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IN RE: *
*
HBCU Capital Financing *
Advisory Board Meeting *
*

DATE : July 11, 2008
TIME: : 9:00 A.M.
OFFICE : Atkinson-Baker
Corporate Office
500 N. Brand Boulevard
Third Floor
Glendale, CA 91203
(800) 288-3376
HELD AT : The Pelican Room at Wyndham Grand Resort
6000 Rio Mar Boulevard
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MEMBERS PRESENT:

Dr. Thelma Thompson
Mr. Don Watson
Dr. Norman Francis
Dr. Leonard Haynes
Dr. Haywood Strickland
Dr. Lezli Baskerville
Mr. Samuel Bacote

PRESENT VIA TELEPHONE:

Mr. Derek Hansel
Ms. Andrea Harris
Ms. Sally Wanner
Ms. Bridget Chisolm

OFFICIAL REPORTER:

Raymond Joseph Portell

U.S. Department of Education
Office of Postsecondary Education
1990 K Street, N.W.
Room 6130
Washington D.C., 20006

PROCEEDINGS

(9:00 A.M.)

DR. FRANCIS:

Let the record reflect that the board has passed, by unanimous motion, the minutes of our meetings that was held in Atlanta on July the...

DR. STRICKLAND:

No, November.

DR. FRANCIS:

--7th?

DR. STRICKLAND:

November.

DR. FRANCIS:

November 30th--

DR. HAYNES:

Two thousand seven.

DR. FRANCIS:

--and that the minutes were approved, the ethics update for Dr. Thelma Thomas...

DR. HAYNES:

Thompson.

DR. FRANCIS:

...Thompson was given by Don Watson, and that the follow-through of the panel later on, so that she will have a clear picture and information on her ethics

1 responsibilities--

2 DR. HAYNES:

3 And she is representing the public institutions.

4 DR. FRANCIS:

5 ...and she is representing the public institutions on
6 this body.

7 DR. HAYNES:

8 Right.

9 DR. FRANCIS:

10 In addition, Don Watson, our director has, is in the
11 mode of making his presentation. He has already presented
12 the issue of Barber Scotia, which we will submit for the
13 record his comments that are a part of his report, and he
14 has those in writing, and the minutes will reflect that.

15 And the question has been raised by Dr. Baskerville,
16 and you have the floor.

17 DR. BASKERVILLE:

18 Thank you very much, Mr. Chairman.

19 My question was whether or not it would be
20 appropriate for this body, in our advisory capacity to the
21 secretary, to make a recommendation relative to Barber
22 Scotia.

23 MR. WATSON:

24 Part of the charter, part of this board's charter is
25 to make recommendations on operation of the program, and

1 I think that probably be in the purview of this body to
2 make a recommendation to the secretary.

3 DR. FRANCIS:

4 Any of you would like to make a... Lezli?

5 (No audible response.)

6 DR. FRANCIS:

7 Okay, I'll let you finish.

8 But my thought was the same thing. I asked the
9 question because I wanted to make sure that as a body in
10 assisting the secretary were there any things that we
11 could think of that would assist the institution and/or
12 help the secretary in making as judicious a decision as
13 possible.

14 In terms of the track that it's on now for the last,
15 what, three years, I gather, give or take, you've made the
16 visits, you've talked with the institution, you've got the
17 reports. Say, several things have not happened, and the
18 step in the process is that a broker has been asked to, of
19 an appraisal that's been made of the property. And then
20 the broker has been engaged, at this point, or will be
21 engaged--

22 MR. WATSON:

23 Right. The broker will be engaged.

24 DR. FRANCIS:

25 --will be engaged, and that's a step that would

1 determine whether or not there are any buyers, and so
2 forth.

3 But I also thought I heard, for the record, that
4 Barber Scotia has until the sale is consummated--

5 DR. HAYNES:

6 Right.

7 DR. FRANCIS:

8 --an opportunity to get back in the business of, the
9 responsibilities, under the bond as well as the
10 institution.

11 MR. WATSON:

12 Yes, that is correct.

13 DR. FRANCIS:

14 Okay.

15 DR. HAYNES:

16 I have one question, Don. Since the inception of the
17 HBCU Capital Finance Program, is this the first time that
18 a situation like Barber Scotia has emerged?

19 MR. WATSON:

20 Yes, sir, this is the first and the only default in
21 the program. That's the short answer of it, yes.

22 DR. HAYNES:

23 Okay, I just wanted to make sure.

24 DR. FRANCIS:

25 So that...Okay, go ahead.

1 DR. STRICKLAND:

2 Well, my question centers around the other borrower,
3 to have money in escrow. If we wait until all the money
4 has been depleted -- Thelma, what's the time frame for
5 that? How long would it be based on the payments now,
6 before those funds are depleted? That's number one.

7 And, number two is, do we have a responsibility to
8 try to save, to protect those institutions from further
9 liability if we... Because the extension seems to give,
10 you know, draws it out, and more money is being expended.

11 And so the more -- what's the time frame before it's
12 gone. But, number two, don't we have a responsibility to
13 make a recommendation that we showed in this process.

14 Nobody wants to see Barber Scotia sold, but the
15 responsibility to the others--

16 DR. FRANCIS:

17 Right, right.

18 DR. STRICKLAND:

19 --it's just as great to the others as it is to that
20 one.

21 MR. WATSON:

22 Barber Scotia's -- and I'm just -- I don't have any
23 of those numbers in front of me, but Barber Scotia's
24 similar -- or Barber Scotia's bond payments are around
25 \$250,000--

1 DR. THOMPSON:

2 A year?

3 MR. WATSON:

4 No, every six months.

5 DR. STRICKLAND:

6 Every six months.

7 MR. WATSON:

8 So it's half a million dollars a year. And I would
9 say... Maybe in the next three or four years--

10 MR. FRANCIS:

11 That the pool will be depleted?

12 MR. WATSON:

13 --the pool will be depleted, because as you make
14 those payments, that becomes part of Barber Scotia's
15 overall debt. And then the secretary would have to pick
16 up on the bond payments after that point.

17 DR. STRICKLAND:

18 So at the present time, based on three to four years,
19 you're saying we have \$1.5 to \$2 million still available?

20 MR. WATSON:

21 Uh...

22 DR. STRICKLAND:

23 If you're paying half a million a year, three years
24 is one point five.

25

1 MR. HANSEL:

2 (Begins to interrupt.)

3 MR. WATSON:

4 No, no, no, no -- what, what I'm looking at is -- one
5 second, Derek--

6 DR. FRANCIS:

7 Hold on Derek. Go ahead.

8 MR. WATSON:

9 --It's not -- I wasn't doing it, I wasn't doing it by
10 saying the, uh... I'm also looking at the value of the
11 property, and as it goes forward.

12 DR. STRICKLAND:

13 Yes, yes.

14 MR. WATSON:

15 And I just wasn't looking at the bond payments from
16 that standpoint.

17 DR. STRICKLAND:

18 Okay.

19 MR. WATSON:

20 Derek, Derek, you want to say something?

21 MR. HANSEL:

22 Yeah, I understand now. Yeah, actually--

23 DR. FRANCIS:

24 For the record--

25

1 MR. HANSEL:

2 --I think, I think the current balance in the escrow
3 account is probably in the neighborhood of -- but I'd have
4 to take a look -- but it's, I think it's in excess of \$5
5 million. So I think we've got frankly quite a few more
6 years than three or four before there is a depletion of
7 the escrow.

8 MR. WATSON:

9 Okay.

10 MR. HANSEL:

11 But I think, again, the long answer is we really
12 don't want to get to that point. I mean, that's, that's
13 -- it's kind of -- the worst possible scenario is that we
14 fully deplete the escrow and still have the exact same
15 problem with Barber Scotia, you know, seven, eight, ten
16 years from now that we have today. You know, and then you
17 have nothing that you can recover again. You don't have
18 any ability to reimburse them, the institutions for what
19 they've been drawn upon.

20 To this date, you know, they've already been drawn
21 down, you know, over, over a million and a half dollars.
22 So, we still got many years that we theoretically could
23 run, as have been said that it won't be exhausted in the
24 next two or three. But, you know, it would be several
25 years out.

1 DR. FRANCIS:

2 Well, Derek, I think the sense of the motion -- not
3 the motion; I'm sorry -- his comment was what
4 responsibility do we have -- or, more particularly -- the
5 secretary has to do, to as judicious a manner as possible
6 to make a decision that protects both Barber Scotia and
7 the people whose monies are being depleted as time goes.

8 I mean, that's a major responsibility.

9 MR. WATSON:

10 Right.

11 MR. HANSEL:

12 Absolutely, and I--

13 MR. WATSON:

14 That's the secretary's -- the body can make a
15 recommendation to the secretary, but, again, it's -- that
16 wouldn't be Commerce's responsibility. Again, this body
17 can make a recommendation to the secretary, but you also
18 have to realize it is a loan program, and it's Barber
19 Scotia -- and, although Barber Scotia is the only default
20 in the program, there are many more borrowers in the
21 program.

22 We also get reports now that we hadn't received in
23 the past, and there are borrowers who are delinquent,
24 whether in default or not, is another issue, but you also
25 want to think about those issues in the past. I don't

1 think we want to look at this just solely as a Barber
2 Scotia, but we have to look at the program from a
3 strategic standpoint.

4 When the program doesn't make loans, the program does
5 not put more money into the program. And so -- and we'll
6 talk about that later in the report, but that's things I
7 think we should consider as well when we're making
8 recommendations and things of that nature.

9 MR. HANSEL:

10 Absolutely.

11 MR. WATSON:

12 Okay. Sam, did you want to say something?

13 MR. BACOTE:

14 (Off mic) I'm just saying (unintelligible), you've
15 got other schools that need to rely on their escrows.

16 DR. THOMPSON:

17 That's right.

18 MR. WATSON:

19 Mmhm.

20 MR. BACOTE:

21 (Off mic, unintelligible.)

22 MR. WATSON:

23 That's a good analysis, that's a good analysis.

24 Yeah, race to the bottom, yeah.

25

1 MR. BACOTE:

2 Race to the bottom.

3 DR. FRANCIS:

4 What I would suggest as chair that I think this body
5 could indeed say to the secretary that this is a matter of
6 grave concern--

7 MR. WATSON:

8 Right.

9 DR. FRANCIS:

10 --to both the institution Barber Scotia as well as
11 other members in the pool, and that we would urge the
12 secretary to use as much discretion as possible and to
13 make a judicious decision so that all parties would feel
14 that they have been appropriately and satisfactorily...

15 DR. HAYNES:

16 That's good.

17 DR. FRANCIS:

18 Yes?

19 DR. THOMPSON:

20 So moved.

21 MR. WATSON:

22 Seconded, seconded.

23 DR. FRANCIS:

24 Okay. And if there are any other comments to be
25 entertained, but I think that could close out this

1 because--

2 MR. WATSON:

3 Right, right.

4 DR. FRANCIS:

5 --just as a matter of record, you've been at this a
6 while--

7 MR. WATSON:

8 Right, right.

9 DR. FRANCIS:

10 --and I think we don't want to get...

11 MR. WATSON:

12 Yeah.

13 DR. FRANCIS:

14 All those in favor of that, please signify by saying
15 "aye."

16 (Chorus of "ayes.")

17 DR. FRANCIS:

18 Alright, the motion is carried.

19 Okay, that's Barber Scotia.

20 Mr. Director, if you would give us a report on your
21 visits, and assessment rating?

22 MR. WATSON:

23 The GAO -- as you're all aware, last November the
24 program closed out the GAO audit, that looked at the
25 management of the program.

1 About a month ago or so, GAO came back and asked for
2 us to give an update on one of the recommendations that
3 the department decided not to go with. And that
4 recommendation stemmed around allowing borrowers to make
5 monthly payments rather than -- sorry -- the department
6 requires that borrowers make monthly payments on their
7 bond service rather than semi-annual payments.

8 The GAO recommended that the department allow those
9 institutions to make those payments on their bonds twice
10 a year, when the bond payments are due. The department
11 responded by saying that we don't think it's a good idea
12 to allow borrowers to make payments semi-annually, and
13 that those borrowers should make payments monthly based
14 on, at this time, the latest requests that we received
15 indicate that if borrowers were allowed more time to pay,
16 delinquencies could arise. You have some borrowers who
17 pay habitually late, but, again, with one default in the
18 program in the escrow, depending on that bond, depending
19 on that program to make payments. We didn't want to see
20 several other borrowers also default or become delinquent.

21 And, as Sam pointed out, these borrowers use their
22 own escrows to pay their delinquent bond payments, which,
23 in some cases we have a couple of borrowers who actually
24 used their own escrow today to pay their delinquent loan
25 balances, on a monthly basis. And that was--

1 DR. FRANCIS:

2 And that means, in effect, that once -- well, they
3 have to keep that escrow account in their own personal
4 quote corporate name, at a 5 percent of the total of that
5 loan.

