) whatever you say why do you do this? Well, because charter school has got that as a way of getting started for opening schools.

A lot of this is something that has worked elsewhere which needs to be put here.

Don -- go ahead.

DR. BASKERVILLE: I just wanted to respond to President Loston's question about the amount. It was also done in consultation with friends in conference to find out what the market would bear, to be honest with you.

MR. WATSON: Another part of this could be used for -- it is very interesting, another part could be used -- let's talk about subsidy and those kind of options. It could be used for school that wants a higher amount, that wants to modify a loan, but at the same time they can't bear the cost for the higher price loan.

It could be used for, I believe, the -- transportation correct me if I am wrong -- in times between passing the president's budget and there may be 3 to 4-month lag. And during that time we don't have subsidy, some entities, I believe the transportation -- they can pay for own subsidy. How much does it cost get a $20 million. It's $500,000. Well, I will use the 500,000 grant to get my process moving.

And that is another part of the program. We have to wait for the president's budget to pass. If that budget takes 3 or 4 months, we are actually 34or 4 months behind the gun to get started with the loans.

So, we have to sort of balance things out to make sure -- to see if we have everything by September 30th. But that is another thing it can be used for.

DR. REED: When will the extra criteria be established, when I read the extenuating factors deemed by the Secretary -- when can we expect to have the other things spelled out?

MR. WATSON: The list actually in and of itself, if we actually -- and this comes back from my financial aid policy days. If you put everything in writing and it leave no flexibility for anything, so we will have to give a list. Some of the things I just named will be there, but if we put everything and don't have this cutoff, we will get to a point where schools will say, Don, what about this? We are tied because the statue leave us tied.

But we will have things like that in our agreement for sure. We will amend that, of course. We show what our processes are.

But this last bullet that you are looking at is very important. That provides flexibility if anything should come up.

DR. FRANCIS: I have kind of an open enhancement demonstration which is (inaudible) direct loan exempt HBCUs from early repayment penalties. That is number 3 here. Where is it on mine?

It's number 6 on mine. That is the old theory about, well, I found some money and I want to pay my loan off. Right. So I want to be exempted from paying the penalty. So we are recommending that that be eliminated.

MR. WATSON: Right. I want to explain that it is a penalty if you are rating a bond is that is higher than a market rate, but we have also seen cases in the program where the school actually gets money. We just had the Federal

Financing Bank of Treasury run some numbers for a school. They wanted to refinance, they were actually getting $450,000 back. So it can work either way.

But it actually -- to have to pay the premium itself can add another million dollars. It is a fluctuating number. It is a fluctuating number. If you are set to close, for example, on the 25th of the month, and on the 23rd of the month you are getting an estimated rate, well, the rates jump, you know, 50 basis points or so, half of percent or so, and your cost can jump up to $200,000. That is where that unsteady piece comes in there.

DR. REAVES: I have a question. When a school pays off -- retires its debt are you actually calling bonds?

MR. WATSON: Yes. Treasury actually calls the bonds. That's why you are actually doing the premium.

DR. REAVES: That is why there may be a premium.

MR. WATSON: That is why there may be a premium.

DR. FRANCIS: Any other questions?

Lezli, you had something to say about that.

DR. BASKERVILLE: It was not on this point. No, on the question we passed about the $2 million cap, I understand that we may have some expertise in the room from the Center for Responsible Lending who worked on the charter school cap and they believe that it was 4 million. That would be important information to have as we are looking at existing models.

DR. FRANCIS: Is that -- Edith, Anita, anybody else who is here, was that higher? When the charter schools -- we are talking about the 2 million cap, could it be 4 million as a precedent?

MR. WATSON: Before you start, for the recorder, can you say your name and where you are from?

MR. CORBETT: I'm from North Carolina. I'm with the Center for Responsible Lending.

MR. WATSON: And your name?
MR. CORBETT: Keith Corbett.
MR. WATSON: What were you saying?
MR. CORBETT: Executive vice president for Center for Responsible Lending.
MR. WATSON: Is it four or two?
MR. CORBETT: I know we made one charter program 4 million. I think that is --
MR. TAYLOR: Is that specifically a loan or grant?
DR. BASKERVILLE: Start up grant.
MR. CORBETT: (Inaudible)
UNIDENTIFIED SPEAKER: It was reported that they offered the grant money for a cap at 4 million, but I think what we ought to do, Mr. Chair, is as follow up in writing. Is that okay?
DR. FRANCIS: It was understand that we would want to have it in keeping with what has been a precedent. If it was four somewhere else, don't cut us off.
MR. FRANKLIN: You have a tolerance for

(inaudible)

MR. WATSON: Who will follow up in writing?

DR. BASKERVILLE: I think I can volunteer for (inaudible)?

