

1 HISTORICALLY BLACK COLLEGE and UNIVERSITY  
2 CAPITAL FINANCING  
3 ADVISORY BOARD MEETING  
4

5  
6 Washington, D.C.

7 September 24, 2012  
8

9

10

11

12

13

14

15

16

17

18 ATKINSON-BAKER, INC.

19 COURT REPORTERS

(800) 288-3376

20 www.depo.com

21 REPORTED BY: DONNA M. HALL

FILE NO. A6091E1

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21

HISTORICALLY BLACK COLLEGE and UNIVERSITY  
CAPITAL FINANCING  
ADVISORY BOARD MEETING

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

1 HISTORICALLY BLACK COLLEGE and UNIVERSITY  
2 CAPITAL FINANCING ADVISORY BOARD

3  
4 Designated Federal Official:

5 Mr. Donald Watson  
6

7 Attendees:

8 Dr. Lezli Baskerville

9 Dr. Norman Francis

10 Dr. Adena Williams Loston

11 Dr. Donald J. Reaves

12 Dr. John S. Wilson, Jr.

13 Ms. Edith Bartley

14 Dr. Debra Saunders-White  
15  
16  
17  
18  
19  
20  
21

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21

P R O C E E D I N G S

DR. FRANCIS: Welcome, everybody, to this fine weather in Washington. I don't know long it's going to last. It was good Friday and Saturday. I don't know what happened Sunday, but a little cooler than it was on Friday and maybe it's going to get better, but I'm happy to have all you here and again to have with us Dr. Debra Saunders-White, our Deputy Assistant Secretary for Higher Education Programs. And you are first on the agenda.

DR. SAUNDERS-WHITE: I am?

DR. FRANCIS: Yes, you are.

DR. SAUNDERS-WHITE: Well, good morning.

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

DR. SAUNDERS-WHITE: Thank you.

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

DR. FRANCIS: All right.

MR. WATSON: And I'll do the roll call. Once I do the roll call, then we'll have Deputy

1 Assistant Secretary for Higher Education Programs,  
2 Debra Saunders-White, to provide us with some  
3 comments from the department -- welcome from the  
4 Department of Education.

5 Dr. Lezli Baskerville.

6 DR. BASKERVILLE: Present.

7 MR. WATSON: Dr. Norman Francis.

8 DR. FRANCIS: Here.

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

11 MR. WATSON: Edith Bartley for Dr. Lomax.

12 MS. BARTLEY: Present.

13 MR. WATSON: Dr. Adena Loston.

14 DR. LOSTON: Here.

15 MR. WATSON: Dr. Donald Reaves.

16 DR. REAVES: Here.

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

19 Dr. John S. Wilson.

20 DR. WILSON: Here.

21 MR. WATSON: We have a quorum.

1 DR. FRANCIS: Thank you. I'm back in  
2 session, right?

3 MR. WATSON: Yes, sir.

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

15 UNIDENTIFIED SPEAKER: We only have three  
16 this time.

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

19 MR. WATSON: Those lawyers aren't going to  
20 raise their hands, but for the purposes of this  
21 meeting we do have Karen Akins; she's the one that

1 we will call on. Karen, can you stand up. Karen  
2 Akins is from the White House Liaison Office of  
3 Committee Management.

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

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

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

15 We're delighted that you are joining us here  
16 and our objective was just trying to make sure that  
17 we could find a time that was consistent with your  
18 schedule, and knowing that there are lots of  
19 activities in Washington in the last week and a  
20 half, we thought it would be a great time to ask  
21 you to finalize your work for the year.

1           You know, many of us in terms of members of  
2 the department, have been on the road for the last  
3 ten days. We've been crisscrossing America in the  
4 Secretary's bus tour. I myself started out in  
5 Laredo, Texas last week, went to St. Louis and  
6 ended up in Richmond, Virginia on Friday. Had a  
7 meeting with 10,000 eighth graders on Monday. And  
8 if you forgot what the energy is like in eighth  
9 grade, it's pretty exhilarating. And so what a  
10 wonderful way to talk about the purpose of  
11 education. And every one of those students when  
12 asked are you planning to go to college, raised  
13 their hand. And so we know what the critical need  
14 is out there.

15           More important, we understand that  
16 institutions like our historically black colleges  
17 and universities are critical to this nation's  
18 economic survival as well as this national  
19 security. And we also understand that the mission  
20 that you have in meeting the demands of some of the  
21 most vulnerable students in our community is

1 paramount. And that's why programs like the Cap  
2 Finance Program, I think, was so exciting to be in  
3 existence.

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

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

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

18           DR. FRANCIS: Yes.

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

21           DR. FRANCIS: Yes.

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

6 DR. FRANCIS: Right.

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

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

13 DR. SAUNDERS-WHITE: And this is coming from  
14 a community whose high school graduation rate is  
15 48 percent, 48 percent. And so there is tremendous  
16 need. The Gear-Up program within that community is  
17 one of the largest in Texas, and it's about a  
18 \$43 million program --

19 DR. FRANCIS: Good.

20 DR. SAUNDERS-WHITE: -- for that school to  
21 serve those 10,000 students, so that's the impact.

1 DR. FRANCIS: Well, good for us to hear.

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

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

8 DR. SAUNDERS-WHITE: Absolutely.

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

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

15 DR. FRANCIS: I asked that earlier.

16 DR. REAVES: So moved.

17 DR. LOSTON: Second.

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

20 DR. LOSTON: Yes.

21 DR. FRANCIS: I did too. I got sleepy, went

1 back and I read it again and I found out all about  
2 what I said and you said and so forth, and the long  
3 and short of it is, Don has done a very good job in  
4 summarizing the key points, so I'm going to ask for  
5 approval. All those in favor please signify by  
6 saying aye.

7 (All Members voted.)

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

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

19 DR. SAUNDERS-WHITE: May I interject?

20 MR. WATSON: Yes.

21 DR. SAUNDERS-WHITE: The last time we spoke

1 there was reservations and concerns about Don. As  
2 good as Don is, we all knew that the demand really  
3 outstripped the capacity of any one individual, and  
4 so you now are meeting the Cap Finance team. We  
5 are trying to build a very robust team. We also  
6 added the CHAFL program into his loan portfolio, so  
7 we are really excited about the energy these folks  
8 are going to bring to those programs.

9 DR. FRANCIS: Well, we want to thank you. I  
10 remember distinctly we have been talking about this  
11 for a long time. These folks in here are a little  
12 bit too young to remember this, I called Don a  
13 one-armed paper handler. Now if you are over 50,  
14 you'll know what a one-armed paper handler is. If  
15 you are not, that means you got too much to do and  
16 if you can keep one hand on the wall and keep the  
17 ax or the hammer on the other, you are a genius.  
18 But we did ask the Secretary and you sent me a  
19 little note saying help was on its way. The  
20 Capital program now has the people and it's  
21 important for this program. All of what I have

1 watched over the years with the Congress and the  
2 Administration, they understand this program, they  
3 like this program and it means so much and it's  
4 going well, but we need people to be able to  
5 service it and to keep it going. And so we thank  
6 everybody. And, fellows, get your boots on. So we  
7 should have a good year coming up hopefully.  
8 Congress was good to us again and the schools are  
9 looking forward.

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

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

18 Mr. Chairman, Members of the Board, I'm  
19 pleased to present my report for HBCU Capital  
20 Financing programs for our September 24th, 2012  
21 meeting.

1           The first item we'll discuss is Barber  
2 Scotia. I want to give you an update on Barber  
3 Scotia. It's been on the agenda for a very long  
4 time. As you all recall, the Secretary has  
5 approved for us to market and sell Barber Scotia.  
6 And I constantly have to remind everyone that  
7 Barber Scotia is a unique product in that it's  
8 zoned as a -- institutional zoned which makes it  
9 difficult to sell for anything other than  
10 institutional purposes.

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

16           Back in the corner over there where the  
17 lawyers actually raised their hands is actually the  
18 lawyers for the program. We have Bond counsel for  
19 the program, we also have Rice Capital Access which  
20 is the Designated Bonding Authority. There are  
21 three or four lawyers in the back. Rice also has

1 come armed with three or four people and we also  
2 have -- I don't see them, I don't guess they're  
3 hiding behind the podium, the trustee of the  
4 program. They bought a couple of people as well,  
5 so we're all going to meet October 15th to drill  
6 down on our General Counsel questions regarding the  
7 program and hopefully out of that meeting we will  
8 come with some concrete resolutions with General  
9 Counsel questions and we'll be able to move  
10 forward.

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

18 MR. WATSON: Yes, that's where we're working  
19 now. Once we get the sale document in place, the  
20 listing agreement will go to Barber Scotia and once  
21 I have the 2013's travel budget in order, we'll

1 take a visit down to Barber Scotia in Concord,  
2 North Carolina, to visit the president and his  
3 board to talk with them in detail about how we  
4 expect the process to go. The other options,  
5 without actually providing them with this marketing  
6 sale agreement, is to have a full fledged  
7 foreclosure. If we do go through that process,  
8 then a couple things will happen. One, we will  
9 have to create insurance, hold security there, and  
10 some upkeep and maintenance.

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

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

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

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

21 MR. WATSON: Well, what I'm expecting after

1 October 15th is that we'll have a better  
2 understanding and hopefully General Counsel won't  
3 have any more questions and then the trustee and  
4 DBA and their lawyers will go and have a  
5 discussion. And then I'm hoping to keep it on a  
6 fast track so by the end of December we will at  
7 least have entered into the agreement with the  
8 listing agent.