6 MR. WATSON:

7 Of the outstanding balance.

8 DR. FRANCIS:

9 And if they don't, at some point then the pool starts
10 to pay it, I gather. Is that right?

11 MR. WATSON:

12 Yes.

13 DR. FRANCIS:

14 If they deplete their own, now you go to the pool.

15 MR. WATSON:

16 Mmhm.

17 DR. FRANCIS:

18 So, again, it's a question of partners understanding
19 that it's their respective responsibility. So if in fact
20 the best way to keep that in check, I gather, what we're
21 saying is you should do it monthly rather than semi-
22 annually.

23 MR. WATSON:

24 Yes.

25

1 DR. FRANCIS:

2 Because the risks are high, not just for the
3 borrower, but for the pool members as well.

4 I guess one can argue many ways, and unless we have
5 a better way to suggest, I suspect it will continue to be
6 monthly.

7 MR. WATSON:

8 The department responded by saying we will continue
9 to require monthly payments rather than semi-annual
10 payments, and for the reasons that I previously indicated.

11 DR. FRANCIS:

12 Okay. Is there any -- I mean, it's certainly open to
13 me is there any in authority here recommending of any
14 other ways we'd want to recommend to the department? The
15 GOA has recommended, and I don't think we've heard
16 anything contrary. Meaning by that as with education.

17 So unless we have something else to say, I
18 personally, as the chair, realize how important it is to
19 make sure you make your payments. And sometimes it's
20 better to be told next month you're behind, rather than
21 six months later.

22 So, we will accept the fact that there are no other
23 recommendations at this point are being offered to the
24 secretary on this issue.

25

1 MR. WATSON:

2 Alright.

3 The next point of issue I would like to talk about is
4 the legislative changes.

5 As you're aware, earlier this year, late December, we
6 had a discussion about legislative changes.

7 The program statutory lines actually allows us to
8 have an outstanding balance of \$375 million. We've
9 exceeded that amount greatly. We're carrying an
10 outstanding balance that's close to \$650 million. We have
11 reached the statutory cap, so the program has not made any
12 loans since June 13th of last year.

13 Unless there is some action taken by the Congress, or
14 some other body, the program will not be able to be making
15 any new loans.

16 Last November there was a House bill that allowed
17 that, the House passed that increased the cap to \$1.1
18 billion, which would've essentially provided about \$400
19 million in new money.

20 Now there's another piece that's, in management
21 amendment there was another piece that added more
22 substantial changes to the program.

23 To date we have not had any move on the legislation
24 that would allow the program to make any new loans. And,
25 again, it's been more than a year. The program has been

1 in a stagnant state, other than doing programmatic things.

2 Yes, Dr. Haynes...?

3 DR. HAYNES:

4 Yeah, I just wanted to point out that the secretary,
5 of course, supports the increase to the \$1.1 billion. She
6 went on record to that effect.

7 MR. WATSON:

8 Yes--

9 DR. HAYNES:

10 At our encouragement.

11 MR. WATSON:

12 Yes, that was the, that is the department's official
13 point of view that the department is only supporting an
14 increase in the statutory cap. Any other provisions, the
15 department is not supporting any other provisions.

16 The secretary did make that announcement at HBCU last
17 September, 2007, and that was essentially the November
18 legislation that the House had passed, and there was no
19 move on that legislation in the Senate.

20 I think that's--

21 DR. FRANCIS:

22 So at the current state, the \$1.1 billion is awaiting
23 a conference committee's hearing as to whether or not it
24 will -- the Senate will accede to the \$1.1 and report it
25 out, you think? Is that the next step...

1 MR. WATSON:

2 The \$1.1 billion is actually now included into a much
3 bigger piece of legislation that have more substantial
4 changes to the program, which include a 1 percent interest
5 rate, a 1 percent reserve fund fee, and the deferment or
6 forbearance requirements which those deferment or
7 forbearance requirements as stated in the current
8 proposal, legislative proposal, will require this board to
9 actively participate and recommend on granting those
10 deferments or forbearances.

11 Currently that's not part of the charter for this
12 body, and so if we were, if those statutory changes are
13 made, then we would have to change our charter to include
14 to have more of an operational role in approving
15 deferments or forbearances for borrowers in the program.

16 DR. FRANCIS:

17 Any questions on this issue? Dr. Thompson...?

18 DR. THOMPSON:

19 From reading the minutes, you have some institutions
20 which are in waiting.

21 MR. WATSON:

22 Yes.

23 DR. THOMPSON:

24 That type of client and probably have been approved.
25 What's the plan to handle those? Are we waiting then on

1 the final approval of the \$1.2 billion? Or would they be
2 first come, first served? In other words, how do we go
3 about this?

4 MR. WATSON:

5 The program now clearly operates in a first come,
6 first served basis. And there are programs, or what we
7 call a pipeline list. We do have programs that are
8 waiting--

9 DR. THOMPSON:

10 Yes.

11 MR. WATSON:

12 --to borrow through the program, however, without
13 legislative authority to increase the cap, the program
14 cannot make any loans to any institution, whether they
15 submit a pre-application or not.

16 DR. STRICKLAND:

17 But right now, the application that you have exceeds
18 \$1 billion already.

19 DR. THOMPSON:

20 Yes.

21 MR. WATSON:

22 Well, part of the process is, I think, institutions
23 start with many applications, because they think that the
24 legislation is gonna pass. If the legislation is passed,
25 they want to be, because of a first come, first served

1 basis, they want to make sure they're part of the first
2 part of the queue.

3 DR. HAYNES:

4 Yeah, right.

5 MR. WATSON:

6 Later in the report, I'll give an estimate about what
7 the total amount is, and what those borrowers are, how
8 many borrowers are in the queue. There's about twelve
9 borrowers in the queue at this point, four public
10 institutions, four public institutions, eight private
11 institutions, and there's a total of about maybe \$250
12 million that they will borrow over the next -- and I'm
13 being very aggressive, but -- I would say over the next
14 year, next year to 24 months.

15 But again, those institutions cannot borrow unless we
16 get an increase in the statutory cap.

17 DR. HAYNES:

18 Alright.

19 DR. THOMPSON:

20 Another new question.

21 MR. WATSON:

22 Yes, ma'am...?"

23 DR. THOMPSON:

24 You exceeded the cap almost by 100 percent in the
25 past. Are there any new controls being put in, or any

1 provision made that this doesn't happen, because I imagine
2 the liabilities increase as the total sum increases.

3 MR. WATSON:

4 Well, what happened, the program is actually, I would
5 say about 17 years old. Last year we made a record seven
6 loans; three loans to non-Katrina-affected schools, and
7 four loans to Katrina-affected schools.

8 The GAO report that I previously talked about also
9 has some criticism about the program, only allowing
10 borrowers to, putting caps on the amount of money
11 borrowers, institutions are able to borrow. Not taking
12 into consideration that maybe some of the credit criteria
13 of the institution, their ability to repay certain amounts
14 of loans.

15 In today's environment, and I've received a
16 recommendation from the designated bond authority, I'd
17 like to look at the institution's ability to repay the
18 loan, not necessarily the amount to dictate to an
19 institution you should borrow \$5 million, \$10 million.

20 That -- the amount of money that you are able to
21 borrow depends on the amount of money you're able to
22 repay. But also I think it's important for individuals to
23 note that the three loans that we made last year, if
24 Katrina never had occurred, they would be coming back
25 anyway to ask for more money.

1 And I think that's the part that most people fail to
2 overlook.

3 We did exceed about almost 400 percent because of the
4 Katrina-related loans. That was almost \$400 million.

5 But, again, I think, too, it's the responsibility --
6 we need to be a little more proactive in saying that --
7 and I've said this often times -- if legislation was
8 approved last November, we would've been coming back
9 anyway, preparing next year to say, okay, Congress, we
10 asked for additional \$400 million in new money. It's much
11 bigger than that. Maybe we need to ask for more.

12 So, the borrowing has changed. The manner and
13 practices has changed at the department as the GAO
14 required it, had asked the department to do.

15 And so we're a little more proactive, a little more
16 abreast. We do a lot of marketing. We haven't been
17 marketing as much as we would like, only because if
18 there's no money, there's no need to market. The schools
19 don't have the ability to borrow.

20 But we do still, we talk to institutions, that's why
21 we have pipeline. I can imagine if we marketed a little
22 heavier, and we had funding, our pipeline would be greater
23 than the twelve institutions we have.

24 DR. HAYNES:

25 Oh, yes.

1 DR. FRANCIS:

2 The bottom line of this story is that the secretary
3 has made the recommendations at one point that there are
4 schools out there that need the money, and it's now in the
5 hands of the Congress to hopefully in conference agree to
6 the \$1.1 billion.

7 The concerns -- and this is not necessarily a
8 recommendation of the Congress, as much as trying to
9 understand the process -- that \$1.1 billion would
10 certainly help us with people who are in the queue.

11 DR HAYNES:

12 Right.

13 DR. FRANCIS:

14 That's maybe two fifty. And the question gets to be,
15 how is this linked to other aspects of our HBCU Capital
16 Program, I'd hate to have us be wiped out completely. And
17 this may be a question that should be asked later on in
18 another conference from people who are in the Congress who
19 might be able to explain this to us.

20 I think there will be people coming to talk about
21 Congressional actions with respect with HBCU's. This
22 might be an appropriate question, it's a process question.

23 We've got schools in line waiting. And there'll be
24 others. And it's a \$1.1 billion, it's our only chance to
25 make these loans if that \$1.1 billion at this time gets

1 passed.

2 DR. HAYNES:

3 Right.

4 DR. FRANCIS:

5 I think part of it is that, because the program has
6 been around for such a long time, and for 17 years to get
7 rid of \$375 million, it could be looked at as, you know,
8 \$400 million will last you another 17 years, not realizing
9 that--

10 DR. HAYNES:

11 The environment has changed.

12 DR. FRANCIS:

13 --the environment had changed dramatically.

14 DR. HAYNES:

15 Right.

16 DR. FRANCIS:

17 But, again, the department's official view is that we
18 are only requesting \$1.1 billion, to increase the cap of
19 the programs.

20 I would think it would be appropriate for us, as a
21 committee, to ask, to suggest to the secretary, that she
22 reaffirm the department's strong recommendation that the
23 Congress would cede to the needs of the constituent
24 members of higher education who are seeking the access
25 that the HBC account would program, and ask that this be

1 approved as recommended by her.

2 It's a matter of reaffirming--

3 DR. HAYNES:

4 Reaffirming, yes, reaffirming.

5 DR. FRANCIS:

6 --so that it doesn't get lost.

7 DR. THOMPSON:

8 Yes.

9 DR. HAYNES:

10 Right, right, right.

11 DR. FRANCIS:

12 And to do that as a priority.

13 DR. HAYNES:

14 Yes.

15 DR. FRANCIS:

16 Because if you go through the whole maze of this, the
17 only opportunity we have for helping these schools is now.
18 The secretary has signed off, we've recommended, the
19 secretary has done it, and it's now in the hands of the
20 Congress. And the Senate did not pass on this at all.
21 It's the House that did it.

22 So it's in a conference now with the manager having
23 to carry the load. And any support that needs to be
24 gotten hopefully will be made available to pass that.

25 And I think that the secretary reaffirming that would

1 be helpful, very helpful.

2 DR. BASKERVILLE:

3 So moved.

4 DR. THOMPSON:

5 Seconded.

6 DR. FRANCIS:

7 Okay, with that motion on the floor, and it's a
8 matter of asking the secretary--

9 DR. HAYNES:

10 To reaffirm.

11 DR. FRANCIS:

12 --to reaffirm something that she has committed to do,
13 which is exceedingly essential for our program and for our
14 institutions.

15 So all in favor, please signify by say "aye."

16 (A chorus of "ayes")

17 DR. FRANCIS:

18 None opposed. The motion is carried. And we will
19 all hope for the best.

20 Alright.

21 Director, you're doing alright.

22 (Laughter.)

23 MR. WATSON:

24 Thank you. The next thing I want to update you on
25 are our performance rating, program assessment rating to

1 which the Office of Management & Budget requires the
2 program to sort of monitor itself and to see how essential
3 the program is in development.

4 We actually have several performance measures here.

5 The performance measures, as I indicated, and I just
6 want to keep you updated on what those performance
7 measures are, and where we are in moving towards those, we
8 are actually collecting data at this point to actually
9 start reporting things to OMB.

10 We look at -- and all these changes aren't to the
11 HBCU community as a whole, it only looks at borrowers
12 within the program itself.

13 We will look at changes in revenue and investment
14 return, and see how borrowers from the program have
15 improved their investment and revenues since they've come
16 to the program.

17 We want to estimate the subsidy costs, and how the
18 subsidy costs change over the life of the loan for the
19 program. So as you come to the program, does the
20 borrower, have the subsidy costs increased because, let's
21 say, of default, or things of that nature.

22 We also look at delinquency. I'm gonna see, look at
23 borrowers' ability to repay their loans on time, and so
24 now are required a links report. I want to see how that
25 looks to other institutions, if HBCU is paying other

1 debts, and things very similar to that.

2 We also have a... who looks at the system, and that's
3 how many institution borrowers come to the program, since
4 it started the first year and returned the following year.

5 A lot of the work we do is based on dormitory work
6 and things that are related around student life, and so
7 how does coming into the program improve their student
8 life and that sort of thing.