DR. FRANCIS: The three institutions that at the beginning of this will follow up so, we will put the right number in there. We will talk about we need to talk about trying the keep in line with what has been done so that it is consistent. And in this case if it is the lower than we should be, then shame on us.

MR. WATSON: So, UNCF, Thurgood Marshall and (inaudible) will follow up as to whether it is 2 million or 4 million.

DR. BASKERVILLE: And adjust the recommendation accordingly with the permission of the Board.

DR. FRANCIS: All right. That exempting the prepayment penalty, that is where we just left. Any questions about that?

DR. MALVEAUX: This is talking about a

particular instance at college, might I take a moment to talk about it?

DR. FRANCIS: Sure.

DR. MALVEAUX: Our federal government has made significant modifications to loan agreements under a number of circumstances that do not include Historically Black Colleges and Universities. We need only look at the entirety of the stimulus package, and even before that the bailout package to see ways that adjustments have been made.

Of course, they have been made because of the economic exigencies and none were protesting.

What I suggest is that the vital work that we do requires and indeed demands the same kind of flexibility. We have been, as I mentioned earlier, very grateful for the capital improvement program that we were able to refinance.

We also -- one of the biggest challenges with my presidency was to come into a situation where our entire campus, our entire campus was had a lien on it from the Department of Education because of the $8 million loan. Now, that is nothing but predatory lending, nothing but. We are in a room, so nobody is recording. But if I went on CNN, I would say it, too; predatory lending, nothing but.

We spent 2 years, thanks to the North Carolina Minority Business Development Institute and many others restructuring that. And Don was very, very, very cooperative with us because everybody could see the adjustment, even Ray Charles could see, if he were here.

(Laughter.)

DR. MALVEAUX: But in any case, bottom line we got the first piece of the dollar.

The second piece of our refinancing was much more arduous. We borrowed 9 million and had to give back a million in prepayment penalty. That was nothing but predatory. Our Congress people weighed in on it, many people weighed in on it, but the Department of Education was literally -- they did not move.

CitiCorp didn't do that. AIG didn't do that. That was done for no one else. Why does Historically Black Colleges deal with terms that no else that has a relationship with the federal government deal with?

There are two people here who worked with us, Andrea Harris and Eric Pristell -- because other colleges were having the issue. I am very pleased and proud of my board and my team, in that they worked with us to work with DOE to make sure that this happened. I believe that we at Bennett at some level made some history in the way that we were able to do this.

At the same time, because we needed to refinance we swallowed that the million dollars -- that we will talk about that later. But I think it is really important to understand that -- you know, I had someone at the Department of Treasury speak to me as if I was 11 and said to me, well, if you don't understand finance. Well, my doctorate happen to be from MIT in economics. I believe that I have some minor understanding of finance; you know, minor. I'm not going to suggest that I'm an expert but minor.

So, they run these games with us as if we don't understand what is going on. But what we know is that other folks get better deals than HBCUs do. And part of our work and the work of John Wilson of the Historically Black Colleges and Universities initiative ought to be to make sure that we are equally situated with others in terms of flexible arrangements.

Bennett was the one that dealt with this time the many around this table and in any HBCUs (inaudible) will deal with it later. So, I think this is really important. If we are able to show the fiscal responsibility to finances ought to be (inaudible) exempt from prepayment penalties. It happens every day.

Eric, if you or Ms. Harris would piggyback on that.

MR. PRISTELL: My name is Eric Pristell. I'm a partner the Bank Law Firm. I represent Bennett College, in addition I represent the North

Carolina Institute of Minority Economics. And I closed all of their loans, so have seen it up front.

Again, for the record, I want to say kudos to Don and the Department of Education and his team for being extremely flexible.

But to her point, Dr. Malveaux's point, I can't tell the story better than she can. The bottom line is that the million prepayment penalty represented resources that could have gone to scholarships, to fix a boiler, and to do other things, to fund operating deficits.

So I think the argument from the college is treat us just like you treat AIG and other financial institutions when the government was there and put them in a position -- put them in a position to be a viable institution movement.

DR. FRANCIS: I take these were all propositions in favor of eliminating the pre-penalty.

MR. WATSON: For the record, I want everyone to understand that this (inaudible) action recommendation, although it will go to the Secretary and Congress, the Department of Education has no authority at all, that the United States Treasury, it is in their statute, it is in their charter at the Federal Financing Bank, and it literally will take, again, a change of Congress but not the Department of Education status.

I have often seen times where there are two statutes in place when someone asked for redemption, and the Department of Education's statute will not make the same request in the Treasury statute. And Treasury does not move at all, because they have no authority because they have to change the statute.

So, I do want the Board to be aware that in order for this change to happen, it has to be made in the United States Treasury statute. In order to (inaudible) in their statute, in order to go along, because that is part of our process, but there is no provision for us with the Federal Financing Bank fee.