9 DR. REAVES: Is the college still open?

10 MR. WATSON: Open in the sense that they  
11 have students there. The last count it was about  
12 50 students in certification programs, but they are  
13 not receiving any Title IV aid. Sometimes I will  
14 get a call from a member of Congress stating that  
15 they may have a basketball team or something other  
16 than what's actually going on down there, but they  
17 have a couple of certificate programs they are  
18 providing about 50 students with some certificate  
19 options.

20 DR. FRANCIS: And of course if it's  
21 foreclosed, then it becomes a liability of the

1 Secretary and monies that could have been going  
2 somewhere else that goes to keep it up and all of  
3 that and it's really a difficult situation. And I  
4 know when he discussed it we asked for every bit of  
5 consideration to see if we could work it out. It's  
6 sad, but unfortunately it's a reality and so the  
7 best thing that we can do now is answer the  
8 questions of the General Counsel and move on. Any  
9 questions on that? Okay.

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

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

16 MR. WATSON: Well, the process at this point  
17 will be there is actually no time limit, like  
18 putting a house up for sale. We are going to let  
19 the market determine that. Again, it's a unique  
20 property. There have been a few institutions who  
21 have actually inquired as to buying Barber Scotia.

1 There has also been some individuals who have  
2 inquired. However, with those inquiries, you have  
3 some individuals who will say they have a client  
4 who is interested in buying Barber Scotia. They  
5 would never reveal any information about their  
6 client, anything else that would solidify that  
7 there was any sincerity in purchasing the property.

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

17           The second thing is that by letting the  
18 market provide us a sale price, we won't have  
19 someone come in and say we'll give you \$50,000 for  
20 it or this. We'll let the market determine just  
21 like in a normal real estate market.

1 DR. LOSTON: What is the obligation, if  
2 any -- should the sale go forward what happens to  
3 the students, is there some responsibility back to  
4 the Secretary? What happens to the students  
5 because I'm surprised that they have students. I  
6 didn't realize that they were still operating.

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

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

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

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

20 DR. LOSTON: They're continuing the  
21 workforce programs that are short term.

1           MR. WATSON: Right, exactly, very short-term  
2 programs.

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

5           DR. WILSON: Skills acquisitions.

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

1 offer, might probably try to clear the debt.

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

9 DR. FRANCIS: Is that about right?

10 MR. WATSON: Anything else?

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

13 MR. WATSON: Risk assessment is an internal  
14 department review of the federal programs. June of  
15 2011 was the first time Cap Finance was asked to be  
16 reviewed. In prior years the program -- we're over  
17 a billion dollars at this point; \$1.2 billion we've  
18 disbursed through the program. And so Risk  
19 Management, what they actually come in and do is to  
20 make sure that we have internal controls in place.  
21 Those internal controls, we responded to them in

1 November of 2011, and created a process where once  
2 I have a letter of credit and those things of  
3 order, I present them to Deputy Assistant  
4 Secretary, Debra Saunders-White, she'll review  
5 them, she'll sign off on them, she'll also get a  
6 summary sheet of what the transaction is, some  
7 information about the school and then that then  
8 goes to the Assistant Secretary for signature of  
9 the letter of credit and the Secretary's  
10 certificate.

11 I guess about two or three months ago Risk  
12 Management came back again and wanted to have  
13 something more informative about what Cap Finance  
14 does, what our processes look like. And so what we  
15 have -- actually this is something Jonathan has  
16 been working on. Jonathan put together a statement  
17 of operation procedures for Cap Finance Program and  
18 that is actually in clearance now. When I say  
19 clearance, it's internal clearance to us. Again,  
20 it does not go outside of the Office of  
21 Postsecondary Education, but we're actually doing

1 that to make sure that's what we want, what we want  
2 to have in place to show all of our procedures, how  
3 the program works and who the players are in the  
4 program. And once that's done, then Risk  
5 Management will close its review and we'll move  
6 forward from there. Again, it's an internal  
7 review, something that we've done to make sure that  
8 we are covering ourselves and when it comes to risk  
9 of running a federal program.

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

13 MR. WATSON: Yes. Actually it's an  
14 interesting process in that a lot of people will  
15 want to come to a loan closing. When you come to  
16 the loan closing you will see the president signing  
17 documents, but there is tons of things that go on  
18 between that. And the Treasurer will always say  
19 how efficient the program runs. But it's only  
20 efficient because when it gets there, they're  
21 passing off documents, but there is a lot of back

1 and forth. And any school that has ever closed a  
2 loan with us will tell you that there is a process  
3 in which we go through heavy negotiations and tons  
4 of signatures; not just from the department but the  
5 DBA, the Trustee, the school's counsel, the  
6 Treasury and their lawyers, so it's tons of people  
7 giving authorization for the transaction to carry.  
8 And I'm not a signatory on any documents, by the  
9 way, which is also, I think, great in terms of  
10 control, because as the director it sort of allows  
11 me the ability to make the loan outside of everyone  
12 else.

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

20 DR. SAUNDERS-WHITE: This was a very healthy  
21 process for us because again it allowed us to look

1 at our internal processes. It also allowed the  
2 need to add additional folks. When we brought on  
3 this team it also gave them a jump start in terms  
4 of awareness and other programs. Because Don is  
5 right, we now have an operational manual that  
6 really spells out every step of this process which  
7 we did not have before. So everything that Don was  
8 doing now is committed to in writing somewhere so  
9 that our program can live in perpetuity.

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

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

21 DR. FRANCIS: What happens if you get hit by

1 a car? Do you have a plan, do you have the manual,  
2 the MOU? They say grace over us and they move on.

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

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

19 DR. BASKERVILLE: I'm interested in learning  
20 something more about the functioning of the Office  
21 of Risk Management, how it operates, how it

1 determines which programs they are going to assess,  
2 was it precipitated by something that they saw or  
3 didn't see, was it the filing of a complaint? I  
4 just want to get a sense of how that function  
5 operates.

6 MR. WATSON: It's generally a random  
7 process. But Cap Financing, as I sort of explain  
8 to individuals, up to 2007 the program went about  
9 15 years without having substantial making of loans  
10 or substantial balance in the portfolio. As you  
11 start to reach -- in the stem of all of education,  
12 of course you look at the other loan programs, the  
13 Title IV loan programs, those loan programs are  
14 much larger than Cap Financing. But Cap Financing,  
15 being an active loan program and having a billion  
16 dollars outstanding, a billion dollars outstanding  
17 in a loan program is not like a billion dollars  
18 outstanding in grants.

19 You see the billion dollars as it becomes  
20 outstanding, all of our escrow is healthy. If for  
21 some reason we had a substantial loss in the entire

1 portfolio, then that's a great hit to the  
2 Department of Education balance sheet. So they  
3 want to make sure the internal controls are in  
4 place.

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

11           Prior to 2007 it was smaller than the CHAFL  
12 Program; now it's six times larger than the CHAFL  
13 Program. So if you think about that, it's in the  
14 best interest of the government. So it's something  
15 that we welcome. Dr. Haynes and I met. We had no  
16 hesitation to make sure we were actively engaged  
17 and willing to have conversation with them. And as  
18 Deb said, this process is healthy for us. It's  
19 best to learn from internally what's going on  
20 before it's discovered from the outside, something  
21 like a complaint or some mismanagement feature of

1 the program.

2 DR. SAUNDERS-WHITE: Most of our programs  
3 have this level of requirement. This was the only  
4 program that really didn't, and so it kind of stood  
5 out there on an island. And so now having gone  
6 through this, they will be put in a natural  
7 rotation. We do this with institutional services  
8 programs, we do this on student support services  
9 side, in FIPSI (phonetic), we do it across the  
10 Board.

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

16 This type of control comes as a result of  
17 meeting the statutory requirement or as Don says  
18 because of the size of the program, the risk  
19 associated with managing the programs have  
20 elevated. What's interesting about this is that  
21 the type of controls that are being talked about

1 usually don't get examined when there is a  
2 complaint because a complaint is pretty isolated to  
3 a particular action, it doesn't talk about the  
4 breadth that this one covered, so that's why it's  
5 so healthy for us at this time to be doing this.

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

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

20 DR. BASKERVILLE: Thank you.

21 DR. FRANCIS: I always like to have the Good

1 Housekeeping Seal. All right. Well, the next one  
2 is almost in the same line but it applies to the  
3 Board.

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

17 The report of the members of the Board, who  
18 they are, their ZIP codes, their affiliation to the  
19 Board, Board meetings, what were some of the -- and  
20 they don't get into exactly what the  
21 recommendations were, but they want to know how

1 many recommendations have the Board made over the  
2 life of the Board, how many of those have been  
3 implemented, how much does it cost the Board to  
4 operate, those sort of things. So it's just a  
5 report every Advisory Board has to perform. It's a  
6 annual report. We have had no complaints or  
7 anything about our reports, so it's just an annual  
8 procedural thing, if you will.

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

13 MR. WATSON: That is also the case.

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

18 MR. WATSON: And that's another thing.  
19 Going down the report there are things in there  
20 about why is the Board in existence, their  
21 statutory agreement, is it a presidential Board or

1 a non presidential Board. Has it been suggested  
2 the Board be terminated. If it does and it has  
3 been, are there statutory provisions attached to  
4 that and what are those provisions. So it's just  
5 to make sure that the Board is operating as they  
6 should according to statute.

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

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

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

18 MR. WATSON: Anyone. These recommendations  
19 with regard to the report, any recommendations that  
20 the Board makes go to the Secretary and Congress.  
21 This particular report, though, is just for the

1 public to listen to what the Board does. Sort of  
2 an information piece for the public, if you will.