9 And, as I said, we're collecting data on these now,
10 and I guess about in another, around December or so we
11 should have a complete year data on which we can start to
12 see how we're performing.

13 Right now I'm just looking at a very high-level look
14 at this, we're actually out-performing our matrix, so we
15 are doing pretty good as far as OMB, insofar as getting
16 money and making recommendations. And it looks like the
17 program is meeting, we are performing.

18 DR. STRICKLAND:

19 You know, on that, on that -- on a forum for
20 assistance--

21 MR. WATSON:

22 Yes, sir--

23 DR. STRICKLAND:

24 --as you said, since so many of them are dormitory-
25 related, I would think that the measure would be how many

1 of filling those dormitories would, you know, render
2 assistance. I don't care whether someone stays three
3 years or two years, the question is--

4 DR. HAYNES:

5 There's a dorm-full.

6 DR. STRICKLAND:

7 Are we saying that?. There's a dorm-full.

8 DR. HAYNES:

9 Right.

10 DR. STRICKLAND:

11 You know, is enrollment increasing or stable?

12 MR. WATSON:

13 Right, right.

14 DR. STRICKLAND:

15 Rather than, well, let's just state , it's whether or
16 not all three--

17 MR. WATSON:

18 Yeah.

19 DR. STRICKLAND:

20 Suppose you have three people in that dorm--

21 MR. WATSON:

22 That's correct.

23 DR. STRICKLAND:

24 --packed in that dorm.

25

1 MR. WATSON:

2 That's correct. Well, generally we look at our
3 student housing revenue as a whole, and it depends on how
4 the bonds are created. If you look at revenues, student
5 housing revenue as a whole, not just the ones that we
6 build, but all those revenues, because sometimes it's the
7 general obligation of the university.

8 But, again, in creating these matrix, I've been in a
9 few meetings where institutions -- and I guess I've been
10 sort of trying to keep everybody happy, so to speak, and
11 in doing so, most of this data, either to deviate or
12 collect from the department, can get some things that the
13 universities already are supplied.

14 So to sort of get anything new will create, sort of
15 get some push-back from the universities.

16 DR. HAYNES:

17 Let me say this: This part exercise, of course, that
18 OMB conducts, does cause a lot of various programs in the
19 federal government, and I think it's important for the
20 HBCU community to be aware that this exercise is underway
21 with respect to this particular program, and if we've not
22 communicated to them, that this is ongoing, because it's
23 important, because a lot of our schools are aware of the
24 fact that Title III is going to go through a part
25 exercise, that the trio is going through a part exercise.

1 MR. BACOTE:

2 As people finish theirs.

3 DR. HAYNES:

4 But I don't think it hurts us to get the word out
5 that this is ongoing for this particular program as well.

6 MR. WATSON:

7 Yes, in fact, actually these measures -- one thing
8 I've done, all these institutions that are brought through
9 the program, all these institutions that are brought
10 through the program has actually, I've requested that it
11 actually give us input on what those measures should be.

12 I've also sent them letters to let them know what
13 these are, because, in the past, I've seen there's been
14 push-back about the part. I think it's important to get
15 a buy-in, and also think if you don't receive that buy-in,
16 then as a federal agency, we have to move forward.

17 And sending out -- every borrower in the program
18 receives a letter from me about the part, what we're
19 looking for for the part, what these other problems are
20 gonna be, and how we're gonna measure that.

21 I sent those letters out, and I didn't get anything
22 -- only borrowers in the program received those letters.

23 The borrowers received those letters, and I got, I
24 received two back, and only one institution actually
25 suggested a part rating, a particular part measure.

1 So, again, having the opportunity to give input, to
2 give new input to a federal agency, we must move forward,
3 and that's what I'm doing. But they are aware of what
4 these part measures are.

5 DR. FRANCIS:

6 Yeah. Let me come back to Dr. Strickland's question,
7 because -- I think you may have answered it -- but it is,
8 it could be a concern, let me put it this way. You've
9 borrowed money for a dormitory, on the basis of costs,
10 that you have a need for. And things do change--

11 MR. WATSON:

12 Right.

13 DR. FRANCIS:

14 --when you make your matrixes, or that matrix forms
15 say that part of what we call "auxiliary empathizers," a
16 dormitory, that dormitory certainly has a quote -- all of
17 you join in, I mean you -- but the general obligation to
18 the university will come to the rescue if that dormitory
19 say gets down to only 25 percent.

20 However, that seems to me -- and I think maybe I'm
21 picking up on what you're saying -- when you do your
22 assessment, you assess what has to deal with that
23 dormitory, because it starts to impact the ability of that
24 institution. If it's going to start rescuing this, it may
25 not be taking care of that.

1 So the question of overall its fiscal ability is in
2 question.

3 MR. WATSON:

4 Right.

5 DR. FRANCIS:

6 That's essentially--

7 MR. WATSON:

8 That's why we look at the--

9 DR. FRANCIS:

10 Okay.

11 MR. WATSON:

12 Most of our institutions are tuition-driven, and
13 being tuition-driven, students play an important role in
14 that. And that's why we have this measure again, this
15 particular persistent measure actually -- is Dr. McNealy
16 on the phone?--

17 DR. FRANCIS:

18 No.

19 MR. WATSON:

20 --he actually, and I asked was he on the phone
21 because he actually worked with us to come up with this
22 particular measure. He thought it was -- and, again, in
23 creating these measures, we didn't want to pull, as to
24 have a newer requirement from the federal government on
25 institutions, so I was looking for information that we

1 already have, that we have already put together, without
2 having additional requirements on our bonds.

3 DR. STRICKLAND:

4 But--

5 MR. WATSON:

6 Go ahead, sir.

7 DR. STRICKLAND:

8 OMB has made percentage one of its mantras.

9 MR. WATSON:

10 Mhm.

11 DR. STRICKLAND:

12 I don't care what the program is--

13 MR. WATSON:

14 That's right.

15 DR. STRICKLAND:

16 --OMB automatically says full persistence.

17 MR. WATSON:

18 Right, right.

19 DR. STRICKLAND:

20 I don't know yet that persistence is the appropriate
21 assessment for this one.

22 MR. WATSON:

23 Yeah.

24 DR. STRICKLAND:

25 Percentage may be enrollment. I mean, if my

1 enrollment is 3,000, and I'm trying to go to 4,000, the
2 residence sense allows me to go to 4,000--

3 MR. WATSON:

4 Right.

5 DR. STRICKLAND:

6 --you may have 4,000 students whether it's 20 percent
7 or 30 percent or 40 percent of retention. You see, there s
8 a difference.

9 DR. THOMPSON:

10 Yes.

11 DR. STRICKLAND:

12 Now, in the other side of that, for other purposes,
13 persistence is important.

14 MR. WATSON:

15 Right, exactly.

16 DR. STRICKLAND:

17 But for this particular program, I think it's to
18 build an enrollment--

19 MR. WATSON:

20 Right.

21 DR. STRICKLAND:

22 --is the key.

23 DR. HAYNES:

24 That's the key.

25

1 DR STRICKLAND:

2 And that's why percentage, you know, as a term,
3 requires, I think, definitional standards, if you will.

4 MR. WATSON:

5 Okay.

6 DR. HAYNES:

7 That vary from program to program. And OMB should be
8 -- we should point that out to them. I think that's
9 important.

10 MR. WATSON:

11 Yeah, yeah, and for the...

12 DR. HAYNES:

13 It goes even further if you are, if you're an
14 institution that has a large population of people who are
15 local--

16 MR. WATSON:

17 Yes, mmhm.

18 DR. FRANCIS:

19 --and you hence stop trying to get people from
20 outside of your area, and are not successful--

21 MR. HAYNES:

22 Right.

23 DR. FRANCIS:

24 --and then you have anticipated by your governor.

25 You are, you are putting yourself at some risk--

1 MR. WATSON:

2 Yes.

3 DR. FRANCIS:

4 --that ought to be put into that matrix. That's what
5 I think that you're--

6 MR. WATSON:

7 Let me see if I -- let me just clarify the percentage
8 a little bit.

9 We define percentage as having, since the first time,
10 for times seeking undergraduate students who are enrolled
11 in the first year of an institution, and who are still
12 there the next year.

13 So if you do that, it's sort of, your enrollment
14 stays stable.

15 Now whether it grows or not--

16 DR. THOMPSON:

17 No, you're confusing percentage with raw numbers.

18 MR. HAYNES:

19 Okay.

20 DR. THOMPSON:

21 It is possible to have a growth in your overall
22 enrollment, but a decline, as long as you have the
23 percentage in there.

24 MR. HAYNES:

25 Yes.

1 DR. THOMPSON:

2 So that you could have a decline in percentage, but
3 have far many more students at your school. And we can
4 talk about this later.

5 DR. HAYNES:

6 Yeah, the population could just--

7 DR. THOMPSON:

8 Exactly. Precisely.

9 DR. HAYNES:

10 --overnight.

11 DR. FRANCIS:

12 He's talking about retention--

13 DR. THOMPSON:

14 Yes.

15 DR. FRANCIS:

16 --in a total sense.

17 DR. THOMPSON:

18 Precisely.

19 DR. FRANCIS:

20 But yours is a retention between the first and the
21 second year.

22 DR. THOMPSON:

23 Yes.

24 DR. FRANCIS:

25 But then you also have losses from the second to the

1 third.

2 MR. WATSON:

3 That's correct. And third to the fourth, right.

4 DR. THOMPSON:

5 But if your base enrollment has grown phenomenally,
6 then the percentage is almost irrelevant, because your
7 percentage could have dropped while your numbers--

8 DR. HAYNES:

9 Actually went up.

10 DR. THOMPSON:

11 --has increased.

12 DR. FRANCIS:

13 That's what he's saying.

14 DR. THOMPSON:

15 Yes.

16 MR. WATSON:

17 Okay, just so now -- just so I can clarify, because
18 I want to take this back so you can re-evaluate this
19 particular measure--

20 DR. THOMPSON:

21 Uh-huh.

22 MR. WATSON:

23 --so we should look at overall enrollment rather than
24 any particular year.

25

1 DR. THOMPSON:

2 Yes. Yes. I can give you a physical example to
3 bring this out.

4 Ten years ago I know a school of mine that had 2,000
5 students enrolled, and had a retention rate of, say -- I
6 don't have my numbers, but let me use examples -- of 49
7 percent. Okay? I grow enrollment. I now have 4100
8 students, but my enrollment, my percentage has slipped so
9 that I'm down to, say, 45 percent.

10 But if you look at the number of bodies that I must
11 service, I have almost twice as many students on that
12 campus. Yet the enrollment percentage--

13 MR. HAYNES:

14 Is down.

15 DR. THOMPSON:

16 --the retention percentage is slightly less, but I
17 have an incoming class of 1200, as opposed to 500 ten
18 years ago. And so my budget has not increased, my faculty
19 has not increased, but my numbers have grown that much.

20 But if you look at percentages alone, I'm going
21 downhill.

22 MR. WATSON:

23 Right, okay.

24 DR. THOMPSON:

25 Okay?

1 MR. WATSON:

2 Right.

3 DR. FRANCIS:

4 And you're talking about percentages overall.

5 DR. THOMPSON:

6 Yes.

7 DR. FRANCIS:

8 Not just first and second year.

9 DR. THOMPSON:

10 Exactly. And if you break it down, it will look
11 negative, but if you look at raw numbers, then the school
12 is exploding.

13 MR. WATSON:

14 Mhm.

15 DR. FRANCIS:

16 And I don't think you have to change, as you said,
17 what you are trying to do, I think is a matter of
18 clarifying--

19 MR. WATSON:

20 Just the governmental standards.

21 DR. FRANCIS:

22 And you could call any one of us.

23 DR. THOMPSON:

24 Yeah, raw numbers.

25

1 MS. HARRIS:

2 Mr. Chairman, this is Andrea Harris on the phone.

3 Could you ask that someone--

4 DR. FRANCIS:

5 Would you say -- again, I need to get your name.

6 We've got a reporter, so we want to make sure we get the
7 name.

8 MS. HARRIS:

9 My name is Andrea Harris. And I was asking whoever
10 has their music on -- and it's wonderful jazz -- but it's
11 not--

12 MR. STRICKLAND:

13 That's the Muzak for the hotel.

14 MS. HARRIS:

15 Okay.

16 DR. FRANCIS:

17 We can't -- I can't hear it.

18 DR. STRICKLAND:

19 I'm hearing it.

20 MR. WATSON:

21 It's in the background, but it's the hotel--

22 DR. STRICKLAND:

23 It's the hotel Muzak system.

24 MR. WATSON:

25 Yeah.

1 DR. FRANCIS:

2 You hear it now?

3 DR. STRICKLAND:

4 Yeah, I can hear it now.

5 DR. FRANCIS:

6 We're gonna see if we can have that adjusted. Thank
7 you.

8 Are you picking it up in your--

9 MS. HARRIS:

10 Yes, we are.

11 DR. FRANCIS:

12 Yeah, yeah, I'm gonna call it "picking it up"--

13 (Laughter.)

14 DR. FRANCIS:

15 Okay. It hadn't disturbed us yet because it's sort
16 of mute in a way, but you're picking it up--

17 DR. STRICKLAND:

18 You're picking it up.

19 DR. FRANCIS:

20 --because you're quiet on that side.