DR. WILSON: And I should add. We are in the situation with a number of HBCUs. I can't go micro on the stories. And essentially the Department of Education has no authority to grant mercy or leniency from these things. It is either Justice or Treasury.

What we do is we make a recommendation from Secretary from the White House office and elsewhere as strong as possible as to what we think they should do. I'm concerned a little bit, because I know that a lot of their decisions are straight up business. And this is not about -- they don't do the social aspects of this. It is straight up and down, straight up and down business.

So, our appeal may or not matter in.

DR. MALVEAUX: Was AIG's waiver straight up and down business? Was Citicorp's waiver straight up and down business? Do not go there with me. Do not go there.

DR. WILSON: Okay.

DR. MALVEAUX: This is not personal.

I'm just saying don't give me an economic argument that other people have overridden. You may say that people may not find the viability of HBCUs in their best interest, but the fact -- the real truth and nothing but the truth is that we have waived economic decisions. We have seen it in the national interest. And that goes to the large financial institutions.

MR. PRISTELL: It's not -- I think it is good business sense to assist these critical institutions to move forward in financially viable way. Waiving the prepayment penalty --

DR. WILSON: We are on the same side. I just want to say we are on the same side. We are making the same recommendation.

MR. PRISTELL: Sure.

MR. WATSON: What I want to talk about is to go back to --

DR. MALVEAUX: That was a 11 percent prepayment penalty, let's just be clear.

MR. TAYLOR: The one thing, though, it wasn't done in the dark. I mean you had a staff -- it wasn't you, but some president of someone signed off on this stuff, we have to have -- and I suggested on number 2 that we have in addition to a Credit Enhancement Direct Grant Program, since I have not seen a component, around educating to make sure that I see the inform whoever it is in these institutions are not committing to these frankly your predatory -- you can argue if you know and you knowingly agreed to it, that I'm not so sure that totally -- I think we need to try to include something in the recommendation and that is the same situation again and again.

MR. WATSON: Mr. Chairman, let me sort of explain how the process works when we close a loan.

Every person I named that I have on my team when someone closes the loan they have an attorney and they have financial adviser. And just to talk about -- I would like to take this outside of Capital Finance, because what Dr. Malveaux is asking for is cap finance specific.

In the grant piece, that is why I also said make the prepayment penalty be part of that, because at the same time if you ask someone to take away when they are supposed to receive money -- when we are supposed to give them money, at the same time to be pure business they are going to say we are supposed to give you money. We don't want to give you that money, either.

So, it is a two-way street. That's why (inaudible) talk about the grant, maybe that could be used for the grant. But in talking about general finance in and of itself, whether it is Capital Finance or you get it from ABC bank, if you turn those bonds in earlier, you are going to pay a penalty or discount.

And, so, that is why I'm saying in order to make this go away, the other option -- and maybe we need to strongly look at considering the grant piece, because then that could be an option when someone is refinancing, that is something that we could actually put there, because it is a structure -- it is foundation of bonds.

MR. FRANKLIN: That make the grant more compelling.

MR. WATSON: Exactly. Which gets to the point where we wouldn't have to pay for -- these payment penalties, the college or anyone else would not have to pay for it. They could use grant funds to sort of address that.

MR. FRANKLIN: The institution should not have to suffer, its students for financial --

DR. WILSON: Moreover, I really want to strongly recommend that this case be made, not because black colleges should exist, that goes without saying, but because of the 2020 goal. These are institutions that are needed to reach the 2020 goal. And I think that ought to be in the rationale for all of these, so that they are in the context of the entire administration.

DR. FRANCIS: Much of what we are saying and we always have to make a case, but I keep going back to the constitutional mandate, we are for the common good and the general welfare of the nation. That is the stool we sit on.

DR. WILSON: Future of the nature.

DR. FRANCIS: Yes. The problem is that we have never been put on that plain, so we have to continue to remind -- we are going to make the case to eliminate this because we are as important as the AIG bank.

MR. FRANKLIN: But I'm here to tell you, you have to do it outside of the financing structure.

MR. WATSON: And I'm saying that because an institution has the option to -- well, institutions have the option to pay -- to have their bonds called early, but again, it is a cost associated with that.

So what I think we want to do here is sort of eliminate that cost or whether you want to refinance -- whether you want to refinance or whether you want to do something else with it. You want to sort take that piece out of the network. I think, as I said, the grant could be used for that.

DR. FRANCIS: Again, one of my remarks earlier was that we are asking for grant money to the Secretary that is not for a loan, but it is a grant that would pay for a pre-penalty if there were a pre-penalty or do want to eliminate it?

MR. WATSON: Or if an institution wanted to pay the upfront cost of the bond end.