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

9 MR. WATSON: This report?

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

17 DR. SAUNDERS-WHITE: We send the report.  
18 Don develops the report, we sign it and it goes  
19 to -- our report to the Secretary's front office.  
20 The Secretary then compiles all papers, reports on  
21 all the activities for committees, and then

1 presents that to Congress. And then that's  
2 available obviously for public examination as well.

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

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

1 regarding the Board and things like that. Karen?

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

14 DR. BASKERVILLE: Thank you.

15 MR. WATSON: Anymore questions regarding  
16 that?

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

19 MR. WATSON: As you see from the table  
20 there, for this year we had about \$367 million for  
21 which Congress provided a subsidy of \$20 million

1 for us to make \$267 million in loans. At this  
2 point we've closed six private HBCUs and one public  
3 HBCU. The loan activity, as you see, progressed  
4 over time. Actually this week we are closing our  
5 last -- we're closing our public HBCU this week and  
6 that's the last loan for this fiscal year.

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

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

1 can improve how the program operates.

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

16           Those eight institutions represent two  
17 public HBCUs, six private HBCUs, with enrollments  
18 that range between 800 and 9,000 students. Their  
19 requests go from \$15 million to \$80 million and the  
20 total of all the institutions is about \$430 million  
21 for which they'll be requesting.

1           Everything that every institution is  
2 requesting in their application isn't always  
3 granted. We have to again look at the  
4 institution's ability to repay and make sure they  
5 have eligible projects, that the institution has  
6 the ability to repay the loan funds.

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

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

21           We can do a wellness center, but again if we

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

9 UNIDENTIFIED SPEAKER: Refinancing debt?

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

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

16 DR. BASKERVILLE: Recently we acquired a  
17 particular --

18 MR. WATSON: Right, that's an acceptable  
19 circumstance. A lot of people don't understand,  
20 but not just acquisition of land but also new  
21 construction, they both are acceptable

1 circumstances to the program statute. And if you  
2 want to acquire land or build something new, you  
3 have to sort of give some reasons as to why the  
4 renovation does not support.

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

15 DR. FRANCIS: Don, can you talk a little  
16 money? We've got 24, it looks like, which you've  
17 projected for 2013 and you've got 25 schools that  
18 have expressed an interest so we don't know exactly  
19 how many of that 25 will come to the table, but how  
20 do we look with respect to the appropriations we  
21 have? You estimate the total might be 430 million

1 and we've got 320 million available to us. It's  
2 quite possible that you could have a fallout and  
3 maybe spend all your money, but what's it look  
4 like? We got an increase last year, do we have  
5 something in the budget that will increase this  
6 year too?

7 MR. WATSON: That's not necessarily an  
8 increase in the budget. What you are looking at is  
9 320 is what's in the President's 2013 budget. That  
10 320 number is based on what we had projected in the  
11 President's budget, went forth. And again that 430  
12 number is based on what the school's allocation  
13 says. Schools often ask for tons of things, but  
14 not everything is an eligible project and not  
15 everything they are requesting -- for instance,  
16 they are asking for five academic buildings, new  
17 academic buildings and say one student housing  
18 building. Well, the student housing building is  
19 self-generating revenue, so we're thinking that  
20 housing can possibly help support some of the debt  
21 service.

1 DR. FRANCIS: But I guess the bottom line  
2 then, that 320 million that's in the President's  
3 budget would likely be able to handle with the  
4 experience of what we know how, you know, fallouts,  
5 what might be the request of the 25 institutions?

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

16 DR. FRANCIS: Done deals almost.

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

21 DR. FRANCIS: I guess what I take from that

1 is, that with the President's budget if it's  
2 approved, that 320 million is more than likely  
3 enough to handle what is currently being applied  
4 for or interested in.

5 MR. WATSON: Yes.

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

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

18 DR. LOSTON: For institutions that may be  
19 having accreditation problems, does that  
20 automatically move them off the list or I mean  
21 there should be a great question mark there.

1           MR. WATSON: It is, and we've had that  
2 happen. We've had schools who they applied to the  
3 program, these schools that have accreditation  
4 issues are not part of this eight. If a school has  
5 accreditation issues, they are not part of the  
6 eight, but that is something we look into.

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

16           DR. REAVES: The best students.

17           MR. WATSON: In the cafe, they're getting  
18 everything in the cafe. So sometimes when I'm with  
19 the bowtie on they stay away from me, but as you  
20 start asking them questions they open up a little  
21 bit. That's important to note because again you

1 want to see everything about the university, not  
2 just -- and I won't sit in your Board room, I want  
3 to take a walk around the campus. Dr. Loston can  
4 attest, I've been to both her campuses, walked  
5 every floor, every building, and that's the  
6 important part when we're closing the loan.  
7 Sometimes we're in communication with the school --  
8 and doing title and survey work something may go  
9 awry. And it's easier if you're on the campus, you  
10 know how the campus is laid out. You say okay,  
11 let's switch this building off of that building.  
12 It's gives us a better idea of how things are  
13 operating, how the campus flow is operating, things  
14 of that nature, so it's an important part to be on  
15 the ground. I think that's one of the great parts  
16 about having, you know, the DBA and the department  
17 going to these schools to see in our time there as  
18 much of the school as possible.

19 DR. FRANCIS: It's healthy for the  
20 institution, too. Now if you want to look like  
21 some of the students, I can recommend how you can

1 dress. You still look young enough.

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

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

19 MR. WATSON: And I'll tell schools that the  
20 Department of Education is very different. We have  
21 the same concern as other lenders about a school

1 being able to pay the debt, but our mission is  
2 twofold, make sure you are able to pay the debt.  
3 We have the same customer for both of us. I think  
4 that's important for students to understand as  
5 well. It's a partnership, but we want to make sure  
6 you are able to pay your debt service.

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

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

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

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

18 MR. WATSON: I just want to add a little bit  
19 about construction projects. We have ten active  
20 construction projects. We try to have two things  
21 happen when schools have new construction. One of

1 the things they try to have happen is that before  
2 the project starts and I'm on the ground and we're  
3 looking at -- talking with the president to  
4 students, we want to see where the project is going  
5 to go. But throughout that process what we do is  
6 call -- they have advance of sorts. Every time you  
7 get an invoice from your contractors, you will send  
8 them in to Designated Bond Authority, they'll  
9 review those. And when you get a certain  
10 percentage we will go out and look at the project  
11 to make sure the advances are going okay, that the  
12 project is on budget, on time, those sort of  
13 things. And sometimes we make it to the end where  
14 we come out and it's a completed project. We keep  
15 a little bit of money called retainage. We keep  
16 that money, make sure everybody stays on key. The  
17 contractors do everything that the school wanted  
18 them to, we have a completed project. The only way  
19 you can receive that retainage is once you get the  
20 occupant certificate/certification from the  
21 architect saying this building can be occupied.

1 DR. FRANCIS: You don't get a chance to look  
2 at change orders?

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

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

19 MR. WATSON: And that's one of the things,  
20 we visit the school at the beginning and at the  
21 end, but in between when we are meeting, it's no

1 longer with just the president and the CFO, and  
2 students aren't there unless they are invited by  
3 the administration, but we meet the contractors and  
4 architects as well because we want to make sure,  
5 again, they stay on budget.

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

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

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

19           DR. FRANCIS: Okay.

20           MR. WATSON: But the construction, we don't  
21 get into -- if you hire a construction person --

1 that construction person, because we can't actually  
2 offer -- we don't like to encourage anyone to use  
3 one contractor over another.

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

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

14 DR. HAYNES: Good morning.

15 MR. WATSON: In the fall the Cap Finance  
16 Program will work on, as I said, trying to improve  
17 the program a little bit. We're going to try to  
18 have a -- we generally have a planning session  
19 where we talk about how to improve communication  
20 strategies for potential borrowers. We're going to  
21 have an overall review of our loan documents to see

1 how we can better have those documents in a way  
2 where schools can -- we can have sort of a  
3 standardized document, if you will, but only  
4 certain things change unless there's a  
5 complicated -- and of course we want to make those  
6 changes.

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

21           What I realize is that everyone involved in

1 the transaction has something in the transcript.  
2 So we will also start to create a certification by  
3 the financial advisor. So the financial advisor  
4 will now have to start to add something to their  
5 transcript to say that this is the best advice they  
6 can provide their client and what kind of advice  
7 they can provide to their client. Lawyers sort of  
8 already have those sort of things in place.

9           Although I put something in play where if  
10 the cost of DBA counsel, the cost of the schools  
11 counsel or school finance advisor is above a  
12 certain percentage of what the DBA is and DBA Bond  
13 counsel charges, then I need to see documents of  
14 what actually happened. And I say that because  
15 again with those prices escalating like that, we  
16 try to keep the cost down and we can't do it always  
17 if somebody is charging a half million dollars for  
18 six weeks of work and you are reviewing the  
19 document and not really putting other things into  
20 it. So trying to control cost on all sides. Any  
21 questions?

1           DR. FRANCIS: That's really detailed. I  
2 make jokes all the time. Years ago there were  
3 those of us who had to deal with SBA. And the  
4 kinds of questions you had to answer for SBA, if  
5 you could answer them all, you didn't need to be  
6 there. It straightened itself out when we got some  
7 folks to complain about it. But the point is there  
8 is a need to make sure that one is paying the bill,  
9 that they are asking for services, but that they  
10 are still reasonable enough that you see the need  
11 for it, even what the circumstances surrounding  
12 them are.

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

19           But there was something I wanted to ask you,  
20 you're going to get to setting dates for future  
21 meeting, is that where you want to go now?