21 DR. THOMPSON:

22 I'd like to make a motion, Mr. Chairman.

23 DR. FRANCIS:

24 Yes, yes.

25

1 DR. THOMPSON:

2 That in looking at retention, we introduce the
3 concept of real enrollment figures as opposed to an
4 indicator that relates only to percentages.

5 DR. FRANCIS:

6 Okay. Can we get a second?

7 (No audible response.)

8 DR. FRANCIS:

9 Second? And as we take the sense of that motion,
10 that we be more than happy to work with our program and
11 our executive Mr. Watson, to make sure it's clarified when
12 we plan, or inform our constituent schools.

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

15 (Chorus of "ayes.")

16 DR. FRANCIS:

17 No one opposed. Motion is carried.

18 DR. STRICKLAND:

19 And we know... I may not accept that.

20 DR. FRANCIS:

21 Yeah, it's a ticklish thing. You gotta make sure
22 that you get to the core of whether an institution is able
23 to sustain its fiscal responsibilities, in looking at the
24 total picture, not just one aspect.

25

1 MR. WATSON:

2 Right.

3 DR. FRANCIS:

4 That's what I keep telling my folks. You know, I
5 want to know... Don't be adding restricted and
6 unrestricted together, to give me answers. I want two
7 separate ones. I want the one that's operational, because
8 it's like a floor manager, you know. I might like I got
9 a whole lot of--

10 DR. HAYNES:

11 Your inventory, your inventory.

12 DR. FRANCIS:

13 I said that one day in a board meeting, I said I want
14 y'all to keep two sets of books.

15 (Laughter.)

16 DR. FRANCIS:

17 And one of my board members said, whoa! Why is that?

18 And I said, well, because corporate people don't
19 understand fund management, and restricted and
20 unrestricted. And I have to watch them both. And the
21 ones I keep my eyes on is that unrestricted.

22 MR. WATSON:

23 That's where you have your freedom, you have your
24 freedom there.

25

1 DR. FRANCIS:

2 Exactly. So I said it to say, we just have to make
3 sure we distinguish for our brother and sister presidents
4 in our reports.

5 Okay. That's it, we can move on now.

6 MR. WATSON:

7 I just wanted to give you a brief update on Commerce.
8 The last time we met I informed you that Commerce's
9 capital access program which falls under Commerce Bank,
10 was being acquired by TD Bank, so it has occurred.

11 DR. HAYNES:

12 It's a Canadian bank.

13 MR. WATSON:

14 It's a Canadian bank, and that has occurred. We have
15 not seen any adverse effects to the program as a result of
16 the merger. In fact, we've seen some improved, call it
17 reporting. The development of our newsletter has
18 improved, as well as some other programmatic things that
19 we've, as far as implementing, which I'll talk about in
20 our next, when we talk about program activities a little
21 bit.

22 DR. HAYNES:

23 Don, so there are no problems with a foreign banking
24 institution acquiring Commerce Bank, any negative
25 implications for the operation of the program.

1 MR. WATSON:

2 Right. Commerce Bank actually operates some federal
3 programs today in the student loan program, where they
4 were -- when it came out, it wasn't as a result from them
5 being part of TD, it was a result of some other things
6 that -- But Commerce actually does participate in federal
7 programs, and you have some foreign institutions that also
8 participate in delivering Title IV aid, which is federal
9 money as well.

10 DR. FRANCIS:

11 The issue was raised, I think, because some wondered
12 whether or not there would be prohibitions with respect to
13 a foreign country bonding an institution that was
14 measurably involved in a federal program. And the answer
15 to that is no.

16 MR. WATSON:

17 No, right.

18 DR. HAYNES:

19 That's...

20 DR. FRANCIS:

21 Okay, alright. Program initiative, I think, is that
22 where we were going?

23 MR. WATSON:

24 Yes, the program activities.

25 And this is just to update on what we've been doing,

1 in light of not being able to loan, we do do other things.
2 We do work for our university. We help them relocate our
3 historic buildings, so they can start construction of two
4 new residence halls.

5 In the fall we'll be making a presentation to our
6 university board on the program of what happens after you
7 get a loan from the program, which is something new we'll
8 start doing as well.

9 I believe a lot of schools already have come through
10 the program, and their bond council thinks are pertinent,
11 the board understands, and the president also understands,
12 what happens after you get a loan through this program.

13 We've worked with the programs developed, and
14 proceeds to address and review the loan collateralization.
15 As you all may be aware, the GAO report hinted that the
16 program over-collateralizes

17 We've been working to look at that. In fact, we're
18 working with Bennett College today to look at their
19 collateralization situation. And, as I've said many
20 times, if we're not prohibited by the statute, we'll do
21 what we can to aid institutions and helping them get what
22 they need to grow.

23 Also an issue that came up was the cost of issuance,
24 and whether the DBA could do anything with cost of
25 issuance. The DBA actually looked at the cost of

1 issuance, as well as the administrative fees, and has come
2 up with a process to start to decrease cost of issuance
3 and administrative fees, based on the amount of a loan,
4 and as well for the administrative fee, the base loan
5 amount of outstanding balance, of the institution's loans
6 outstanding balance, those numbers will start to decrease
7 as far as the administrative fees.

8 Cost of issuance, all the statute allows is up to 2
9 percent. They're looking at actually doing what, having
10 a fee schedule.

11 So, for example, if someone borrows between \$5 and
12 \$10 million, it's at one level. If you borrow \$40
13 million, you're at another level.

14 So the cost of issuance is starting to decline as you
15 borrow more. And historically, and I think a lot of
16 people don't realize it, historically the program, if you
17 get a \$10 million loan, it's not enough to pay borrowing
18 counsel, FA, and to continue some other things that needs
19 to go on with the program.

20 And so we had to come up with a structure where, if
21 you're only making a loan for \$5 or \$10 million in a year,
22 then what does it look like. And if you make a loan for
23 \$150 million a year, or you make loans worth \$150 million,
24 what does that look like.

25 And so we had to come up with a varied schedule like

1 that, and I think that will be very helpful, and
2 institutions would embrace that.

3 DR. FRANCIS:

4 Let me ask a question, Don.

5 Prior to looking at this new calculus in activating
6 that issuance, was it a, was it a, was it a...flat -- when
7 we were working on another program, the question of
8 issuance came up. Was it a 2 percent?

9 MR. WATSON:

10 It's up to 2 percent.

11 DR. FRANCIS:

12 Yeah, we are allowed up to 2, is that it?

13 MR. WATSON:

14 Yes.

15 DR. FRANCIS:

16 But, was it a flat 2 percent, and now you're going
17 for a scale of issuance?

18 MR. WATSON:

19 It was basically a flat 2 percent, but, and now we're
20 looking at actually scaling it--

21 DR. FRANCIS:

22 Uh-huh. But it can never go above 2 percent--

23 MR. WATSON:

24 It can never go above 2 percent--

25 DR. FRANCIS:

1 --in the scale.

2 MR. WATSON:

3 Well, actually, actually, it can go above 2 percent,
4 but the institution would have to, would have to sort of
5 -- well, it's gone above 2 percent in the past.

6 DR. FRANCIS:

7 Okay.

8 MR. WATSON:

9 But the institution actually took out a smaller loan
10 to pay that additional cost of issuance fees.

11 DR. FRANCIS:

12 Okay. Like a second mortgage.

13 (Laughter.)

14 MR. BACOTE:

15 (Off mic.) And the 2 percent of the total cost of
16 issuance. We're talking about DBA--

17 MR. WATSON:

18 Yes.

19 MR. BACOTE:

20 (Off mic.) But that's just a part of that total
21 cost.

22 DR. FRANCIS:

23 Okay, yes.

24 MR. WATSON:

25 That's the DBA's portion.

1 MR. BACOTE:

2 (Off mic, unintelligible.)

3 DR. FRANCIS:

4 Okay.

5 MR. BACOTE:

6 (Off mic.) But we're just addressing one part of the
7 cost of issuance. Not adjusting counsel fees or--

8 DR. FRANCIS:

9 No, no, I understand, it's on a schedule.

10 MR. WATSON:

11 Right, it's on a schedule.

12 DR. FRANCIS:

13 Okay.

14 THE DEPONENT:

15 We have a schedule now and--

16 DR. FRANCIS:

17 Okay, okay. I thought that was one of the issues
18 that came up about cost of issuance in another--

19 THE DEPONENT:

20 It did. And I think that's something that wasn't
21 realized, that cost of issuance is actually broken out in
22 two portions. There's a DBA portion, and there's another
23 portion which you have to pay counsel, real estate
24 assessors--

25

1 DR. FRANCIS:

2 Yes.

3 MR. WATSON:

4 --and other individuals.

5 DR. FRANCIS:

6 Okay.

7 THE DEPONENT:

8 And the DBA was willing to cut out on their piece.

9 DR. FRANCIS:

10 Okay.

11 MR. WATSON:

12 The other costs--

13 DR. FRANCIS:

14 Okay, that's fixed.

15 MR. BACOTE:

16 (Off mic.) The DBA fee was fixed.

17 DR. FRANCIS:

18 Okay.

19 MR. BACOTE:

20 (Off mic.) It was not based on the loan.

21 DR. FRANCIS:

22 The loan. Okay.

23 MR. BACOTE:

24 (Off mic.) And now we go into a schedule based on
25 (unintelligible) up to a certain amount.

1 DR. FRANCIS:

2 That's good to know, because it was discussed at
3 length when we made our recommendations, you know, about
4 what happens with issuance. So now it's being looked in
5 DBA doing on schedule. Okay. Alright?

6 Do we want to talk about collateralization now? Are
7 you at that point?

8 MR. WATSON:

9 I can go into a little more detail--

10 DR. FRANCIS:

11 No, go on the way you've scheduled it.

12 MR. WATSON:

13 Okay. The -- we're also working with SUNO to get its
14 first student housing project off the ground. The entire
15 campus now has what they call a lakeside and a parkside
16 campus. The parkside was affected by Hurricane Katrina,
17 and now they're scheduled to have the entire campus, the
18 lakeside and the parkside campus, back fully online in
19 2009. And I think that's a long fight, but I think
20 they're progressing--

21 DR. HAYNES:

22 That s projected.

23 MR. WATSON:

24 That's projected.

25

1 DR. FRANCIS:

2 That's projected.

3 DR. HAYNES:

4 That's projected, because that could slip. Well,
5 yeah, that's why I said they were scheduled to be back on
6 line before 2009.

7 DR. FRANCIS:

8 And that would -- when would the dormitories be
9 expected? Is that a projection?

10 MR. WATSON:

11 I would say before 2009, maybe spring of 010. I'm
12 sorry, spring of 2010.

13 DR. FRANCIS:

14 Okay. Because I know what Victor is trying to do,
15 and he has been passionate about it, and aggressive about
16 it, but you've gotta have enrollment--

17 MR. WATSON:

18 Right.

19 DR. FRANCIS:

20 --you know, in order--

21 MR. WATSON:

22 Right.

23 DR. FRANCIS:

24 --to be able to do a filling of those dormitories.

25

1 MR. WATSON:

2 No question about that, right.

3 DR. FRANCIS:

4 Yes.

5 MR. WATSON:

6 And that's still a--

7 DR. FRANCIS:

8 So it's a package. But at least you're on it.

9 MR. WATSON:

10 Yes.

11 DR. FRANCIS:

12 And working with it; that's good. That's good.

13 MR. WATSON:

14 Their number of beds, their number of beds actually
15 will probably be less than 25 percent of their community
16 schools. And, Dr. Francis, you know the area better than
17 I--

18 DR. FRANCIS:

19 Yes.

20 MR. WATSON:

21 --but that will probably be some of the only housing
22 for students in that area, that close by. Although
23 they're working--

24 DR. FRANCIS:

25 So the estimate is 25 percent--

1 MR. WATSON:

2 I think it's 25 percent of what their total--

3 DR. FRANCIS:

4 Of their total enrollment?

5 MR. WATSON:

6 --of what their total enrollment would be, if I
7 remember those numbers correctly.

8 DR. FRANCIS:

9 Okay. Yeah. And the amount is still in flux, and I
10 think he's trying to work that out.

11 MR. WATSON:

12 Right.

13 DR. FRANCIS:

14 Thank you.

15 MR. WATSON:

16 And now I'll just talk a little bit about some of our
17 program activities, and without the ability to originate
18 new loans, we have not aggressively initiated contact with
19 the HBCU community for the first two quarters. But the
20 interest in the program is overwhelming, I'm just gonna
21 give you some of our program highlights.

22 We have 12 institutions that could potentially borrow
23 from the program. Those consist of 4 public HBCUs, and 8
24 private HBCUs, with enrollments that range between 600
25 students and 5,000 students. And they're requesting loan

1 amounts between \$5 and \$80 million. So we have a total
2 borrowing from those institutions of a quarter billion
3 dollars.

4 Of those 12 institutions, 4 have completed what we
5 call pre-applications, and the problem received calls and
6 inquiries from about 13 other schools. And, again, those
7 inquiries are just that, inquiries, without any funding.
8 Some people are skeptical about proceeding forward.