MS. WILKINSON: A couple of clarifications. With respect to the prepayment penalty, I think we all over time in working with the program, we fully agree with Bennett College, you know, we have talked about it with Treasury, and I think we all agreed that it need to go away. But comparing the markets, general speaking, you know I think most of the colleges here are used as tax-exempt markets, and they have -- you do have the ability to prepay in an tax-exempt market.

But these are taxable bonds, and typically with taxable bonds, there is essentially a make hold premium most of the time. What I would say is that we should probably take a look and see if there is other statutes -- I have not looked at that Treasury statute -- that requires the make hold. It probably makes sense to see if there are other programs that have the make hold. And then if not, you know, maybe we can advocate a special way.

But we might need to do a little bit more work behind it to see if there is a way of getting that.

MR. WATSON: And just for everybody in the room, when you have something to say, other than the folks sitting around the table, please give your name and organization, so we have it. Say it for the record. This is a public meeting and this is a public record.

DR. FRANCIS: If we do sit here and do not make that kind of a recommendation, where we may be able to find there is a way to cover and make the government whole, we lose.

So, I think we have to keep this on the table, because we know how it impacts us to pay an exorbitant price and the government says I have to have it, get it from somewhere else. And I don't know that we have all of the expert to find where they are, but we might find out where they.

So mine is always let's go for what it is that is in our best interest while at the same time, quote, not impacting the bond holder (inaudible) because they want to get paid but not out of our money.

Let me give an example. I chaired the LRA recovery in Louisiana. We fought hard to get money from the government for homeowners to get money to fix their home. So, let's say you got $100,000 from the LR to fix your home, but in order for you to do that, you had to borrow from SBA.

Well, SBA required those homeowners to pay their loan first out of the -- I sat in the chair -- that is crazy. You are going the make me pay back a loan for something that the government has said you need $100,000 dollars to fix your house. And I'm going to give you 50, now I have got 50,000. Now, what am I going to do about fixing my house?

That is just a trend how one thing cancels out the other. So, I promise you this -- so, when you talk about predatory, that SBA rule is predatory. It's taking the money I just got to fix my hour to pay back a loan that they told me I could pay back 20 years. It doesn't make sense.

Okay. Eliminate, find out the money and grant program. Did we put the grant program in? That is where that pocket pool of money is. And it is not for a loan, that is for a grant.

Let me move along. No problems in eliminating if we find a way to pay it and not impair the institution. That is the principle.

Where on the sheet that my colleagues have. I'm down to lower interest rates. Lower interest rates in two specific instances. Temporarily lower the interest rate for a defined time period for renovation and construction; and lower the interest rate for academic structures related to science, technology, and engineering.

I sit on a board, and that is transition money, that is in order to keep me going while I'm building it and I pay it. So to me that is a no-brainer, if indeed we can get that recommendation.

But if you want to add on to that, Don, that is a transition -- transition funding while you are completing.

And the second one -- the second one, of course, is more specifically related to what is a growing national concern about increasing the number of young people in the STEM fields, particularly across the board, but particularly at HBCUs. If you are going to increase that national interest, why don't we get a discount, get a lower interest rate for institutions where it is in the best interest of the country for STEM discipline. That is B.

MR. WATSON: And this item B is about lowering the interest rate for STEM related (inaudible) for all of the reasons Dr. Francis mentioned, but also, these buildings are not income-producing buildings because they constitute debt services. A lot of institutions and a lot of institutions around the country do not build these laboratories classrooms, state-of-the-art classroom. Although the teachers are now coming out using blackboards, they are not being trained on blackboards because of costs associated, including blackboards, and things of that nature.

And if we are actually graduating students in physics and other areas of STEM with the technology that we have today, if we had up-to-date technology just imagine how far we could expand; not just the number of students who are graduating, the number of students who leave school to go work in those fields and not work in some other field because they need to pay back resources.

MR. FRANKLIN: I think that is an important argument, you shifted it from centrally this is a budget-relieving measure and helpful, but it is also an incentive in terms of the 2020 goals, increase the number of scientists in the STEM domain.

MR. WATSON: It is not here in this

short version, but to be a further incentive to the government, when we look at students who are facing higher tuition costs, the Board could also have a possibility of recommending that after 5 years of savings, for example, whatever money you continue to save from that lower interest rate, you provide scholarships to students in the STEM areas, which will reduce the cost of them having to go in these areas.

So, those kinds of things we need to be more creative in this area. Financial aid is a big cost factor. As you look at graduation rate and other things, a lot of students leave school because of financial reasons. And going into STEM, you may have to go to a master degree or some other level to get a higher salary. But if you provide them with some sort of relief while they are going through undergraduate, they can go into further studies and do further things.

DR. FRANCIS: The bottom line that I think Don has mentioned, and I want to underscore it, is we are now talking about building buildings that are not income producing. The rest of these buildings, dormitories, laboratories, all of that is income producing. You have to advertise yourselves.