1 MR. WATSON: Yes.

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

10 MR. WATSON: January.

11 DR. FRANCIS: It was January and cold.  
12 That's right, January. And I don't know what part  
13 of that month it was -- the beginning or the end.

14 MR. WATSON: January 20th.

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

17 MR. WATSON: Right.

18 DR. FRANCIS: So you would do for us what  
19 you have done in the past, do a survey. If January  
20 is a good day, because again we like to work around  
21 your schedule in terms of what's going on and what

1 you can report to us or what we might be able to  
2 input. So is there any feeling of the Board as to  
3 what month is best. This seems to fall pretty  
4 good, if we can hook up to something else, but are  
5 there any other thoughts with that?

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

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

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

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

20 MS. BARTLEY: It's a tough call. We're  
21 under a CR that just passed, so we've got to always

1 take into account what's going on with the budget.  
2 And it just worked out well when we met in January  
3 before. The budget cycle was out of sync, so we  
4 were actually able to make proposals that week as  
5 things were unfolding. So nobody has a glass ball,  
6 we don't know.

7 MR. WATSON: Let me ask the Board this, with  
8 the current President's budget, I guess we can  
9 still make some suggestions, the Board can still  
10 make suggestions on, regardless of who is in there,  
11 you know, how that pans out, the President has a  
12 budget there already. I mean I guess if that's  
13 what the Board decided on, then the Board can  
14 continue with that. So maybe not the budget  
15 necessarily. And I guess from my standpoint, you  
16 know, if you want to send two reports of what this  
17 Board decided, I think we did that before, we sent  
18 two reports. So after this meeting, whatever  
19 recommendations come out of this meeting, we can  
20 send that report to the current Congress and the  
21 current Secretary and then we can send one again

1 after January. So I mean to me if we're going that  
2 route, our recommendations are recommendations no  
3 matter what occurs.

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

14 MR. WATSON: And the thing that's most  
15 important, you know, I'm always optimistic about  
16 Cap Finance, but if for some reason there is a  
17 change in the budget and either you, Lezli, Johnny  
18 Taylor, if you all actually see something, then you  
19 can let us know and then call a meeting based on  
20 that if something starts to change. To me again  
21 that's when the importance of the meeting comes

1 around. I think we were trying to plan the  
2 meetings around events that are already occurring.  
3 I know Dr. Francis also mentioned New Orleans. I  
4 was in new Orleans the last time and didn't have an  
5 overcoat.

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

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

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

16 DR. LOSTON: I like it too.

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

19 DR. HAYNES: I want to just insert this, we  
20 hope this doesn't happen, but they are discussing  
21 the sequestration event, and when the Congress

1 comes back that's high on the agenda. If it goes  
2 through, then all the investigation agencies will  
3 take a reduction in funds, including the Department  
4 of Ed which would impact all of our operations. We  
5 are under the CR now for six months which takes us  
6 into February, March, so we'll probably have to be  
7 guided by what takes place in November. I know  
8 they are having discussions now, the plans need to  
9 be put in place if it happens.

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

15 DR. BASKERVILLE: I appreciate your bringing  
16 up sequestration, Dr. Haynes, because under the  
17 next order of business, I think it would be really  
18 important for this body to go on record A, as  
19 opposing sequestration; and B, importantly, sending  
20 a recommendation to Congress that in the event that  
21 they do sequester, that they make it very clear

1 that the federal departments do not have to cut all  
2 accounts equally across the board to achieve the  
3 8.2 percent, but that within the department they  
4 are giving broad discretion and wide latitude as to  
5 which accounts to cut.

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

17           DR. FRANCIS: Yes.

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

1 language that they sent to the department.

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

6 DR. BASKERVILLE: They have another option.

7 DR. FRANCIS: I'm sorry.

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

14 DR. FRANCIS: I hope they didn't have to do  
15 it at all, but if it's mandated and they have to do  
16 it, then what you are saying is that our  
17 recommendation would be that the manner and form in  
18 which the sequestration takes place would be da,  
19 da, da. I wouldn't try to spell out all the  
20 things, but if you want to make the motion to the  
21 principle that you just said and maybe frame it for

1 us so that we could vote on it, I think that would  
2 be very appropriate. It's like anything else, for  
3 an agency that's doing good work, and Cap has done  
4 good work and has had the benefit of increases from  
5 the Administration and the Congress and the like,  
6 we would like to be protected from losing monies,  
7 getting cuts that would be helpful for the program  
8 itself.

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

17           So however you would like to frame it, how  
18 would you want to approach that, Don, because it's  
19 critical and it needs to be worded in a way that  
20 the Board -- it says it understands the nature of  
21 the Congressional mandates, but in so implementing

1 those mandates we would hope that -- now all  
2 agencies say please don't cut me, but if the agency  
3 doesn't say anything, I wouldn't mind cutting you  
4 because you didn't speak. But I think we should  
5 speak in some way. Yes, Edith.

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

15 DR. BASKERVILLE: I think that's excellent  
16 language from my colleague to put on the front that  
17 would then lead to a request that Congress make  
18 clear that while we oppose sequestration, in the  
19 event that it is required, we respectfully request  
20 that Congress make clear to the departments that  
21 while they have to attain the sequestration level

1 which would likely be 8.2, whatever it ultimately  
2 is, we need to make clear within departments they  
3 have wide discretion with regard to which accounts  
4 to cut and the amounts to achieve the sequestration  
5 level.

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

20 Are there any questions from the Board  
21 generally for those of us who have to go to the

1   trough so often?   You want to make that a motion?

2           DR. BASKERVILLE:   Yes.

3           DR. FRANCIS:   Get a second for that?

4           DR. REAVES:   Second.

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

8           (Members voted.)

9           DR. FRANCIS:   Opposed?   Motion's carried.

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

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

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

20           MR. WATSON:   Yes.

21           DR. FRANCIS:   Now we'll go to the Board

1 discussion and recommendation of the Secretary and  
2 the Congress. This is on page one, first page of  
3 the responses, right? Did you want to lead us  
4 through that?

5 MR. WATSON: Yes. During our January 20th  
6 meeting the Board made several recommendations.  
7 The first recommendation was eliminating the pooled  
8 escrow. During that meeting, the Board understood  
9 that the department had worked with our Office of  
10 Management and Budget and the budget office took  
11 the borrower option of schools to either stay  
12 within the current pooled escrow program or pay a  
13 premium for not being pooled with other borrowers.

14 The way that process would have worked is it  
15 would have been the language that was drafted, that  
16 showed that the current escrow program remain as it  
17 is, five percent of the borrowing amount, and then  
18 the other part would have been some portion of  
19 interest rate add-on, which had not yet been  
20 determined by OMB's department, but in order to get  
21 Pell Protection Act together, we had to put some

1 draft language in there and that language actually  
2 just allowed us that percentage of add-on. What  
3 that percentage add-on would have been, we do not  
4 know. The Board asked that this continue to be a  
5 recommendation for the department of Pell  
6 Protection. The elimination or changes of the  
7 escrow did not make it to the Pell Protection Act,  
8 but the Board asked the department to continue to  
9 view this as something that it will support and we  
10 will continue to look at it, revisit in 2013 in  
11 budget requests. But with sequestration, this sort  
12 of becomes -- again it's a cost factor and we are  
13 trying to make sure whatever we do stay cost  
14 neutral, otherwise it will start to eat into  
15 subsidies for making loans to institutions.

16 DR. FRANCIS: For someone to opt out of the  
17 escrow and this is what is going to be looked at,  
18 is this similar to the private sector where  
19 institutions, if they were in the private sector of  
20 bonds, you could buy insurance to cover yourself?  
21 Then I have a second question after that. Go

1 ahead.

2 MR. WATSON: Yeah, I look at it two ways.

3 One, you actually are buying insurance.

4 DR. FRANCIS: Right.

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

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

19 DR. FRANCIS: Right.

20 MR. WATSON: So can you look at it that way  
21 or you can say I'm getting free insurance and I'm

1 paying my reserve fee up front.

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

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

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

19           MR. FISHER: Yes.

20           MR. WATSON: State your name for the record,  
21 please.

1           MR. FISHER: Okay. Will Fisher with Brice  
2 Cap Financial Program. The bond insurance market  
3 certainly is not what we historically have known it  
4 to be. A lot of the players, Ambac, MBIA, FSA,  
5 they either no longer exist or they've  
6 consolidated.

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

20           DR. FRANCIS: And that's good because what  
21 I've been told, that it's very difficult to get

1 that bond insurance and there were very few people  
2 still in that business. And I'm sure that if there  
3 is a few people, then their rates are going be  
4 higher than this Cap Program.

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

17 Do we need a consensus vote on that, so to  
18 speak, that we would be reaffirming our original  
19 recommendations and encouraging the department to  
20 continue as they indicated, looking at our  
21 recommendation for the budget years 2013 and 2014?

1 That's the summary. Anybody want to make that one?  
2 Unless you had second thoughts about what we did  
3 earlier.

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

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

9 DR. LOSTON: Second.

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

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

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

17 (The members voted.)

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

21 DR. BASKERVILLE: I'm sorry.

1 DR. FRANCIS: Go ahead.

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

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

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

12 DR. FRANCIS: Okay.

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

15 DR. FRANCIS: Okay. Fine.

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

18 DR. BASKERVILLE: Yes, sir. And I will be  
19 happy to try to come up with the language. But the  
20 spirit is that with the reauthorization of Higher  
21 Education Act that will take place in the next

1 Congress, there is another opportunity that we want  
2 to work closer with the department, the advocacy  
3 groups and other friends of HBCUs and make this a  
4 priority in reauthorization.