9 In the month of February we took a tour to 5 HBCUs
10 across the state of Alabama. I want to try to schedule
11 something very similar to visit with CFOs and presidents.
12 I saw most of Alabama from my hotel room, and in a car.
13 Not that Sam wasn't better company, but when we go to
14 these visits, we actually educate people on the program,
15 talk a little bit about their strategic goals, and how we
16 can try to come in and help, and that sort of thing.

17 Some schools are actually currently involved in a
18 program, so during those visits we talk about what can we
19 do to improve the program, how are we doing. Some of the
20 institutions aren't, have never thought about coming into
21 the program, but we still look at all HBCUs as being our
22 customers, and help where we can.

23 We've conducted on-site visits to 5 institutions that
24 we're funding through the program. We've met with Meharry
25 College as well as Fisk to discuss potential projects, and

1 provide them with updates on program funding.

2 We've also made visits to officials of the
3 universities to discuss program developments.

4 We attended several events, inaugural events,
5 banquets, and other things of such nature, as well as the
6 DBA is also exhibited at a lot of conferences, and speak
7 at several events including the White House initiative
8 event that was held on May 29th.

9 In spring of this year we delivered our second
10 version of our newsletter, which is to inform the entire
11 HBCU community about the program, updates on the program,
12 who our board members are, and try to give them some idea
13 of what the credit markets look like, and that sort of
14 thing.

15 We also use that as an opportunity to highlight who
16 all was in the program, also who came to the program, who
17 have now, the program has affected in some way.

18 Our last issue was... Atlanta, the issue before
19 that was South Carolina State, but we think it's important
20 that HBCUs as a total, the entire HBCU community
21 understands that the program does.

22 In the past I believe a lot of people who have not
23 worked directly with us don't understand the commitments
24 that we have, and those sort of things.

25 So I think it was very good for them to hear from

1 other presidents, CFOs and the like to hear what the
2 program is doing.

3 And I think one the institutions work with us, and
4 Dr. Haynes talked with Reverend Best, and they'll tell
5 you, we do everything we can to help you get on a firm
6 footing, and that's what we're about.

7 I tell people we're the federal government, but we're
8 not here to see you fall, we're here to help you succeed.
9 And I believe in that old mantra that, if everything else
10 fails, you should be able to rely on your government. And
11 I think that's how we look at it here.

12 And those newsletters go to HBCU presidents, CFOs,
13 the presidents and board's advisors receive them. Our
14 board members of course receive them. And other members
15 of the HBCU community.

16 But, again, that's probably our major marketing tool,
17 and it gives you updated programs--

18 DR. FRANCIS:

19 You know the sad part about it is, right now, these
20 right now contacts, because in the earlier years, you had
21 a hard time getting HBCUs to be involved in the issues,
22 for a lot of reasons, and now you have that interest, and
23 we don't have the money...

24 DR. HAYNES:

25 Mmhm.

1 DR. FRANCIS:

2 ...and unless we get it in a hurry, we will lose the
3 ground that has been traveled, and what you do not want
4 lose. From the travels, and the way you have explained
5 what has to be done and so forth, you've got presidents
6 who are looking for this program to help them.

7 DR. HAYNES:

8 Absolutely.

9 DR. FRANCIS:

10 And right now the problem is you don't have any
11 money. So we've got to get the first \$1.1 billion, and
12 get it understood that it has to be an ongoing funding.
13 Because what you've done is you've cultivated a lot of
14 folks, and I think from an educational standpoint, you've
15 brought that weight and advice to the secretary, and we're
16 gonna have to make as strong a case as possible that what
17 has been done under this administration is a whole lot
18 different than in the past, and we've created a demand
19 that has to be funded.

20 DR. STRICKLAND:

21 Mr. Chairman, I was going to say that in that
22 reaffirmation letter that the secretary has sent, we need
23 to supply her with this information, and make sure that's
24 a part of that, absolutely. Because, going back to the
25 May 29th meeting at UBC for the new college presidents,

1 that we had 15 there, and I want to commend Don and Sam,
2 Sam made the presentation, Don was on the road at the
3 time, but the interest on the part of those new presidents
4 in the capital finance program was very, very high.

5 And they really appreciated hearing more about it,
6 its possibilities. And, again, that issue of having
7 enough money available came up, and they were not
8 disheartened, but they are concerned that this is a
9 vehicle that was designed to help the community, and it's
10 about to evaporate--

11 DR. FRANCIS:

12 Because of lack of--

13 DR. HAYNES:

14 --because of lack of funds, yes.

15 DR. FRANCIS:

16 Yes, we have a big educational job to do with the
17 hope that that's understood, that this is a program, in a
18 way, that becomes a part of a Title III, Title IV, and
19 HBCU Capital, it's a total complimentary with the need for
20 new presidents, to help students to fund their education,
21 he gets Title III to help in programs that need to be
22 enhanced, and then he gets capital funding if in fact his
23 enrollment grows at all. He updates his environment,
24 which is buildings, and the like.

25 Because you can't compete--

1 DR. HAYNES:

2 That's right.

3 DR. FRANCIS:

4 --nowadays--

5 DR. HAYNES:

6 That's the key word, competition, competitiveness.

7 DR. FRANCIS:

8 Okay. We operated with World War 2 dormitories for
9 years.

10 (Laughter.)

11 DR. FRANCIS:

12 That they left. Yes, Dr. Thompson.

13 DR. THOMPSON:

14 Mr. Chairman, yes, as a new member, I'm so happy to
15 be here, but I have a concern, and the concern is just
16 what you said; that we are competitive--

17 DR. FRANCIS:

18 Right.

19 DR. THOMPSON:

20 --competing with each other, for the quality of your
21 dorms, the appearance of your campus, the strength of your
22 academic programming, but what it seems to me that needy
23 schools, truly needy schools are still in danger of
24 disappearing, mainly because we operate on the ability to
25 repay. And the school that's truly needy, that ability is

1 not there; the campus is probably in some state of
2 decline, but the inability to repay keeps that school out
3 of the loop.

4 And so it seems to me that the needy schools, that
5 there probably needs to be another route for assistance
6 for schools that are not well off, that don't have a great
7 endowment sitting on the side, that cannot repay right
8 now.

9 So maybe if we include the structure, infrastructure,
10 it will attract more students, it will become a better
11 place, and then delay the possibility.

12 But as you said, in seeking to approve these
13 applications, you look at the ability to repay.

14 DR. STRICKLAND:

15 Well, a part of that is even a small struggling
16 school has responsibility to develop a comprehensive
17 business plan that at least shows an indication that given
18 these kinds of circumstances, that the outcomes are
19 realizable.

20 DR. THOMPSON:

21 Yes.

22 DR. STRICKLAND:

23 That in five years, here is where the rubber meets
24 the road, and the money is available now to really do
25 this.

1 DR. THOMPSON:

2 Yes.

3 DR. STRICKLAND:

4 So I think the opportunity is still there, and I
5 think what you're saying is, how can we blend the concept
6 of ability to repay with a very structured infrastructure
7 kind of presentation, that allows you make a different
8 kind of proposal.

9 DR. FRANCIS:

10 Is somebody signing off or signing on? Is somebody
11 signing--

12 MS. CHISOLM:

13 No, it's Bridget Chisolm; I just changed phones.

14 DR. FRANCIS:

15 Okay, thank you.

16 MR. WATSON:

17 I think probably what I failed to say earlier is that
18 a log of institutions that come through this program are
19 needy institutions. And we look at their current ability
20 to repay--

21 DR. HAYNES:

22 Let's say, "limited resource."

23 (Laughter.)

24 MR. WATSON:

25 Yes.

1 DR. HAYNES:

2 Right, the limited resources.

3 MR. WATSON:

4 Of limited resources--

5 DR. HAYNES:

6 That's better. For the public record.

7 MR. WATSON:

8 Yes. Those institutions with limited resources have
9 come to the program. It is a loan program, but we just
10 don't look at an institution today; we look at where we
11 think they're gonna be. And we look at their strategic
12 plan. When we set foot on a campus, it's not just, hey,
13 this is the loan application, and let's go to closing. We
14 walk the campus. I make it a personal thing to walk a
15 campus, because I believe it's easier to put stuff on a
16 piece of paper than it is to show it yourself.

17 And so, when we go on these campuses, we actually
18 meet with students. We meet with students, we meet with
19 the president. Sometimes we meet with the CFOs and board
20 members, but I think it's important that we actually walk
21 the campus and see the strategic plan that you just told
22 us about in their office actually matches what we see when
23 we step foot in your campus.

24 And I think that's -- and I think an executed plan is
25 someone who has a plan, and has the passion to execute

1 that plan. Most of the institutions have complimentaries,
2 and, as I said, of the institutions, of the 18 or so
3 institutions that have come to this program, we only have
4 one default out \$70 million, we have a 1 percent default
5 rate.

6 I think those things, for the record, speaks volumes
7 of our program.

8 (Several speaking on mic simultaneously;
9 unintelligible.)

10 DR. FRANCIS:

11 What Dr. Thompson is saying, and it struck me, you
12 said something at breakfast this morning, saying the same
13 thing, and we do, I mean, send out and get information
14 about sponsored programs, and all that. But I think there
15 is another dimension and you may be touching on it.

16 We can't do part of what you say under this HBC cap,
17 but if we can identify more agencies, like the White House
18 initiative, that would fund some of the things that are
19 important for the institution that cannot be done here, it
20 would be very, very important.

21 Because you make the point, this is a loan program.

22 DR. HAYNES:

23 Yes, yes, yes, yes.

24 DR. FRANCIS:

25 I sit on a bank board and every now and then, my

1 chairman has to consult the presidency but we're not a
2 social institutions...

3 (Laughter.)

4 DR. FRANCIS:

5 ..we're happy to help, but we can't, but there are
6 other government programs, and we could tell the
7 president, where some is... a new president, you can't
8 get it under the HBCU capital, but you might be able to
9 get it here, some of the monies that you would spend, or
10 would have to be spending with HB capital you could spend
11 there, and then build up enough to show your credit
12 worthiness.

13 DR. HAYNES:

14 Yes, yes.

15 DR. THOMPSON:

16 Yes.

17 DR. FRANCIS:

18 It just struck me, the old HUD program, that's not in
19 existence anymore. That's where capital financing must
20 have come.

21 DR. HAYNES:

22 It came out of--

23 MR. WATSON:

24 I've done a little on this capital financing piece,
25 because, again, coming from a policy background, I like to

1 know how things come about.

2 DR. FRANCIS:

3 When did HUD leave and this come in?

4 MR. WATSON:

5 Well, it's 1998 the amendments actually repealed the
6 last program which was at odds, chapter program, college,
7 higher--

8 DR. HAYNES:

9 Right.

10 MR. WATSON:

11 --access loan programs. Something similar to that.

12 After that -- those programs weren't just for HBCUs;
13 those programs were for...

14 DR. HAYNES:

15 Revenue

16 MR. WATSON:

17 All the institutions had their case.

18 DR. HAYNES:

19 That's right, right.

20 MR. WATSON:

21 And this kind of program started in 1950, and, well,
22 I guess, part of my feeling, in doing that research, what
23 I've notice, too, is that each one of those programs, one
24 program came about -- and all those programs are very
25 different from this program, they had appropriation

1 levels. This program has a statutory line item, which
2 dictates how much insurance we can get.

3 Each program lived for a while, died off, and a new
4 program came right after it. And that happened, and all
5 the elements of these programs were recreated.

6 So to look at the history of these capital
7 improvement programs, that started with the Office of
8 Education, then the U.S. Department of Education, and
9 today we still actually do the services with a \$300
10 million portfolio for those former institutions.

11 DR. FRANCIS:

12 Which ones? The HUD ones?

13 MR. WATSON:

14 The HUD ones. There was about \$300 million that are
15 outstanding, the loans are still outstanding. Those loans
16 are still outstanding. And I believe it's about \$300
17 million that's still outstanding.

18 DR. FRANCIS:

19 Still outstanding?

20 MR. WATSON:

21 Still outstanding. They were very low-rate interest
22 loans for--

23 DR. FRANCIS:

24 At 3 percent.

25

1 MR. WATSON:
2 Right. There were some...
3 DR. HAYNES:
4 They still owe--
5 MR. WATSON:
6 ...loans--
7 DR. FRANCIS:
8 That was the total--
9 DR. HAYNES:
10 We can go back to that.
11 DR. FRANCIS:
12 It wasn't just HBCUs.
13 MR. WATSON:
14 No, that was graduate and--
15 DR. HAYNES:
16 It was.
17 MR. WATSON:
18 Yeah, it was graduate, graduate schools.
19 DR. HAYNES:
20 It was graduating on...
21 MR. WATSON:
22 Yes, they were both, they were both.
23 DR. FRANCIS:
24 Yeah, but the reason I'm saying is, it took a long
25 time for us to convince our board this is what we needed

1 to do. But I remember the dormitory and in addition to a
2 student center and it was 3 percent money, and about, I
3 forget, maybe it's 20 years ago, but about 10 years after
4 that, the Education Department of HUD said--

5 MR. WATSON:

6 It was a, it was a--

7 DR. FRANCIS:

8 --we will buy back the loan at 50 percent, and I
9 said, no, thank you. I can handle the 3 percent, you
10 know, and so I'm still paying on my, it's down to little
11 or nothing, but I'm still paying that 3 percent on that.