But if you are going to get the incentive, Mr. President, for an institution to enhance the STEM field that the country says it needs, particularly in African Americans, and you are not going to charge any tuition, then help us in lowering your interest rate for us. I mean, that is a hand-and-glove circumstance. That makes sense.

And, so, I'm happy that our organizations have vetted this and also recommended, because the Secretary has seen this, at least at this point from the letter from (inaudible) Clyburn.

DR. WILSON: Just in the interest of strengthening the argument, again, let me suggest that we at least consider tying this not just to HBCUs, but to under-resourced institutions.

And the reason why I say that is this:

Inside the Department there is an initiative to identify those under-resourced institutions that have impressive graduation rates and to target them and say, what do those institutions need in order to enhance their productivity, since they appear to be getting good numbers from -- and these are areas of intervention is what we are looking for, we can help under-resourced institutions.

DR. FRANCIS: My only rejoinder is we are putting it under the HBCUs.

DR. WILSON: There is no question about that. But I'm saying tie it, acknowledge an awareness of a broader concern that gives it more cushion and platform.

DR. FRANCIS: No question about it, yes. It's a good segue for me to say two things that hopefully the White House Initiative takes on. I want to send to President Malveaux a two-page letter that I have just written to the Secretary on this business about graduation rates and what they call progression and completion rates.

I am deeply concerned that when I get -- didn't know anything about it, I don't know whether the other presidents around here got a FAFSA. A staff member whose son was coming to Xavier had made application for a loan.

The FAFSA people put the graduation rate of Xavier, the two other schools that her son had applied to, MIT maybe or William and Mary and Tulane. And they -- there is no way that Xavier's graduation rates will look like MIT or Tulane or William and Mary. And nobody has told me what the formula that folks are putting in to arrive at the graduation rates and the like.

And off the record, please, lady.

(Discussion off the record.)

MR. FRANKLIN: Norman, this is very important, your voice is the voice of authority to say this, I hope a letter will also be transformed into an op-ed in New York Times, for U.S. News and World and other rankings so that people are a little more honest, because you are right, we have discovered the very same phenomenon. And I am very angry about the way HBCUs are misrepresented.

DR. REED: Before I have to leave, one thing I want to say one thing that I have discovered. A lot of majority culture schools and a few -- and I don't know if is this is legal, I will talk to the U.S. Department of Education -- are allowing cohorts that are in, quote, developmental courses to come in in July and to take up Pell grants, do not count them in the enrollment and they don't count towards graduation. They are playing all kinds of games, majority culture schools.

Many of us who have been trying to play the games correctly, it is hurting us. So, we really do need a reading, an interpretation on what we can and cannot do, because they are counting students in different ways in (inaudible) IPS, for UNCF for the formula, but not counting toward graduation and letting them in early with the Pell grant.

So, I just really want to name this, because if the majority of culture schools are doing this, they are letting in provisional students in July, getting them through the maze with Pell grants but are not calculating them in the fall, and therefore, they are not part of graduate retention rates because they are in some kind of different configuration, we need to look at that.

DR. FRANCIS: It is a major issue, and I'm at this stage with it because it is impacting recruiting, retention and our parents and making us look like we are not graduating kids.

DR. MALVEAUX: Earl Richardson just recently retired as president of Morgan, and has probably done the best work on this of anyone I know. He has really looked at all of the variables to talk about the incomparability of our graduation rates. I would recommend that both in terms this body and in terms of our other organization, UNCF Thurgood Marshall, and MAPFEO (phonetic) that we really attempt to engage him -- Earl Richardson, Morgan State, recently retired. He will stay on as a research professor there.

But he really has thought about this and talked about it and (inaudible) do really grade work on this.

John, you may even ask him to put together some type of a paper that we can all take a look at, because I think that he has talked about almost a 20 percent (inaudible) plan in our graduation rate based on we don't count transfer students, any number of other things.

DR. FRANCIS: That is why I'm telling you the government has to stop doing this until we get to a formula, a calculus of how you do that, because it is being gamed, and we are paying the price.

DR. WILSON: Let me just respond. There is a great deal of interest in this. And it is being taken seriously by the Department, and Arne Duncan takes it seriously. So, we are talking about how to redefine.

DR. FRANCIS: Maybe we need Earl Richardson at Morgan. We need to get all of the information.

You just did at Thurgood Marshall a piece on black -- not -- it is a major piece, and it (inaudible) has we need to have that same thing do on something else.

MR. TAYLOR: All right.

DR. FRANCIS: Because believe me, it is eating us alive. It is eating us alive. And I think you may need an op-ed piece to put it all together.

I know we are moving against time. We lost Trudie. She had to go.

MR. WATSON: At the rate we are going -- under Capital Finance I know there is a lot of stuff to discuss, but for the interest of time let's get to these recommendations. Again, we are working on this for almost 2 years, let's put this to bed, and move to some other creative things. Let's stay focused with this and just keep the ball rolling so we can actually get to the recommendations.