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

11 DR. BASKERVILLE: Yes, sir.

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

15 MR. WATSON: Right. During the last meeting  
16 there were two items. One was lower interest rates  
17 for any institution engaged in construction or  
18 renovation on a college campus, to provide them  
19 with a lower interest rate during a draw period.  
20 The Board decided it's more important to have a one  
21 percent interest rate in schools that are engaged

1 in science, engineering, mathematic programs to  
2 support academic buildings.

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

9 We provided some estimates of the interest  
10 rates that were at one percent, how much subsidy  
11 would we need above what we are asking for today.  
12 Currently, I will tell you that the Cap Finance  
13 Board has asked for \$20 million in subsidies. So  
14 if interest rates were to be one percent over a 30  
15 year period of time, we would be asking for roughly  
16 \$146 million a year in addition to the \$20 million.

17 If it was at two percent cap, it would be at  
18 about \$146 million for a 15 year period of time.  
19 And I think with those high numbers at that level,  
20 we probably would look at maybe not offering those  
21 rates for the entire term, but maybe coming up with

1 something a little different. Instead of a 30 year  
2 or 15 year term, get a lower term and have some way  
3 in which the schools can then at that point decide  
4 if they want to go into the market or come back to  
5 Cap Finance for a more certain fixed rate.

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

9 MR. WATSON: Yes. If you look at  
10 \$146 million and you're only requesting \$20 million  
11 to make loans, then it's actually asking Congress  
12 for seven times what they are actually providing  
13 us.

14 MS. BARTLEY: I think we should continue to  
15 support this and maybe we might want to add  
16 language in our recommendation that this body sees  
17 this as a top priority and consistent with  
18 increased interest across the federal government to  
19 address national security issues and providing  
20 increased access to students to pursue careers in  
21 those high need areas, because STEM certainly falls

1 into that.

2 DR. FRANCIS: It does. I think in our  
3 original recommendation we realized that this was  
4 going to be a high priority for the country and the  
5 need for doing more, not less, increase. It is  
6 happening right now. It's amazing every time you  
7 pick up the report, people are catching on to the  
8 fact that in the global economic development  
9 organizations that lists countries which are doing  
10 more work in the STEM, the United States has fallen  
11 from one to 17 in the latest report. So our  
12 priority to get STEM moving will certainly be  
13 energized by allowing institutions to build under  
14 the Cap Program facilities that would work in the  
15 growth and STEM careers from young people.

16 Only 40 percent of all American youngsters  
17 in colleges are in the STEM fields, only 40  
18 percent. So on that report, that motion in terms  
19 of we are energizing our recommendation, we would  
20 add the fact that we feel that is extremely  
21 important to the national interest in careers for

1 young people in the STEM fields and it relates also  
2 to our position internationally to do so.

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

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

1 Conservative or Liberal, people understand global  
2 competitiveness, people understand national  
3 security.

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

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

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

20 (Discussion off the record.)

21 DR. BASKERVILLE: I'm certainly in line with

1 everything that's been said relative to the  
2 lowering of the interest rate, but I would be  
3 interested in, Director Watson, given that we've  
4 asked this and gotten a response or not, is there  
5 something more strategic you would have us say?  
6 You emphasized the seven percent or seven times the  
7 rate, what is your best assessment of the next  
8 approach or the next steps?

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

19 Maybe we should have more defined issues or  
20 maybe it's during the construction draw period,  
21 instead of the entire 30 year period. But again in

1 these budgetary times, Congress is looking to keep  
2 money close to the pocket rather than expending  
3 more money out. And again we'll be asking for a  
4 huger, a larger amount of money.

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

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

1 government will pay the difference between one  
2 percent and the federal financial bank rate.

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

16           The government has a grant program, I forget  
17 the name of the program, but there is a grant  
18 program for which teachers did not meet the  
19 criteria for being a teacher in a low income area,  
20 those grants actually turn into loans. So I mean  
21 we could have something very different. We need to

1 be a little more creative for how we are actually  
2 asking Congress for the money. It has to be some  
3 return on investment.

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

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

19           MR. WATSON: With Cap Finance?

20           DR. WILSON: Yeah, or elsewhere in the  
21 department?

1           MR. WATSON: You may know better than I do.  
2 But as far as a loan program, Cap Finance -- we  
3 don't tie -- we don't say okay, we want you to  
4 graduate 50 people in physics for a Cap Finance  
5 loan.

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

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

11          DR. WILSON: Other performance?

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

16          MR. WATSON: But it's not the program, it's  
17 the institution. Again, you will have some  
18 institutions who are actually paying the federal  
19 financial bank rate, you have some who are asking  
20 for something very specific. But I don't want to  
21 poll either of the two because you will penalize

1 one institution who said we never agreed to do  
2 this. We wanted to operate to build houses or  
3 whatever they wanted to build, and we don't want to  
4 be tied in by what the government says we want to  
5 meet these rates for.

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

1 from where we are today to where we want to be, but  
2 make some small progress in the interim.

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

8 DR. BASKERVILLE: To the national goals.

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

20 DR. BASKERVILLE: So can we agree in concept  
21 that what the Director is talking about is

1 construct some creative alternatives, then perhaps  
2 you can prepare for us some draft language to take  
3 a look at and, Chairman, if you would circulate it.

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

13 DR. BASKERVILLE: Every time.

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

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

19 DR. FRANCIS: Yes.

20 DR. WILSON: My sense about this is that it  
21 might not be well received in the HBC community.

1 That's any notion of tying strings, performance  
2 based strings to these kinds of outcomes, they'll  
3 say we're under-resourced enough, we got challenges  
4 enough, and to tie performance strings to it  
5 disadvantages --

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

8 DR. WILSON: No, I got that.

9 DR. BASKERVILLE: We're together.

10 DR. WILSON: So where do we go?

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

18 If you want to take the two percent, but  
19 that one percent, if I'm going to give you that one  
20 percent, I want you to do this with that one  
21 percent. If you say I don't want to do that, fine,

1 go pay the market rate. I mean, because right now  
2 you have nothing. If you want an academic  
3 building, you are going to pay that big rate. So  
4 what I'm saying now is that if you want to  
5 participate and help us to get to that level, I'm  
6 willing to take some of that costs of you getting  
7 this new building on campus. That's what I'm  
8 saying.

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

19           Just like with the pooled escrow, the school  
20 can either stay in the pool or pay a little extra  
21 to be out of the pool. It's just the opposite.

1 You can help reach some of these goals and get a  
2 lower rate. And again it doesn't have to be  
3 something hard for your program, it could be a  
4 pilot program.

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

14 So, for instance, if you were to say okay,  
15 I'm going to, as you put up this physics building,  
16 we'll finance as part of the money that you get,  
17 we'll underwrite two endowed chairs, but you got to  
18 have these academic outcomes to derive from this  
19 investment over the course of the loan. And if you  
20 don't, you're going to owe us back for those  
21 endowed chairs. If you do, you keep the endowed

1 chairs in perpetuity. That to me suggest that  
2 we've given a loan and we've invested in the  
3 physical infrastructure at the same time as the  
4 academic infrastructure. We've asked for academic  
5 outcomes from our investment in the academic  
6 infrastructure and, therefore, we strengthen that  
7 HBCU. We got to go to Congress for that, but it's  
8 worth it.

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

17 MR. WATSON: Right. When we are doing an  
18 agreement, we have to know what the project is;  
19 there's a project description. We just can't give  
20 you money and say go build this building. So we  
21 have to know that you're building an academic

1 building. And again if it's an academic building,  
2 we also not just want to know that you're going to  
3 build an academic building, we're going to make  
4 sure that you have a support for the academic  
5 building.

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

21           DR. FRANCIS: What I was trying to get to

1 though is the building, when you add, for an  
2 example, if you said added -- there are other  
3 programs that could support this, so I could see  
4 where Cap said we can't get into that, so you need  
5 to go somewhere else for it.

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

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

18 DR. WILSON: I got that, but I just want to  
19 say this. I think this is a good idea on the table  
20 and I think there might be some receptive ears on  
21 both sides of the aisle in Congress. And I think

1 this would be enormous value added for HBCUs and I  
2 think our Secretary would stand behind it, too.

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

7 DR. WILSON: How do you get value added?

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

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

14 DR. FRANCIS: On the rates.

15 DR. WILSON: Yeah, that there would be some  
16 accountability in terms of the outcomes for what  
17 happens in a building financed by Cap Fi, all  
18 right? And I'm with that, I think it makes sense.  
19 But if the accountability is in the academic realm,  
20 then we should at least consider the financing or  
21 funding in the academic realm to balance that.

1 Because to invest in the physical infrastructure  
2 and then make demands for outcomes and thresholds  
3 and benchmarks in the academic infrastructure, to  
4 me is crossing wires a little bit and I think there  
5 is a creative way to preserve that academic  
6 accountability in a way that would make lot of  
7 HBCUs happy.

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

20 DR. WILSON: I said endowment because I know  
21 that's the area of deficiency in HBCUs that keeps

1 us running in place a lot, so I'm partial to that.

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

4 DR. WILSON: Students, faculty.

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

9 DR. BASKERVILLE: I think, while I certainly  
10 embrace some of the thoughts, I think the  
11 fundamental issue is that this is an infrastructure  
12 program with the intent if Congress was not to  
13 regulate outcomes with it. It may be something  
14 that we would put on the table during  
15 reauthorization or something, if anybody wants to  
16 talk about that, but the part that I resonated with  
17 was you were talking about keeping the interest  
18 rate substantially lower during the period of  
19 construction, and that made sense because there  
20 will be no students in it and the campus can't make  
21 any money from it at all. So if you kept it lower

1 during that time period and then when students were  
2 in there brought it back to whatever was the market  
3 rate, that might make some sense. But I think that  
4 if we start to connecting it to student performance  
5 outcomes, that's a different shaped program which  
6 folks can talk about during the reauthorization.