12 So, that's the, that's the an amorphous system, and
13 you're saying of that--

14 DR. HAYNES:

15 Yeah, \$300 million, that's what's out there.

16 DR. FRANCIS:

17 Three hundred million still, that's the--

18 DR. HAYNES:

19 Good to know the people were...

20 MR. WATSON:

21 But it's four programs, not including this one, but
22 of that \$300 million, it's about three to four different
23 programs that created those loans.

24 Again, most of that is -- there was some 1 percent
25 loan money in there from very, very early on, and in

1 visiting campuses, I forget what they call the structures,
2 I don't know if Sam remembers what they were, but these
3 buildings were very clean--

4 DR. HAYNES:

5 They had a kind of a community -- I remember there
6 was some requirement--

7 DR. FRANCIS:

8 Buying out members at 3 percent.

9 DR. HAYNES:

10 Yeah.

11 DR. STRICKLAND:

12 We had one in '94, and that's about 20 years.

13 DR. FRANCIS:

14 Because I think we really -- the White House
15 initiative -- for the White House initiative might very
16 well be -- I mean, he's done the history of say this one,
17 but if there were ways that we could find -- and I think
18 we're gonna hear this a lot -- monies that complements
19 needs of the institutions to be competitive, that are
20 quote outside of the loan category.

21 We all are facing this with financial aid. I mean,
22 we went, you know, financial aid for a long was SEOG, Work
23 Study, you know, and then, boom!, loans became the big
24 project.

25

1 DR. STRICKLAND:

2 The big project.

3 DR. FRANCIS:

4 And we are now trying to get, you know, build-downs.

5 DR. STRICKLAND:

6 Build-downs, yeah.

7 DR. FRANCIS:

8 And so I think from an institutional standpoint, now
9 people will say Title III could be one aspect, and that's
10 true, because Title III does have its percent cap of 50
11 percent and the like.

12 But it's a matter of getting more money in the pool
13 for Title III, so the schools then could -- because that
14 would--

15 DR. THOMPSON:

16 Precisely, because in the non-revenue-generating
17 buildings, like it's easy to do a dorm, a residence hall
18 because you will get some--

19 DR. STRICKLAND:

20 It will produce revenue.

21 DR. THOMPSON:

22 --precisely. But take a new library--

23 DR. THOMPSON:

24 Precisely.

25

1 DR. STRICKLAND:

2 Or a science building.

3 DR. FRANCIS:

4 Or an academic building that needs to be renovated,
5 because it's non-revenue producing, other than your
6 tuition. Your tuition is paying salaries, and light and
7 all of the other things.

8 I think, Leonard, we might--

9 DR. HAYNES:

10 Yeah.

11 DR. FRANCIS:

12 --we might have a look at that. I don't know -- it
13 may not be that much, but even if it isn't, that may be
14 our new agenda.

15 DR. THOMPSON:

16 Precisely.

17 DR. HAYNES:

18 Okay.

19 DR. FRANCIS:

20 Even increasing Title III. Because I think our lady,
21 Edith Green, had that in mind when she started.

22 DR. HAYNES:

23 When she started Title III.

24 DR. STRICKLAND:

25 No other problem has been reported as a, is as the

1 formula still favors the large institution.

2 DR. THOMPSON:

3 Yes.

4 DR. FRANCIS:

5 No question.

6 DR. STRICKLAND:

7 And so that the smaller ones that Dr. Thompson is
8 talking about may not be greatly affected by Title III,
9 you know, because--

10 DR. FRANCIS:

11 No question about it.

12 DR. STRICKLAND:

13 --let's give them \$8 million, otherwise give them a
14 million.

15 DR. THOMPSON:

16 Yes, mmhm.

17 DR. STRICKLAND:

18 And... a programmatic one is... So if you're gonna
19 do that, you got to have a different kind of concept for
20 this.

21 DR. FRANCIS:

22 That may be the vehicle

23 DR. STRICKLAND:

24 It may be, yeah, yeah.

25

1 DR. FRANCIS:

2 Sometimes it's easy to suggest a vehicle, than create
3 a new one.

4 DR. THOMPSON:

5 A new one, mmhm.

6 DR. FRANCIS:

7 Okay. I want to get to one on your report, but go
8 ahead. I want to get to collateralization because I think
9 some of our institutions, in your next report, could even
10 go further in explaining what you've been doing with the
11 DBA with respect to collateralization.

12 MR. WATSON:

13 Yes, we actually--

14 DR. FRANCIS:

15 Did I get ahead of you on that?

16 MR. WATSON:

17 No, actually I was finished. I briefly touched upon
18 the collateralization, but I didn't the actual policy--

19 DR. FRANCIS:

20 Right.

21 MR. WATSON:

22 --DBA requirements here, but--

23 DR. FRANCIS:

24 Let's talk about that with the board.

25

1 MR. WATSON:

2 --collateralization, the program has been -- some
3 institutions say the program is over-collateralized. The
4 program borrowed with a treasury rate of plus 22-1/2 basis
5 points -- I'm sorry -- a little less than 1/4 percent.

6 And some institutions say that we're over-
7 collateralized. But when you look at the institutions
8 that come through to the program, at the time they come
9 through to the program, those institutions are -- what was
10 the word?--

11 DR. HAYNES:

12 Limited resources.

13 MR. WATSON:

14 --with limited resources--

15 (Laughter.)

16 MR. WATSON:

17 --these institutions that have limited resources--

18 DR. HAYNES:

19 Yeah, limited resources.

20 MR. WATSON:

21 --and so, in going in with limited resources, and
22 maybe some stability issues. And so when you look at
23 that, you have to look at all of those things.

24 But, so any institution is involved in the program,
25 and that I've visited, if there is an issue -- and if we

1 can address the issue without having any statutory change,
2 we'll see what we can do to make those changes.

3 And collateralization is one of those.

4 We use collateral as a means to -- as a basis for
5 what an institution is gonna have if they don't repay the
6 loan. What I try to explain to individuals is that a lot
7 of our schools are not in downtown areas, they're not in
8 -- and in looking at those things, and without fearing
9 default, for example -- we, an institution may appraise
10 for a certain amount, but you have to take other things
11 into consideration when you're looking at what's gonna
12 happen.

13 We have that situation today. And so, but we've
14 actually come up with a process to look at collateral,
15 have some things to look at. The institution make a
16 written request, you know, and we'll ask for some things
17 from the institution.

18 What this program has been doing for a long time, in
19 an effort to try to save institutions money who are coming
20 through the program, we've asked for insurance of values,
21 whether they're appraised values.

22 Appraisals cost much more than an insurance statement
23 that you can provide to us.

24 And so in looking at those things, we look at the
25 insurance value, is not a true value, and, of course, an

1 appraised value may not be the true value, when it comes
2 to market, but we look at those things, and some people
3 say we're taking more collateral than we needed to.

4 But as your financial resources improve, as your
5 leadership improves, strategic plan improves, those
6 things, we're willing to look at those things.

7 But, again, when you look at those things, you have
8 to be very careful about what you're looking at. Again,
9 the appraisal value and insurance values. A lot of
10 institutions are -- can only be used as education
11 institutions, and a lot of people do not buy colleges
12 everyday.

13 So, with that being the case, you can have something
14 on the books for 10, 15, 20 years, when someone actually
15 picks up a buyer, and at that point the real estate starts
16 to crumble, and those sort of things.

17 So I think you should have to start looking at those
18 things. And a lot of what we do is we take buildings. We
19 don't ask for cash, or part of your cash endowment, and
20 things like that, for the most part. So in doing that,
21 you know, we look at collateral. But we do have a process
22 when we review collateral.

23 DR. FRANCIS:

24 Okay. Take an example, without giving a name, let's
25 take X institution and that institution has a -- I'm gonna

1 make it -- a \$10 million loan out on the HBCU. And they
2 have mortgaged the entire campus.

3 MR. WATSON:

4 Yes?

5 DR. FRANCIS:

6 And they have paid down say \$2 million, so their loan
7 on the HBCU account is \$8 million. And they have an
8 escrow, I'm assuming -- after listening to this previous
9 conversation, the escrow is going down -- but let's assume
10 there is a fair amount of money in the pool, and their
11 escrow is okay.

12 And now they want to build a \$4 million facility,
13 which would add \$12 million to their overall... does the
14 escrow, the whole picture has to be taken into
15 consideration, I assume, so the current fiscal
16 circumstances of the institution--

17 MR. WATSON:

18 Right.

19 DR. FRANCIS:

20 --and, you know, enrollment is stable, its fiscal
21 maybe has increased since it made its \$10 million, and so
22 forth, but you can have them to refinance under the same
23 matrixes you've used as the original loan, right?

24 And the reason I'm saying that, I can see a number of
25 institutions, with new presidents and some of the old

1 ones, who see what Dr. Thompson was saying earlier about
2 competitiveness, and wanting to make sure that -- and they
3 want to come back in, but they say they got handcuffs on
4 because they have mortgaged their entire campus.

5 So our program would allow you, without changing
6 anything, to say let's take a look, just as you're taking
7 a look at, the DP is taking a look at the issuance, and
8 you go back and say, okay, well, you're looking much
9 better than you looked even when we made the original
10 loan. Because we took a blanket and threw it over your
11 whole campus. Right?

12 MR. WATSON:

13 Mhm.

14 DR. FRANCIS:

15 And so we're going to pull that blanket off a little
16 bit, and I'd guess you call releasing some of the
17 collateral to be able to refinance, I mean, I'm doing it
18 in simple terms, but is that what--

19 MR. WATSON:

20 You don't necessarily have to do that, and just
21 because...Sally...?

22 MS. WANNER:

23 Yes?

24 MR. WATSON:

25 Correct me if I'm wrong -- Sally Wanner is the

1 general counsel for the Department of Education, a program
2 counsel, but just in case I missed something, you can jump
3 in -- but with most of these things, even if we had an
4 entire campus encumbered--

5 DR. FRANCIS:

6 Mhm?

7 MR. WATSON:

8 --we've come across, even in the last seven deals we
9 did last year, some, most creditors don't release
10 collateral period.

11 What they would ask is that you sort of -- once you
12 get collateral, is you hold onto your collateral.

13 But people ask us to come in and go on parity, which
14 means we have the same level of commitment to getting our
15 funds out of this piece of collateral.

16 We've gone on -- we've taken second liens in some
17 things, so we're not first, first in line; we're second in
18 line.

19 So, and people have done us the same way. And we all
20 do people the same way.

21 But, again, it's not -- you know, people look at that
22 issue, and I think they need to look at the whole, and not
23 just say, let us release some of this. Because once you
24 start releasing, then our exposure sort of increases.

25 And, again, we use insurance values rather than

1 appraised values.

2 So a lot of people believe their campuses are worth
3 \$300 million. Well, when you get an appraisal of your
4 campus, your campus really isn't -- the insurance value
5 may be close to that, but if you get an appraisal, your
6 appraisal will be way less than what you believe it is.

7 And I think a lot of people need to sort of
8 understand that as well, when you're looking at
9 collateral.

10 DR. FRANCIS:

11 Okay. So, Don, your clarification to me is good.
12 You're not releasing collateral, but you're putting --
13 it's an umbrella. And remember I have given you an entire
14 mortgage, to use simple terms--

15 MR. WATSON:

16 Right.

17 DR. FRANCIS:

18 --for my first \$10 million, which is now \$8 million,
19 and I've got equity, just like in a home.

20 MR. WATSON:

21 Mhm.

22 DR. THOMPSON:

23 Yes.

24 DR. FRANCIS:

25 So what you're saying to me, I'm not gonna let you

1 release anything, but I tell you under this umbrella, I'm
2 gonna let you refinance to build another building under
3 that same quote entire encumbrance of the campus?

4 Is that essentially what's happening?

5 MR. WATSON:

6 A couple things can happen.

7 DR. FRANCIS:

8 Okay.

9 MR. WATSON:

10 What happened in this process, the designated bond
11 authority would give me a recommendation. They could
12 recommend that we release collateral, that we take a
13 second lien, or that we take a second loan position to a
14 piece of collateral that we already hold. There could be
15 any number of things that happen. But we do have some
16 institutions that want us to release collateral
17 altogether. And once we release that collateral, it sort
18 of goes away and we don't have access anymore to it,
19 regardless of what -- Finances are very interesting, and
20 you all know this better than I.

21 But what you look at today on an audited financial
22 statement is what happened yesteryear. It's not what's
23 going on today.

24 Unaudits change so many times. And so when we look
25 at those things, we have to take those things consider

1 erasing what you're looking at, whether you're gonna give
2 up the government's position because, from the
3 government's standpoint, it's more liability to the
4 taxpayer. From the program standpoint, it increases the
5 liability to an institution that's already in the program.