DR. FRANCIS: We have one left on my sheet?

MR. WATSON: Two more. We did 5.

DR. FRANCIS: Okay. We did we did 6, yeah additional resources for the office, no question. So 5 is our subsidy. I thought you told us we were going to get more subsidy.

MR. WATSON: Again, there are two pieces that come (inaudible) to the subsidy. Although the Congress made a lot of subsidy to make loans, we also -- there is a statutory -- in the statute there is a line item that provides for the maximum amount of loans that we can guarantee is 1.1 billion. At the end of 2011, the President's budget is accepted at $278 million. We would not have any statutory authority to make a loan after 2012 or forward.

So, the line item here is to request that our statutory cap is increased from $1.1 million to $1.8 million.

And again, as I said earlier without any direct marketing, the number of individual schools interested in the program is increasing in the next year. On the list now we have close to 700 million already in the pipeline for people to work through and get loans in the program.

The other part of that is listed as -- the other piece should be item B actually, and it permits a narrow exception in the statute. The statute currently provides that two-thirds of any monies that we receive in the Capital Financial Program for private HBCUs, one-third of the dollars are given to public HBCUs.

In the scheme of things how subsidies work, sometimes the Congress may put in their appropriation language that we can spend the money, the appropriated dollars in any format that comes through. If it is all public HBCUs, we can lend it to all public HBCUs; if it is all private HBCUs, we have to lend it to all private HBCUs.

But this actually -- is actually going to provide us more flexibility. If at the end of the fiscal year or close to the fiscal year, we don't have enough public or private HBCUs to allot money to, we don't want to send money back to Congress.

If we asked for them in 2011, $278 million and if you divide that, you have, let's say, $80 million going to public, we don't want to send that $10 million back, because it sort of sends a bad sign. We can't give out money. It is not that. It is just that the one-third/two-third split has to be adhered to.

So, what this actually does for us is provide the flexibility within 120 days prior to the end of the fiscal year, make a determination whether we can give -- whether it is public or private, make the loan within that period, if we have schools that are already eligible for closing.

DR. FRANCIS: So that you don't close a year with money left over because you are bound by the two-thirds/one-third?

MR. WATSON: Exactly. That is exactly what we do.

DR. FRANCIS: It is not going to impair either one, the public or the private. It is just that narrow window that if the clock is running down, you are not bound by that two-thirds/one-third.

MR. WATSON: Exactly. The way things are sort of situated is that we generally will start making loans in February, and that is because, again, although fiscal year starts October 1, we are not part of any continuing resolution. So, in that case, until Congress actually passes the President's budget, we don't make any loans.

So, we are not making loans until February, we have February through September 30th to make loans. We try not to close loans during the last week. The government's financial system starts to shut down the week before.

So, we need the flexibility to make sure that we can actually do those sorts of things.

DR. LOSTON: So, once you reach your two-third/one-third, you kind of have schools waiting within a queue, so they can began some of the paperwork and preparation should you not have sufficient numbers of public or private institutions, you will be able to start the conversation saying there is a possibility and you have yourself 4 months?

MR. WATSON: Right. And, again, when we are closing loans, we are pretty fast in closing loans, but when we come up to survey issues and things like that, that generally goes outside of our control. And that takes the longest part -- that is the longest piece. We don't want on September 1 start the survey work at a school and then can't close, and the school is now starting to incur costs.

So, those are the things we try to consider, too, in closing loans. We don't want you to incur costs until we know you are going to close the loan.

DR. FRANCIS: You have --

DR. BASKERVILLE: I have a question. On 5A it says that the administration's fiscal year 2011 budget requests approximately 20 million, and it indicates that that will allow us to make approximately 278 million in loans. You said we have approximately 700 million in loans?

MR. WATSON: Right.

DR. FRANCIS: Potential.

MR. WATSON: I have not included this year. Once we finish this year, we will be close to a little over $800 million.

DR. BASKERVILLE: Okay. But the question then is, why would not this group recommend a higher base, more than the 20 million? We understand that the Secretary is balancing many things, but as the HBCUs Capital Finance Board, if we know that this amount is not going to come near the amount that we need for the loans that you expect, why would we not recommend the higher level?

MR. WATSON: We can recommend the higher level, and if we have 20 loans close in a 4-month period, we will close those 20 loans. However, you probably will not see me the following week, I am being honest, because I would have to be involved in all of those processes. So, it is -- and I don't want to send any money back to

Treasury, either.

So, if we increase, say, to 40 million and that 40 million will take us up to 550 million, then 550 million from February through September increases the amount of loans we have to provide.

DR. BASKERVILLE: Is that because the workload -- number is 6 we are recommending additional staff.

MR. FRANKLIN: It is a roll of the dice.