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

15 We went through this earlier in the game,  
16 that Cap does not fund operational expenses and so  
17 forth, and we even recommended a grant as a  
18 separate part of that. Remember they blew that out  
19 of the water, they captured that, but it was the  
20 same based principle. But I remember the meeting  
21 we had in Atlanta. We had a delegation explain

1 that they couldn't make the measure under the  
2 Capitols, but they wanted money to operate the  
3 school and they got blown out the water.

4 DR. WILSON: But I think that's a little bit  
5 different. All I want to say is, as I started the  
6 idea for all the reasons we stated, right, global  
7 competitiveness, our priority on STEM, HBCUs as a  
8 legislative category rather than racial category,  
9 all the categories that we have in place, I saw  
10 your idea as complex and perhaps it might be  
11 received negatively by our HBCUs unless there is a  
12 way to get a win-win. That is to say, we will  
13 accept increased accountability, particularly in  
14 the academic realm if there is an investment in the  
15 academic infrastructure at the same time. I think  
16 some HBCU president will say hum, okay. And that  
17 is to say, that below market rate, that one or  
18 two percent would accrue to us, we could invest in  
19 any academic infrastructure, endow scholarships,  
20 however you want to use it, and then if we don't  
21 reach those academic outcomes over the course,

1 based on whatever schedule you want to set up, we  
2 don't have to do that here, then instead of those  
3 being -- it would revert somehow to the higher  
4 interest rate and then you'd owe back to this  
5 program what you could have had as an investment in  
6 your academic infrastructure.

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

16           MS. BARTLEY: I think if we go down this  
17 road it should be a pilot. We should go with  
18 caution and be specific on what areas that we want  
19 to do. Maybe cyber security and I think there  
20 needs to be some other cushion, because this famous  
21 body put forth a very good recommendation on a

1 grant proposal. And I think that we got a lot of  
2 resources around national security, and we can tie  
3 that to something that people want to build or  
4 enhance a structure on campus that's in these STEM  
5 areas, that we highlight some high need areas in a  
6 pilot and maybe throw in the idea that you get  
7 extra points if you can get a partner.

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

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

21 Accountability is a two-way street.

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

10 Now what you are saying is, though, if you  
11 gave them a choice as to whether you want to do  
12 this under this or this or that, you'll still get  
13 it under HBCU Cap and you would have to be very  
14 clear about what it was going to fund, that "it's  
15 not in the operational side of the university".  
16 But that was our first proposal. I forget what it  
17 was, about \$100,000, and we were requested to  
18 submit that to a Congressional delegation because  
19 they wanted to support that for the schools and  
20 their district. And it came back, no, Financial  
21 Cap can't do operational.

1           We all like the idea, but just let me say,  
2 what I worry about, I might as well say it here,  
3 I'll say it on the record, when people talk about  
4 retention rates and graduation rates, and until we  
5 get apples to apples and oranges to oranges, we are  
6 going to lose the battle of retention rates and  
7 graduation rates. There is no question in my mind.

8           I don't know about the other HBCUs, but when  
9 you count a graduation rate and let's say  
10 50 percent of the people who left you who were  
11 counted as a gig for making satisfactory progress,  
12 but they didn't have the money to go through that  
13 second year, third year, fourth year, I can't count  
14 them, the other school can't count them because  
15 they didn't start with them, you get this mismatch.  
16 And really the graduation rates are now more  
17 heavily weighted in terms of reality for the  
18 families on money rather than academic performance.

19           But the man in the street sees a lack of  
20 graduation as you're serving students who are not  
21 talented enough to graduate and you've got a poor

1 school. And yet you look at the fiscal. I'm going  
2 to make the recommendation whenever it comes up,  
3 I'm going to start reviewing the numbers now, how  
4 many students are dropping out of school who can't  
5 pay the bill but are making satisfactory progress?

6 DR. REAVES: Lots of them.

7 DR. FRANCIS: Exactly. But, Dr. Reaves,  
8 they count against our graduation rate big time.  
9 So when your graduation rate might be 75 percent,  
10 25 percent of them left because parents say you are  
11 doing very well, but I can't afford to keep you.  
12 And the graduation rates were really intended to  
13 say how well are you choosing students, how well  
14 are you serving them so that they would get that  
15 goal. But you got kids who are leaving private  
16 schools, going to schools that are less expensive.  
17 Now you can count them because you started them,  
18 but they are in no man's land, nobody can count  
19 them. So that graduation rate business is going to  
20 haunt us for years and it's starting to be embedded  
21 in a lot of decisions that are being made, I mean.

1 DR. LOSTON: I do like the idea of  
2 incentives in this whole program and in this whole  
3 process, so maybe if we can begin to think more  
4 broadly about other types of incentives. Say we  
5 were to finish the construction project, you talked  
6 about the change order element, guaranteed maximum  
7 price, or if we are finishing, something of that  
8 nature because I know we do that a lot where I am.  
9 And so if we can say that you are finishing a  
10 project that's estimated to take so many months,  
11 years, but if you can cut the time, eliminate the  
12 time or cut it in half, there is an incentive for  
13 that and we can redirect funds in another  
14 direction. Look at some other incentives around  
15 construction and the timelines.

16 MR. WATSON: What we're actually realizing  
17 is extending the construction draw period, not  
18 necessarily change orders, but a lot of time frames  
19 and stuff like that, but I will look at other  
20 options. I guess with this particular  
21 recommendation --

1 DR. LOSTON: I have to say this, and I  
2 didn't take it that you were saying this was  
3 emphatically what we were going to do, I took it as  
4 you speculating as looking at some incentives, so  
5 that's why I didn't get roweled up because I thought  
6 you were speculating possibilities and I  
7 understood.

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

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

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

20 DR. WILSON: You and everybody else, Doctor.

21 DR. FRANCIS: I think this is what the

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

8 (Discussion off the record.)

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

12 DR. FRANCIS: Yes.

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

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

20 MR. WATSON: Yes.

21 DR. FRANCIS: Lifted the cap.

1 MR. WATSON: Yes.

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

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

13 DR. FRANCIS: That's it.

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

1 allows us to go above the cap.

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

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

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

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

16 DR. FRANCIS: Yeah.

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

20 DR. FRANCIS: But that is your cap in the  
21 legislation.

1 MR. WATSON: Right, for 2012.

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

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

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

13 MR. WATSON: Yes, sir.

14 DR. FRANCIS: We want to thank the action of  
15 the Secretary for adding your assistance. Unless  
16 there is an objection to that, we will put it in  
17 the record as consensus from the Board. We are not  
18 going to add for one more until we see how the  
19 first round goes because if we need to, we may need  
20 go back to the trough. Let's talk about new market  
21 tax credits.

1           MR. WATSON: During the last Board meeting,  
2 the Board asked that I do more investigation about  
3 new market tax credits and utilizing those with the  
4 Cap Finance program. We actually met with staff,  
5 Department of Treasury, Community Development,  
6 Financial Institutional Fund. They actually are  
7 the people who are in charge of the tax credit and  
8 give people the ability to make tax credit.

9           DR. FRANCIS: And that's as Treasury.

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

20          DR. FRANCIS: So it would be a compliment --  
21 tax credits would be a compliment to the --

1 MR. WATSON: Cap Finance.

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

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

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

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

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

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

16 MR. WATSON: I think it's something that if  
17 you want to continue to address, I think we should.  
18 I think the Board should continue us on that route.  
19 There is a couple of pieces in there I think  
20 institutions should have probably more education  
21 on, the New Market Tax Credits. A lot of

1 institutions believe that if we have a new market  
2 tax credit period, that your loan obligation goes  
3 away, but it's a may and not a will. And so the  
4 investor can say I want this loan taken at the end,  
5 which means now you have to find someone to borrow  
6 from for that additional investment.

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

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

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

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

21 DR. FRANCIS: Do you want to go to Disaster

1 Relief?

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

8 In the Higher Education Opportunity Act of  
9 2008, Congress created this program which allows  
10 any institution in the country to borrow money if  
11 they were declared a natural disaster. However,  
12 Congress has not -- to fund this program. So what  
13 I actually did, I looked at that program, looked at  
14 what we did for Katrina schools, and I sort of  
15 created a program out of that with more details  
16 with regard to definitions, how the program would  
17 work, that you need to -- has to be declared a  
18 natural disaster by the President, you have to seek  
19 funds from FEMA, your insurance -- before you come  
20 to the program, you have to have evidence that you  
21 have done that, you have to have evidence that you

1 applied to SBA but not necessarily received funds  
2 from SBA.

3           The purpose of that is that we want you to  
4 take all other sources of income, all other sources  
5 of getting your campus back online before coming to  
6 the Cap Finance Program. Again, this would have to  
7 be something in addition to the \$20 million that we  
8 asked for subsidy and with the grant program, for  
9 every dollar we request is actually a dollar out  
10 there. So it's not like Cap Finance who gave us  
11 \$20 million, we can leverage that from anywhere  
12 from \$180 million to \$367 million.

13           We asked for a million dollars for this  
14 grant, Congress is going to have to appropriate a  
15 million dollars. We asked for \$100 million,  
16 Congress is going to have to appropriate \$100  
17 million. Congress has a loan program that has  
18 various provisions for our education and they have  
19 not funded them.