6 So I like to look at things holistically, and that's
7 what--

8 DR. FRANCIS:

9 Is that Sally?

10 MR. WATSON:

11 Sally?

12 MS. WANNER:

13 Yeah, I think the answer, the one part is, I think we
14 have released collateral in the past, and I don't rule it
15 out in the future, but I think the point that Don is
16 making is \that it's really hard to value, really figure
17 out what we're gonna be -- Because the reason we have
18 collateral is if there is a default, and they can't pay it
19 back, and it's really hard to say what we're gonna get out
20 of a college campus, which is hard to say what we're gonna
21 get out of a building that might be in the middle of the
22 campus.

23 So, a release, it would have to be a pretty
24 extraordinary showing of a change of position for us to
25 say, okay, well, we thought we wouldn't be safe in the

1 past if we didn't have this collateral, but now we think
2 we are.

3 DR. FRANCIS:

4 I guess what I was getting at -- and I understand
5 fully what you and Don are just saying -- I'm looking at
6 a campus that has improved its circumstances, and still
7 has a loan out there, but wants to do another building,
8 and feels, because it has encumbered the entire campus --
9 and it may be semantics in many ways -- they feel they
10 can't do it because what they signed was over the total
11 value of their campus for \$10 million.

12 And I would make it simple. I would say, okay, you
13 keep your blanket over that campus, but you allow, under
14 the matrixes that you've been talking about, that they do
15 have equity. I mean, that's what the campus is saying--

16 MR. WATSON:

17 Yeah.

18 DR. FRANCIS:

19 --we have grown, and I've got some equity, and I want
20 to use my equity to go and do something else.

21 And what you say is, okay, well, we'll look at all of
22 those matrixes again, we're not going to release anything,
23 but we're gonna loan you money because we see equity in
24 you.

25

1 MR. WATSON:

2 Well, for us, it's much simpler to do it that way for
3 us.

4 DR. FRANCIS:

5 Yes.

6 MR. WATSON:

7 But if they want to go to someone outside of our
8 finance program--

9 DR. FRANCIS:

10 That's another story.

11 MR. WATSON:

12 --we still have to look at it, because, again, we
13 want to make sure we're secure.

14 DR. FRANCIS:

15 Yeah.

16 MR. WATSON:

17 It's sort of, we'll refinance your home, we'll get a
18 second mortgage with someone who's not your first holder,
19 they're not gonna say, hey, it's fine... I'm gonna give
20 you everything. We want to know what's going on with that
21 second one.

22 MR. WATSON:

23 You're gonna want some position of your own. You
24 both want the same asset.

25

1 DR. FRANCIS:

2 My example was keeping it -- it's not going outside,
3 but I would assume that we oughta be as good, if not
4 better, than outside, so that person's equity would be
5 recognized, that's all.

6 MR. WATSON:

7 We've had a couple of those -- I mean, we have
8 borrowers who come to the program I would say three times;
9 someone else has come through two. A couple institutions
10 have come through it twice. And we do look at that.

11 DR. FRANCIS:

12 Okay.

13 MR. WATSON:

14 And if we have an institution that's, for instance,
15 in the program, and they are looking at -- because, again,
16 we have to look at it, not just as that deal that happened
17 five years ago, we want to look at that deal as it's going
18 on today.

19 And we look at our debt as being, you look at our
20 debt like you look at any other debt. This debt is
21 outstanding, once you refinance that, refund those bonds,
22 and it could be for additional bonds, how this is gonna
23 work out. So you take that into consideration.

24 DR. FRANCIS:

25 Okay. The reason I'm raising all this is if you read

1 the GAO's report, one of the issues that surfaced from
2 campuses that were in the program was what they called
3 "over-collateralized ratio."

4 MR. WATSON:

5 Right "over-collateralized ratio."

6 DR. FRANCIS:

7 And from our position here, as a board, what we're
8 saying is we would address quote the issue of so-called
9 over-collateralization, in the manner you just described.

10 So it's not a fatal matter; it's a matter of what
11 your circumstances are today.

12 MR. WATSON:

13 Right. And just, and just -- I wasn't there when the
14 GAO came around, but if I was there, I believe a lot of
15 things that the GAO reported, I think there may have been
16 some communication pieces, for example, because a lot of
17 institutions who would think their over-collateralized, or
18 who would say they're over-collateralized, couldn't, at
19 the time they came to the program, have gotten a loan at
20 treasury plus a quarter percent.

21 A private institution would have charged them a
22 higher interest rate, and maybe taken less collateral, or
23 have a higher reserve requirements than the 5 percent
24 escrow requirement we have as statute.

25 So there's tons of pieces of you have to put together

1 when you're looking at-- and that's the only thing we
2 have. Everything else we have is actually written as
3 statute.

4 So if we don't have collateral, then someone's gonna
5 say, well, you didn't take the right amount of collateral,
6 and now the taxpayers are on the hook for that entire
7 loan. And, you know, and of course, although we are
8 government, they're gonna compare us to what the private
9 sector is doing, and they're gonna say, but the private
10 sector would've charged them this interest rate. We don't
11 charge that interest rate.

12 DR. STRICKLAND:

13 You're utilizing it through your part indicators, for
14 instance.

15 Let's say I'm Institution X, and I got a loan. If I
16 show extremely positive changes in my total revenues and
17 investment return, if my record indicates that I've made
18 my payments every six months, as I've indicated, without
19 delay, and if I show you stability and persistent in
20 enrollment, I would be a good candidate for using my
21 equity for another loan.

22 MR. WATSON:

23 Plus the credit criteria are a little more--

24 DR. STRICKLAND:

25 I know, but--

1 MR. WATSON:

2 We do look at all of that, yes.

3 DR. FRANCIS:

4 That's part of the package.

5 MR. WATSON:

6 Yes.

7 DR. STRICKLAND:

8 That's part of the package, that's what I mean, yeah.

9 DR. FRANCIS:

10 Yeah. I read the report, and I could tell there may
11 have been some answers that were given that were not
12 totally accurate, but anything that surfaced that the
13 people in the program complained about is I think what
14 you've been doing in your travels; explaining in a better
15 way than what is said.

16 Because what killed the program clearly was so many
17 things that people thought were cocooning (phonetic) and
18 one was over on that...

19 MR. WATSON:

20 Right, yes.

21 DR. FRANCIS:

22 And one was over-collateralization.

23 DR. STRICKLAND:

24 Let me just -- just at this point in this
25 presentation, I think Mr. Watson has made a tremendous

1 difference in the perception of this program, and how it
2 works for our institutions, and the possibilities that it,
3 you know...and I'd like for the record to show that we--

4 DR. FRANCIS:

5 He sold more goods than we can produce.

6 DR. STRICKLAND:

7 Yeah.

8 (Laughter)

9 DR. STRICKLAND:

10 He's done a terrific job, so--

11 MR. WATSON:

12 Thank you. I did admit that when I was interviewed
13 for the job I told them I wanted this to be, in the next
14 five years, they don't have to go back to the Congress and
15 ask for more money; I didn't know it was gonna be the
16 same--

17 DR. STRICKLAND:

18 It's the same.

19 MR. WATSON:

20 At least no snake oil--

21 (Laughter)

22 DR. FRANCIS:

23 But you've answered, I think what should be a
24 continuing bit of information to us, proves about the
25 issue of over-collateralization.

1 I'm gonna -- I underlined in the GAO report the
2 number of things that the president should had waited and
3 said they had a concern about.

4 MR. WATSON:

5 Yeah.

6 DR. FRANCIS:

7 And it seems that you're addressing all of those, and
8 we need to communicate that to that bigger audience out
9 there as well.

10 MS. WANNER:

11 Can I ask something else?

12 DR. FRANCIS:

13 Yes, you sure can.

14 MS. WANNER:

15 Thank you. I don't think there are many loans out
16 there -- I'd have to check -- that have take a security
17 interest in the entire campus. It's sad that what happens
18 is when the loan is taken out, there is negotiation
19 between the school and consideration by the designated
20 bonding authority, of, you know, how much money is needed
21 to secure this loan.

22 And sometimes it's revenues; sometimes it's
23 buildings; sometimes it's a combination; sometimes it's
24 not a general obligation.

25 But I think that's a good time for the school to

1 present whatever information it has, as to the value of
2 its assets.

3 DR. FRANCIS:

4 Yeah. And I'm glad you said that, because giving due
5 respect to the DBA, schools that have never done this
6 before, are anxious to get it, they're ready to sign
7 because the wolf is at the door.

8 DR. STRICKLAND:

9 Yes.

10 MR. WATSON:

11 Right.

12 DR. FRANCIS:

13 And they realize later, oooh, we gave up too much.

14 DR. HAYNES:

15 Too much.

16 (Laughter)

17 MR. WATSON:

18 Well, I'll just say for the record--

19 DR. STRICKLAND:

20 Or they change presidents. Which is the issue.

21 Which is an issue.

22 DR. FRANCIS:

23 How did they do that?

24 DR. STRICKLAND:

25 How did they do that?

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(Laughter)

DR. FRANCIS:

Okay.

DR. HAYNES:

Yeah, yeah, leave that alone.

MR. WATSON:

But, I mean, there's several things that the GAO report talks about. It talks about the values in escrow; it talked about pre-payment, what someone called a pre-payment penalty, but it all depends on what the market rate is and the rate in which you borrow.

But, again, when we've gotta talk, we tell them, if you don't want to be part of that -- something called a pre-payment penalty, but depending on the way the market is, because it could actually be money in your pocket instead of money out of your pocket, and so that's one thing.

The other thing is, we tell them, if you don't want to pay that, how do you get around not paying that? And, you know, and so I think those payments are probably worth more than before, because we're now sharing out that information with them. I think it makes a bigger difference.

DR. FRANCIS:

Yeah, well, I think information sharing is so

1 important for all of us, in anything we do; the more
2 information you have, the better, and the more facts we
3 have, the better decision we're gonna make.

4 And so I think what you're doing is providing that
5 information. Okay.

6 DR. STRICKLAND:

7 I move to certain point of direction and recom-
8 mendation. Yes, yes, yes, yes, yes.

9 DR. FRANCIS:

10 Unanimous.

11 DR. STRICKLAND:

12 Exactly.

13 DR. FRANCIS:

14 And we thank you. Just hold back some of your
15 selling a little bit till we get some money.

16 (Laughter)

17 MR. WATSON:

18 Well, not as heavily as we would've if we had money.

19 DR. FRANCIS:

20 Okay. Well, maybe we need to send you to the
21 Congress.

22 DR. STRICKLAND:

23 Yeah.

24 DR. HAYNES:

25 Or the Senate.

1 DR. STRICKLAND:

2 To the Senate side.

3 DR. FRANCIS:

4 Okay.

5 (Laughter)

6 DR. FRANCIS:

7 Okay.

8 MR. WATSON:

9 That's actually it for my report.

10 DR. FRANCIS:

11 Okay.

12 MR. WATSON:

13 There were actually issues -- there was actually
14 items here for board discussion and recommendations, but
15 throughout the meeting you have provided those.

16 DR. FRANCIS:

17 Yes.

18 MR. WATSON:

19 But I would like to suggest, while we're here --
20 because it's been hard to try to get a quorum -- so what
21 I would like to suggest a December meeting for July 12th
22 (sic) or the 19th in Washington, DC.

23 DR. STRICKLAND:

24 This is our meeting for July 12th.

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MR. WATSON:

I'm sorry, December 12th or 19th, with SACS (phonetic)
the week before.

DR. STRICKLAND:

Why do you need a SACS (phonetics)?

DR. HAYNES:

That is going to be easy.

DR. STRICKLAND:

That's possible--

MR. WATSON:

You said it's possible.

DR. HAYNES:

Yeah, we're gonna be there.

DR. STRICKLAND:

I'm going to be there.

MR. WATSON:

You only have to be there Sunday.

DR. HAYNES:

Oh, he wants it to be in DC then.

DR. FRANCIS:

Well, we want to be in DC because I think it's
important -- you all obviously, Sam, Derek and myself,
think the bank is involved.

Sally, who is our general counsel is there.

1 DR. STRICKLAND:

2 Okay, okay.

3 MR. WATSON:

4 I think at some point you'll have to actually get an
5 update from our general counsel, you need to pass a piece
6 of paper, and also what we're gonna need to do is redo our
7 charter.