MR. WATSON: And if every recommendation the Board presents was accepted, then you could raise it to $100 million.

DR. WILSON: It is a linchpin issue. The sad thing is it is a linchpin issue. If that happens, then the others happen.

DR. FRANCIS: They must compliment each other. And I don't want to take anything out of -- if you put in that $30 million and put the two together, you get $30 million, but also accept the fact you need more staffing.

MR. WATSON: The staff needs to be

increased.

In 2008, for example -- what happened to us in 2008, the year we didn't make any loans, there were two things --

DR. FRANCIS: We didn't have any money.

MR. WATSON: Well, we didn't have any money because they increased the statutory limit, but at the same time they didn't increase the subsidy limit. And again, I'm just trying to make sure that we can handle the workload.

I would also want to put the expectation out there that we do or that we would actually have $550 million to do loans in that period.

DR. BASKERVILLE: Okay. So, as I understand it, if we increase the (inaudible) and increase the subsidy perhaps to 30 million, and increase the staff, then it would work?

MR. WATSON: Yes. And also, we have been asked to increase our budget by 5 percent. So, if you ask for 30 in the budgeting world, then, of course, (inaudible) you have to decrease it by 5 percent, so the 20 is actually less than

20.

So, the (inaudible) we have been asked to decrease all over the Department not just a (inaudible) department throughout the government to increase our budget by 5 percent where we can.

Those are things that I'm working on now and I will talk about later.

DR. FRANCIS: Let me follow up Dr. Baskerville's point. If we recommended the $30 million subsidy, which was would then -- as well the recommendation we make in 6, that if it is impossible to get the 30, then you stay with the 6, we would be able to do it, but the two are complimentary.

We are saying that we know the needs are out there. You have 700, what, million dollars that folks want to borrow money. So, if you increase the subsidy, you have to increase the staff. I mean, that is what the Board is saying.

DR. GIVENS: Which one do you want to come first? Which one should come first, the staff and then worry about that? You can go after it and raise it to 30, but where is the guarantee that both of them will come through at the same time?

MR. WATSON: And I will be honest, as I said, if the rate is 40 million, we will get the money out the door. And so that is not an issue. But I can't speak to what the Department -- everything here on this list is actually within the purview of will take a statutory change except item number 6. I'm not in the position to guarantee what the Secretary will or will not do or what.

DR. BASKERVILLE: In response to President Givens' question about the guarantee and what will come first, they will come simultaneously in the same legislation, so that makes a guarantee.

DR. FRANCIS: My point is that, again, we are being driven by the need that is out there, and we are being driven by the opportunity to ask for a larger subsidy, which also is driven by more staff.

So, if you are going to serve that community that says we need more loans, then we have to have more subsidy, we have to have more staff.

MR. FRANKLIN: And in the big picture this is pretty small and modest, given racing to the top of the political culture.

MR. WATSON: And I will admit if everything on here actually -- and that is -- it is a fine balance. And I will say if you give 1 percent of STEM-related buildings and that is in the statute, and we get reduced interest rates during the period of construction and renovation, the ones I have on the list will sort of go away. I mean, I will see -- I will literally see -- we will be a preferred lender of HBCUs, which means what I just quoted to you of over 700 million will sort of increase expedientially.

So, I mean, it is a fine tune, I guess, when you all are actually making these discussions with members of Congress, making discussions and coming forward. And if they are going to give you

4A or 4B or any one, any combination of those, those numbers will change drastically, the institutional list would actually skyrocket.

DR. FRANCIS: Well, I would think -- we are not expert enough to know what everybody is going to do, but I think we are expert enough to know what the needs are. And our recommendation would be to serve the needs, to get money and get the staff. And that is the way we are going to shop. And if anything falls out -- if either one falls out, then you go for change.

And mine is, as I said from the start, this is a very important meeting because for the first time we are putting together a comprehensive program. And they are dependent upon each other, and no, we don't want to be willy-nilly about it. I don't think anything in here is willy-nilly about it.

I think that the little work that we have done and more work needs to be done, it is obvious that there is a need out there. And we shortchange ourselves if we keep ourselves in a straitjacket. And I think you have to put them all together.

And again, we are running a big corporation of schools. And they are all satellites and they are saying I need, and I need, and make my case. And I think that is what the three organizations have done over the last years and continue to do.

And, so, I would just put on the table you want to do a $30 million subsidy, fine. We do a 30 million subsidy in this one and put the last 6, which we have said, we need more staff and the like.

DR. BASKERVILLE: So moved.

MR. FRANKLIN: So moved.

DR. FRANCIS: So moved.

And I know time is running, and I know I have to get on that plane unless somebody has a private plane that will get me where I have to go by 6 o'clock. I would ask that there be a motion to accept the recommendations made today with the iterations that we have in the records with respect to each of these, realizing, of course, that these are recommendations that a lot of the people have to pass on, but we are not going to be ever blamed for sitting idle at the switch.