20           DR. REAVES: So I saw Shaw and St. Aug in  
21 there, both of which were hit by hurricanes, so

1 none of that is under disaster relief, that's just  
2 the straight loan program?

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

6 DR. REAVES: Okay.

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

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

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

21 They have insurance proceeds. Various

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

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

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

19           DR. REAVES: Thank you.

20           DR. FRANCIS: This sounds a whole lot like  
21 the Stafford Act.

1           MR. WATSON: I looked at the Stafford Act.  
2 A lot of the process and procedure have come  
3 through the Stafford Act and from that we are --  
4 and that's where the idea of this grant program  
5 come out. I thought it was attached to here, but  
6 it's not, but I'll have it sent out to you through  
7 an e-mail.

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

12           MR. WATSON: What I used was twofold. As I  
13 said before, the area has to be declared a national  
14 disaster by the President and a thunderstorm would  
15 not happen. A lot of institutions go through  
16 storms and things like that and you will have wind  
17 damage, but the area, not the institution, but the  
18 area has to be declared a national disaster, if you  
19 will. It would be very different from if you had a  
20 storm and your institution is affected, that area  
21 has to be affected as a whole. And the President

1 does not always provide -- during a storm every  
2 place that's hit by a storm is not declared a  
3 natural disaster.

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

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

20 Once you go to SBA -- because when a school  
21 is in a disaster, there's a lot of things that

1 happen. \$320 million -- if we have five schools in  
2 a disaster, \$320 million will not be able to  
3 support those five schools and the other schools  
4 that are looking for funding in the program, so we  
5 have to have some kinds of safeguards to do other  
6 things other than using Cap Financing.

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

16 But the other side of the Stafford Act needs  
17 to be changed. And the latest, Hurricane Isaac,  
18 which was a benefit to the parishes that got hit,  
19 was that FEMA now is making like insurance  
20 companies are supposed to make a certain amount of  
21 money, they make an assessment of what the damages

1 are and then let's say they're \$200,000, they gave  
2 you the \$100,000 up front and then you do all your  
3 accountability. But what happened at Katrina,  
4 where are you going to get the \$100,000 from?

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

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

19           All I'm saying is, you should look at this  
20 carefully and don't tie the FEMA to Stafford. But  
21 I've said this to everybody I know, I could tell

1 this to even the President of the country, that the  
2 FEMA Act had to be amended. They are not amended  
3 in Washington without coming down and talking to  
4 the people who went through this.

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

14 DR. FRANCIS: Economic impact.

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

21 The cost projection is still being studied.

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

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

18 DR. HAYNES: Mr. Chairman, I raised this  
19 issue last time, the economic impact study, and Don  
20 said we tried to identify within the department and  
21 also is there someone that can assist like the

1 National Center For Educational Statistics which  
2 did an economic impact study. So we had some  
3 conversation, but I just had a thought today, Lezli  
4 and Edith, maybe this can happen, the Department of  
5 Commerce might be persuaded to conduct an economic  
6 impact study of this program because of the impact  
7 it has on communities. They do have resources over  
8 there; that's one place. Another place is FDIC,  
9 Federal Deposit Insurance Corporation might also  
10 have an interest, FDIC and the Treasury Department.  
11 I don't think we should leave that off the table  
12 and maybe some agencies --

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

15 DR. HAYNES: Right, right.

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

17 (Discussion off the record.)

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

21 DR. FRANCIS: Small school with a big

1 impact.

2 DR. HOLLOWAY: Thank you.

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

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

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

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

18 DR. HAYNES: If we are going through the  
19 process, maybe something could be put into the  
20 legislation that would allow for an economic impact  
21 study to be conducted, and paid for by -- maybe the

1 DBA could join us. I'm trying to keep the DBA  
2 engaged.

3 MR. WATSON: Pooled escrows has a statutory  
4 designated -- Cap Financing in and of itself, if  
5 you want Cap Financing to fund things, not just the  
6 subsidy piece, but there is an administrative part.  
7 \$500,000 in 2006 to close to \$350 million this  
8 year. That administrative piece covers not just  
9 the Board, it covers travel, it covers all  
10 administrative aspects of this program so.

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

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

1 programs.

2           Also with technical assistance, what I'm  
3 realizing is that some schools may hire financial  
4 advisors and bond counsel, what we're actually  
5 seeing is that we have a lot of work on the back  
6 end to do because whether something was missed from  
7 their perspective, so we have a lot of work on the  
8 back end to sort of clean up or go through. We  
9 can't go those things during a negotiation process  
10 because we're the guarantor, our DBA is the lender  
11 so they can't come out and say hey, we need you to  
12 do this, this, this, that's why they have to have  
13 separate financial advisors and bond counsel.  
14 We're discovering that, so my idea is to actually  
15 have -- and we've talked about it, you heard me  
16 before about Bonds 101. I talked to the DBA, I  
17 talked with the counsel. We want to sort of get  
18 something together so we can start having a  
19 discussion about how bonds work. PMF is here as  
20 well, they have actually had something going on on  
21 Fridays, so I'm going to try to go down and see how

1 their Bond 101 works. But to get any of those  
2 things done, we will require more administrative  
3 money in the program.

4           The other piece that we are seeing, that  
5 sometimes it's a little scary to see that during  
6 title and survey work which probably one of the  
7 most -- which is the longest piece of us making a  
8 loan, is probably one of the most difficult pieces  
9 for schools, we come up with schools that have not  
10 had title and survey work done on their property  
11 since the early 1800's. I'm sorry, not early  
12 1800's, early 1900's. There is some of the same  
13 things in play. We had school once who was doing  
14 title and survey work, and they had to go and find  
15 the person who was there to witness, one person  
16 that died, they had to find a witness and the  
17 president, who was the president at the time of the  
18 transaction. Those things are not uncommon. Not  
19 to know the property that you have, is it really  
20 yours? Those are things that we are looking at  
21 trying to provide HBCU. And again technical

1 assistance, trying to make it for everyone, but  
2 schools need to understand these things are  
3 important not just for Cap Finance, but the  
4 administration of the program period.

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

1 need above the current \$354,000.

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

11 MR. WATSON: Yes, sir.

12 DR. FRANCIS: And do we have an estimate of  
13 what you think that might mean, \$50,000, 75,000,  
14 \$100,000?

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

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

19 MR. WATSON: Usually the way this worked,  
20 I'll ask you for more concrete things on how this  
21 will work, and I'll talk with Edith and Lezli and

1 Johnny Taylor as to what that amount would look  
2 like so I'll have some concrete figure. I just  
3 want to make sure the Board is supportive of this  
4 kind of action.

5 DR. FRANCIS: Well, let me get a motion from  
6 this Board that's indicating its approval or  
7 disapproval of the activity that is included under  
8 technical assistance; which embodies helping  
9 institutions and the HBCU community to get more  
10 knowledgeable about, and more available for advice  
11 on bond financing, and of course the loan  
12 responsibility; the knowledge of what they own or  
13 don't own and to do it now before they come to the  
14 bond agency, because you can't be funding money for  
15 things that we don't own. Maybe that's that  
16 incentive, if you fund the ones that you don't own  
17 and take that money and put it in operations, we  
18 all go to jail. We don't want to do that, so it's  
19 important for helping institutions do this. Let's  
20 get the advice and counsel of the Board. Any Board  
21 members like to react to the proposal?

1 DR. REAVES: It makes sense and so I move it  
2 as a motion.

3 DR. BASKERVILLE: Second.

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

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

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

17 (The members voted.)

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

21 MR. WATSON: I guess we move for the

1 comments.

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

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

13 (Discussion off the record.)

14 MS. HARRIS: My name is Andrea Harris. I'm  
15 with the North Carolina Institute of Minority  
16 Development. And I probably have made more  
17 comments than anybody else in 2007. For the  
18 record, nobody was making comments. And when I  
19 recognized that the only people attending the  
20 meetings other than the members of the Commission,  
21 were people who were trying to get business from

1 HBCU or do some business under this program, so  
2 there were no disinterested third parties in the  
3 room.

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

9 In North Carolina we have been around for  
10 about 25 years as some of you know, and we were a  
11 creature of the Department of Commerce, the HBCU  
12 community and the Legislative Black Caucus  
13 Foundation, so we feel a tie there. In 2000, North  
14 Carolina passed the largest higher education  
15 construction bond in the country, as you know, \$3  
16 billion. Our work there was to make sure on the  
17 front end, as they prepared and worked on that,  
18 that the public HBCU in the United States was going  
19 to get their fair share. And, secondly, that  
20 minority businesses would have an opportunity to do  
21 a significant part of that work.

1           So we've been through construction, the GNP,  
2 and I know about single prime, multi prime, our  
3 gross national product, construction management at  
4 risk, we own about four construction plan rooms,  
5 offices around the state of North Carolina, two of  
6 them are in partnership with HBCU.

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

10          DR. FRANCIS: My swan song.

11          MS. HARRIS: So I do hope that you continue  
12 to look at some other alternatives to that. I'm  
13 not opposed to -- not one that's opposed to escrow,  
14 I am opposed to pooled escrow. And I would like to  
15 recommend that the Advisory Board at some point  
16 have some conversation around how you, perhaps,  
17 institute some penalties to speed up actions where  
18 there may be a default so that there is not a  
19 decade or so of loss of revenue to those who are in  
20 the program, and there is no incentive right now to  
21 act. And that is not to say that I want to see the

1 demise of any institution, but I do think the  
2 people need to be responsible. And so I would  
3 encourage that we not allow students to lose their  
4 escrow over a period of a decade. That seems to be  
5 quite a bit of time.