DR. LOSTON: So moved.

DR. REAVES: Second.

DR. FRANCIS: Any other questions?

All those in favor, please signify by saying "aye."

(Chorus of "ayes.")

DR. FRANCIS: Opposed?

The motion is carried.

It needs a lot of work, spend a lot of money and we are going to build a lot of buildings.

DR. LOSTON: Point of clarification, St. Philip's is spelled with an apostrophe.

DR. FRANCIS: I'm sorry?

DR. LOSTON: The spelling of the college, my institution St. Philip's, apostrophe "S." One "L" and apostrophe "S."

DR. FRANCIS: I would like to thank all

of you, those of us who participated in the audience and those of us around the table. You graduated fast. So we got to (inaudible) sit and wait for. Yes.

Are there any other public comments?

MR. WATSON: Before we start public comments, can we see how many people have public comments, so we can make sure we divide the time evenly. Just one public comment. Andrea Harris.

MS. HARRIS: Andrea Harris, with the North Carolina Institute of Minority Economic Development. And I am fortunate to do whatever Dr. Malveaux tells us to do, as you know, but also to have as one my board members the president or the CEO of Self-Help Credit Union and responsible for lending market and (inaudible) I want to thank him on behalf of his team of folks here for helping us out in services. Our branch (inaudible) and our attorney Eric Pristell and our vice president and folks (inaudible)

But I want to make a note that they just shared with me that since Self-Help has operated the charter school loan for the Department of Education, that they have made a total of 739 million in loans through 2007. They also made 28 credit enhancement grants that totaled over $205 million to 19 grantees.

So I don't think that we should be out of what has -- out of mind of what has happened in the other program.

I would also ask that you continue to be bold in your efforts to try to make sure that there is parity for HBCUs, and to encourage (inaudible) that as the Department or others or whomever appoints members of this Board that whenever they get opportunities to appoint members of HBCUs boards of trustees that are minorities and have financial expertise in complex financing, that you encourage and recommend that that type of expertise also be included on the advisory board. But I do appreciate the steps that you have taken.

And I would also say that there is tremendous precedent for waiving the prepayment penalty thing. But what we would like to see happen is that there is parity and that we are not asking that people who have the least wealth carry the greater burden in every respect while others are excused from having to be responsible in that nature.

And I would also commend you on your caution around how we use language so that while we all support education -- all of the institutions of higher education, we not allow the language of minority-serving institutions or institutions that may serve disparate populations to be substituted for HBCUs. So that we do not find that the focus and resources targeting HBCUs diminish, as some of us may find some level of discomfort in using the word "historically black."

So I would commend you on your work and your steadfastness in that regard.

MR. WATSON: Thank you. Thank you.

MR. PRISTELL: I will be brief so you can make your flight.

I just really want to caution this body to think hard about the add-on percentage as an objection. I think it just has the effect of penalizing borrowers who have good credit. I just think if you pay your bills on time, why should you pay a higher interest rate.

DR. FRANCIS: Well said.

MS. GAMBLE: My name is Katrina Gamble, and I'm a fellow working with (inaudible) weathering the latches with Mr. Clyburn, and I just wanted to say that this is something that is important to Mr. Clyburn, and I know that he will be working with the Department of Education and all of you to kind of work through these different recommendations to figure out something that the (inaudible) for the institutions.

So I just wanted to let people know that someone from his office is in the room and we are looking forward to working with you all.

DR. FRANCIS: Thank you very much.

DR. BASKERVILLE: We want to thank Dewitt for his leadership in helping to get the tremendous resources that we were able to get for HBCUs.

DR. FRANCIS: Please express that for all of us.

MS. GAMBLE: I will do that.

DR. GIVENS: A couple of things. Number one, when I asked about what should come first, I am not against 20 million, I'm for 40 million. But I wanted to make sure that we do whatever we can to increase staff. This man needs staff. I have seen him work very hard. Harris Stowe is a recipient of this hard work. So, I want to commend him on this. And I just want to make that clear.

DR. FRANCIS: In fact, maybe we should have put 6 at the front rather, 6 is really what we wanted.

I will consider this meeting adjourned, and I want to say thank you very much, and the meeting is close.

(The proceedings adjourned 12:21 p.m.)

REPORTER'S CERTIFICATE

I, DONNA M. LEWIS, RPR No. 16531, Certified Shorthand Reporter, certify;

That the foregoing proceedings were taken before me at the time and place therein set forth;

That statements made at the time of the examination were recorded stenographically by me to the best of my ability and thereafter transcribed;

That the foregoing is a true and correct transcript of my shorthand notes so taken.

Dated this 10th day of August, 2010.

____
Donna M. Lewis, RPR

My Commission expires:
March 14, 2013