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

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

21 (Discussion off the record.)

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

13 I would like to also encourage that you seek  
14 notes from partners that can help you in this  
15 effort of looking at economic impact of the program  
16 and of HBCU. And as you know, we took full  
17 advantage of the Institution of Educational  
18 Statistics, the individuals that they used in their  
19 study and that we're partnering with him now to do  
20 specific economic impact analysis for us for  
21 various HBCUs in North Carolina. We've probably

1 done about six of them so far. We did all of them  
2 collectively and then came back and we've done  
3 about six or seven of them thus far.

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

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

14           I would like to recommend that in line with  
15 the comment that John Wilson made, that we also  
16 take a look at expanding, you know, I would not  
17 want this committee or Advisory Board to be your  
18 own ceiling. But I would encourage you even in  
19 these tight economic times to still be bold and in  
20 line with what he was mentioning in terms of  
21 academic incentives.

1           Even though you have the HBCU Capital Loan  
2 Program, perhaps that program could be expanded and  
3 you could also initiate another component, which  
4 would be a PRI, a program related investment, that  
5 could be utilized as an academic incentive so that  
6 as people do whatever you see, you know, run their  
7 programs accordingly, it can be deemed a forgivable  
8 loan.

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

17           And in this period of transparency, I would  
18 hope that we continue to work to avoid any  
19 conflicts of interest. And I said that before and  
20 I will say that again, I think that financial  
21 advisors, the institutions should disclose that

1 they have no conflicts of interest. And I think  
2 the same thing when it comes to TA training and  
3 technical assistance.

4           Again just lastly, I would like to commend  
5 you for strong leadership, but I would still ask  
6 that sometimes we are our own ceiling. We've heard  
7 that before when we were trying, I think, back in  
8 2007, 2008 to change the level of incumbency that  
9 came with this program, so that all of the schools'  
10 assets were not incumbent, and trying to lift that  
11 feeling.

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

19           And as we've heard from some non-minorities,  
20 and the Congress, generally sometimes the challenge  
21 to HBCUs is that when people don't set a ceiling

1 for us, we set our own ceiling and we think we  
2 can't ask boldly, so I would encourage us to be  
3 bold.

4 MR. WATSON: Thank you, Ms. Harris.

5 MS. HARRIS: You're welcome.

6 DR. FRANCIS: Those comments are very  
7 helpful. I think what we heard earlier today about  
8 how much time Don has spent visiting schools is a,  
9 if not a direct, it's an indirect assistance to  
10 "mitigating any possible defaults," number one; and  
11 number two, to make sure that we are being fair to  
12 schools who are about to invest money and incumber  
13 the institution by knowing what it is they are  
14 getting to where sometimes you're on my optic view,  
15 what you want to do in the school does not resonate  
16 with what reality is, and he's been doing that.  
17 And partnering with others to the best that he can,  
18 and we talked about that with respect to the post  
19 economic study, the impact study because that's  
20 extremely important. And I guess the big one is  
21 how far we can go, and we've gone pretty far in

1 some of the recommendations we've made. Pool is  
2 one, interest rates is another, and the  
3 partnerships are also very helpful.

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

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

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

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

20 MS. HARRIS: There are different levels of  
21 opportunities. I'm going to ask Bridgette

1 Chisholm, one of our consultants, to come up and  
2 she will speak to that. I wanted to come back to  
3 say one other thing, one recommendation I do have.  
4 The Center for Responsible Lending, I think, can be  
5 an exceptional, no-cost partner, probably has more  
6 financial expertise and has been a real guide to  
7 both the U.S. Treasury, to their respective  
8 committees on the Hill, the leadership there, to  
9 the Consumer Financial Protection Group. I think  
10 if you were to call upon that leadership, that they  
11 could help you explore and look at, you know, at no  
12 cost to you, what are the other options of what  
13 could or could not work for private schools.

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

21           MS. CHISHOLM: Bridgette Chisholm, Building

1 Wealth in Communities, and we're financial  
2 advisors, a small boutique firm. We don't say that  
3 private schools can go through our state program  
4 like Winston-Salem State can, but our private  
5 schools and their taxes and bonds can participate  
6 in the New Market Tax Credits just outside of HBCU  
7 Capital Loan Program.

8           And I will say that the work that the  
9 program has done, has made other lenders much more  
10 competitive and willing to think out the box  
11 because, yes, if you compare rate to rate you can't  
12 beat the program. However, when you want to keep  
13 your relationship with that institution, you can be  
14 more creative and open up your vehicle and  
15 conservative posture of the lender, do some of  
16 these things that, by statute, we can't do, such as  
17 the New Market Tax Credits, and you have them now  
18 starting to be more in the game because they  
19 realize that institutions come through this program  
20 not because it's their only source of capital, it's  
21 just they look at it from a competitive point of

1 view. And if they want the relationship, they too  
2 have to be competitive. So I think the program has  
3 done a lot for those -- emboldening those schools  
4 and their negotiating position. And they may not  
5 come through the program, but they are getting  
6 comparable rates.

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

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

15 DR. HOLLOWAY: Hello, everyone, I'm Patricia  
16 Holloway, president of Wilberforce University.  
17 First of all, thank you for all your work. We are  
18 a beneficiary of the program. And there are just  
19 two points I'd like to make, if I may. First of  
20 all, as we're telling the story, I think if we spin  
21 the story or frame it in terms of this is an

1 investment in the future of this country, that the  
2 universities are strengthened and the students are  
3 benefitting, and then the country eventually  
4 benefits because we have contributed to the talent.

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

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

1 tarp money.

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

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

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

1 Cap Financing rate.

2 DR. HOLLOWAY: Okay.

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

16 DR. HOLLOWAY: Yes.

17 MR. WATSON: Because what I don't want to be  
18 faced with now that I have -- and I can't take a  
19 parity interest on that building -- but what I  
20 don't want to happen is that a university will  
21 actually go through this, you have to now find a

1 balloon payment, and you have to find a way to pay  
2 that if for some reason the lender says no.

3 DR. HOLLOWAY: Thank you.

4 MR. WATSON: Thank you.

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

8 MR. WATSON: Good afternoon.

9 MS. STONE: I missed part of the hearing  
10 today, but I have a question which is, in terms of  
11 some of the recommendations that have been made  
12 today, how will they be shared with the  
13 administration to ensure that the ones that are  
14 appropriate to be submitted in the President's  
15 budget submissions for 2013, considering that we  
16 may be working under a CR for a year, we don't know  
17 yet, but it would be important for the President to  
18 send some signal in his budget recommendations  
19 regarding some of these proposals, or we may not be  
20 able to get them included through other  
21 opportunities in a timely manner.

1           MR. WATSON: We have a couple things that's  
2 going to happen. One, the recommendations that are  
3 made today, they'll be forwarded to the Secretary  
4 and the Congress at the exact same time. Once that  
5 happens, not just through Cap Finance, but John  
6 Wilson will also forward through his Board as them  
7 supporting these recommendations. So they will  
8 generally support whatever we have to move that  
9 forward. So it's going several ways.

10           Then we also discussed early on, if the  
11 Administration changes in January, we will resubmit  
12 those recommendations. Our recommendations won't  
13 change, we'll resubmit those both to Congress and  
14 to the Secretary once again, so there will be some  
15 continuum of what this Board actually recommended  
16 to the Administration and to the Congress. And  
17 when we send these to the Congress, literally  
18 separate from what the Administration has, so  
19 Congress can go their own route, the Administration  
20 will go their route. But if we send it to both and  
21 that's legislatively the responsibility of the

1 Board not to just the Administration, but to the  
2 Congress as well.

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

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

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

13 MS. STONE: And to clarify, Mr. Chair and  
14 Mr. Watson, I would just say that it would be  
15 important, I think, from my perspective as a  
16 professional on the outside as an advocate, they  
17 have those recommendations submitted to the  
18 Administration well before November or definitely  
19 before December as O&B prepares to lie down its  
20 budget. As you know, many of the submissions have  
21 gone forward and they'll be putting that budget to

1 print, so if there's any way they could be  
2 communicated with the Secretary and the White House  
3 prior to the conclusion of the O&B deliberations,  
4 that would be good. Because once the horse is out  
5 the gate, as you know, it's very hard to get it  
6 back in. And what we've learned from Capitol Hill  
7 is that if certain things are not in the  
8 President's budget, should he be the president next  
9 year, the Hill isn't necessarily receptive.

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

14 MS. STONE: Thank you.

15 DR. FRANCIS: Well, we want to thank  
16 everybody. I was thinking about when we said about  
17 telling our own story, I'm getting old so I'm not  
18 going to be able to get this correct, but the old  
19 African proverb is that until the lions tell their  
20 own story on hunting, the tale of the hunt will  
21 always glorify the hunter. And so we can't wait

1 for anybody to tell our story, but we got to tell  
2 it ourselves. Because otherwise we will continue  
3 to be the invisible man, so we got a great story to  
4 tell. All right. Well, I want to thank everybody  
5 for being here. We are a little earlier.

6 MR. WATSON: The meeting is adjourned at  
7 1:14 p.m.

8

9

10

11

12

13

14

15

16

17

18

19

20

21

1 UNITED STATES OF AMERICA )

2 DISTRICT OF COLUMBIA )

3

4 I, DONNA M. HALL, the reporter before  
5 whom the foregoing conference was taken, do hereby  
6 certify that this is a true and accurate record of  
7 the foregoing proceedings.

8

9

10

11

12

13

14

-----

15

Donna M. Hall

16

17

18

19

20

21 My Commission expires February 14, 2014