8 DR. FRANCIS:

9 So that's gonna have to be when now?

10 MR. WATSON:

11 In Washington, DC, December 12th or the 19th.

12 DR. STRICKLAND:

13 The 12th.

14 MR. WATSON:

15 They both are Fridays.

16 DR. FRANCIS:

17 And when is SACS?

18 MR. WATSON:

19 SACS is the week before, the 6th.

20 DR. STRICKLAND:

21 The week before when? SACS ends on that Wednesday,
22 I think.

23 MR. WATSON:

24 The 12th?

25

1 DR. STRICKLAND:

2 Yeah, yeah, yeah.

3 DR. FRANCIS:

4 Look at that and see if it's right. I don't know
5 why, but I think I'm there Sunday and Monday only.

6 DR. STRICKLAND:

7 SACS is the 6th thru the 9th.

8 DR. FRANCIS:

9 Okay.

10 DR. STRICKLAND:

11 Which is thru that Tuesday.

12 DR. FRANCIS:

13 The 19th gets close to Christmas, it gets easier with
14 me, but I would just as soon--

15 DR. STRICKLAND:

16 Well, I think that's the last day of approval for
17 some of us. I mean, the 12th--

18 (Several persons speaking simultaneously; unintelligible)

19 MR. WATSON:

20 I'll try to do it close to every six months, but if
21 you want it to be--

22 DR. STRICKLAND:

23 It's probably better.

24 MR. WATSON:

25 --in October, we can go back to October--

1 DR. FRANCIS:

2 October is a big education month.

3 MR. WATSON:

4 Right.

5 DR. FRANCIS:

6 We got more things in October. Precedential things.

7 DR. STRICKLAND:

8 December 12th, might be--

9 MR. WATSON:

10 The 12th?

11 DR. STRICKLAND:

12 Yeah.

13 DR. FRANCIS:

14 We're not wedded to the board, we do Fridays because
15 the board -- but if we do SACS, we can actually do the
16 Friday--

17 DR. STRICKLAND:

18 But you said--

19 DR. FRANCIS:

20 The 12th might be -- if she says that I'm okay on the
21 12th and the 19th, I'm gonna take the 12th. The 12th.

22 DR. STRICKLAND:

23 The 12th.

24 DR. FRANCIS:

25 That's why I don't carry a calendar. She tells me

1 when I can go, where should I go, and when should I come
2 back, so if the 12th is okay, she is probably going to
3 hold me to that.

4 DR. STRICKLAND:

5 Okay, the 12th.

6 DR. FRANCIS:

7 Alrighty.

8 DR. STRICKLAND:

9 Okay.

10 DR. FRANCIS:

11 We can go to public comments now. What is that? Oh,
12 it's ten minutes, is that right? My watch -- so we can
13 allow for about 20 minutes?

14 MR. WATSON:

15 How many public comments do we have?

16 MS. CHISOLM:

17 Don, this is Bridget. We have a public conference.

18 MR. WATSON:

19 Okay, Bridget. Anymore, other than Bridget?

20 MS. CHISOLM:

21 Pardon me?

22 DR. FRANCIS:

23 What we're trying to do is to find out how many on
24 the phone wish to speak, and then we're gonna divide the
25 --I'm gonna say 20 minutes. I got penalized for the hour

1 over in Atlanta, so if we get 20 minutes, and we divide it
2 by five people, that's almost an average five -- I let my
3 math go a little bit -- if we have four, then we have five
4 minutes. So the question is, how many wish to speak.

5 DR. HAYNES:

6 On the record.

7 DR. FRANCIS:

8 On the record.

9 MS. HARRIS:

10 Other than Bridget, my name is Andrea Harris, and I
11 just want 30 seconds.

12 DR. FRANCIS:

13 Oh, okay. And Bridget...?

14 MS. CHISOLM:

15 Yes, sir.

16 MR. DUGAN:

17 And this is Jim Dugan, for LeMoyne Owen. Bridget is
18 going to be speaking for LeMoyne Owen.

19 DR. FRANCIS:

20 Okay, and then who else? That's it?

21 DR. HAYNES:

22 Okay.

23 DR. FRANCIS:

24 Alrighty. So we'll start -- you say we got 15
25 minutes?

1 DR. HAYNES:
2 Mhm.
3 DR. FRANCIS:
4 Okay.
5 MS. CHISOLM:
6 Thank you for the opportunity to address the board.
7 DR. FRANCIS:
8 And this is who?
9 MS. CHISOLM:
10 This is Bridget Chisolm.
11 DR. FRANCIS:
12 Okay, Bridget is now -- Bridget, give it a full name,
13 for our--
14 MS. CHISOLM:
15 Bridget Chisolm.
16 DR. HAYNES:
17 Chisolm.
18 MS. CHISOLM:
19 Like Shirley.
20 DR. FRANCIS:
21 Bridget Chisolm.
22 DR. HAYNES:
23 The organization? State the organization.
24 DR. FRANCIS:
25 The organization is...?

1 MS. CHISOLM:

2 It is BWC Consulting.

3 DR. FRANCIS:

4 BWB Consulting.

5 DR. HAYNES:

6 BWC. Where is she located?

7 DR. FRANCIS:

8 Memphis, Tennessee.

9 MS. CHISOLM:

10 In Memphis, Tennessee. I'm speaking for LeMoyne Owen
11 College, Bennett College for women and Fisk University.

12 DR. FRANCIS:

13 You're located, Bridget, where?

14 MS. CHISOLM:

15 In Memphis, Tennessee.

16 DR. FRANCIS:

17 Okay, go, thank you.

18 The reporter wants all of that, and he's giving hand
19 signals.

20 DR. HAYNES:

21 For the record.

22 DR. FRANCIS:

23 Okay, alrighty.

24 MS. CHISOLM:

25 Okay.

1 DR. FRANCIS:

2 You got the floor.

3 MS. CHISOLM:

4 Thank you.

5 Seven months ago, as you know, we addressed the board
6 meeting with LeMoyne Owen College President, Johnny Watson
7 and Jim Dugar to address what we wanted to discuss and it
8 still remains the issue today, how to make the HBCU
9 Capital Financing Program more user friendly around the
10 use campus capital, so we can improve our facilities and
11 increase cash flow. And you gave us some directives after
12 that meeting, Dr. Francis--

13 DR. FRANCIS:

14 Yes.

15 MS. CHISOLM:

16 --and we made considerable ground with the managers
17 amendments being passed, and Don mentioned that we have
18 lost some ground since then. All of the initiatives that
19 we had in that amendment have kind of been pushed to the
20 side and after --

21 DR. FRANCIS:

22 Which, which -- excuse me, would you give us a little
23 report on that; some of us know a little bit about it, but
24 I don't think the entire committee does.

25

1 MS. CHISOLM:

2 Okay. Working with you, Dr. Francis, and the
3 advisory board, USBS... we came to an agreement last
4 spring, on the best way to amend the program for all the
5 HBCU's, even though we sort of started out with a smaller
6 group--

7 DR. FRANCIS:

8 Right.

9 MS. CHISOLM:

10 --that collective position, and it was referred to as
11 the community, was that the interest rate should be kept
12 at 1 percent, the cost of insurance should be limited to
13 1 percent, and those terms, along with some others, such
14 as deferments for various periods, were adopted by the
15 House of Representatives and the Higher Ed Organization
16 Bill.

17 DR. FRANCIS:

18 Yeah.

19 MS. CHISOLM:

20 After the bill passes, however, the community changed
21 its position on the reduced escrow, the forbearance
22 provision, and the deferment position. The community did
23 (phonetic) maintain its position on the interest, the 1
24 percent interest rate, and the 1 percent cost of issuance.

25 But soon after the House removed most of those

1 subsequent changes in the program, including the 1 percent
2 interest rate, and the 1 percent cost of issuance, there
3 are many factors that contributed to this, but the most
4 significant is the battle over the Historically Black
5 Graduate Institutions.

6 And because of this bias, the language and the
7 dominance and the depth (phonetic), they currently agreed
8 to that half incentive (phonetic) only increases the
9 statutory cap to \$1.5 billion. It does limit the loan
10 collateralization at 100 percent versus 125 percent. As
11 a new member to the advisory board, as you can see, most
12 of these are really for the peripheral changes to the
13 program and it doesn't address what we started out trying
14 to address.

15 And while -- are we to understand that the HBTI
16 (phonetic) is an important issue for certain schools in
17 the community, however if we don't think it's and either
18 or, it's at both ends because this is something that is to
19 all the HBCU community, however it has become such a
20 dogfight between the House and the Senate that the House
21 is just strongly opposed to expanding the current way
22 (phonetic) which has a bipartisan effort to expand it, and
23 the House is not fighting for HBCU Capital Financing
24 Program.

25 They ask the community to make choice, and it's an

1 either/or. And we are just wanting to make it at both
2 ends.

3 DR. FRANCIS:

4 Excuse me, just a minute, you missed me when you said
5 something about "graduate programs."

6 MS. CHISOLM:

7 Yeah, apparently the Historically Black graduate
8 institutions designation is an issue that is part of this,
9 you know, larger, higher-ed, you have to forgive me, this
10 is not my strength, I have been focused on the capital
11 program, but, it has come up as kind of a dogfight, if
12 you will, and the House--

13 DR. FRANCIS:

14 Well, that was what I was getting at.

15 MS. CHISOLM:

16 Mhm?

17 DR. FRANCIS:

18 That was really a separate issue all together. I
19 think it had over and around for a while, but this came as
20 a separate issue from various Congress persons who were
21 interested in getting masters degrees--

22 DR. HAYNES:

23 326.

24 DR. FRANCIS:

25 --people do the 326. And the reason I'm saying this

1 is we tried to keep all these separate to make sure that
2 we didn't get caught in an undertow--

3 DR. HAYNES:

4 Right.

5 DR. FRANCIS:

6 --and he's gonna be around here sometime tomorrow, I
7 believe, but this Chicago Congress person moved to take --
8 and I think what you call the dogfight, which had nothing
9 to with HBCU Capital, to a Title VII, as I recall.

10 DR. HAYNES:

11 Right.

12 DR. FRANCIS:

13 And the conference committee, even to this day, is
14 still considering -- if they haven't done it -- creating
15 the VII to put all of the masters degree programs in VII
16 rather than in 326.

17 DR. HAYNES:

18 Right.

19 DR. FRANCIS:

20 So that these were separate. I think that, I think
21 -- let me just tell you my recollection to that, because
22 I spent many hours on this, trying to find out what's
23 going on, and how what we were recommending was fairing --
24 my understanding was that the CBO scored the program
25 aspects of what we recommended, and then told the Congress

1 that this was just too much. And that's when the Congress
2 started backing up on our -- and now I'm talking about the
3 HBCU Capital math, because I think, if you want to call it
4 compromise, the understanding on the master's degree
5 program that wanted to go to 326 has in effect, as of
6 today, as of yesterday, I'm told, it is now in VII.

7 So that fight is over, and our attention really is
8 separate in that we want HBCU Capital to go forward. But
9 the mountain, or the elephant that put on us was the
10 scoring by the CBO. And in our earlier conversation I
11 think you may have heard us say, we've got to salvage
12 something out of this, and hopefully it is getting the
13 increase to one point--

14 DR. HAYNES:

15 One billion.

16 DR. FRANCIS:

17 --one billion, one billion.

18 I just wanted to correct that, because I don't -- I
19 think they are two separate issues, the 326 Title III and
20 the masters program.

21 So I'm just telling you, in passing, that I was told
22 rather clearly that the chairman of the conference
23 committee was dead set that he was not gonna change the
24 current law and adding anything other than a term of
25 degree program into 326, and the he would put money into

1 VII.

2 And I think that has been done by now, as of today.
3 So, I just wanted to make sure that you understood that,
4 and that our emphasis is still on HBCU Capital.

5 MS. CHISOLM:

6 Okay, well, we -- and I thank you for the update,
7 because we were not getting that clarity--

8 DR. FRANCIS:

9 Okay.

10 MS. CHISOLM:

11 -- that that was going to stay around. That to your
12 point we also understood that the scoring was off. We
13 wanted to just say, we went back and did some fine tuning
14 on our end and we would like to put before you what we
15 think is a win-win that, you know, meets the requirements
16 of the Department of Education and the scoring, as well as
17 the borrowers. Because quite frankly, for the schools
18 that I am speaking on behalf, it is not that our balance
19 sheet can't do the program, because it is a loan, and we
20 know we have to be able to pay it back.

21 However, it's like we mark a tax credit they make
22 good deals better.

23 And so what we would like to set forth today is kind
24 of a compromise, if you will. Instead of what I think is
25 on the table, and you guys going back and giving us a

1 proposal in six months, because quite frankly, if the cap
2 gets lifted it's first come, first served, it's, you know,
3 we don't want to, we aren't in a position to wait six
4 months because it is business.

5 We have, you know, doors opened, and kids coming,
6 trying to execute divisions about our president.

7 So we would propose that we have an interest rate,
8 not the 1 percent, we concede that, but to, but that
9 federal discount rate for... which is around 2 percent.
10 The 2 percent money, you know, it works all day long and
11 they don't... the banks to take a loss.

12 So there is money in there for the government to make
13 some... and you can add the 22 basic points to that rate,
14 whatever that rate tends to be, intended to...

15 We'd also like for a two-third, one-third split to be
16 applied, it should be applied, of the incremental 400
17 million according to the statute split. Because right
18 now, given the Q (phonetic) that Don mentioned on the
19 majority of schools in the QR (phonetic) private, however
20 if the two-thirds/one third is applied to the whole 1.1
21 billion, because 684 million is already accounted for, it
22 only leaves \$175 million for the private schools, and that
23 wouldn't cover the Q.

24 So we would like the split to be applied on the
25 incremental monies that are available, the \$400 million.

1 And, third, to eliminate the pooling of the escrow
2 account. I think everybody understands the import of our
3 discussion, again to Dons point, only one loan has been...
4 and we would still concede the 5 percent escrow
5 requirement for each school loan, whatever that loan tends
6 to be.

7 So those are the three things we would like you to
8 support us on to let the three House members know who are
9 driving this, Miller, Scott and Dave, that this is
10 something that we want now, as we are in Q to make, to do
11 loans under the capital program.

12 DR. FRANCIS:

13 Let me ask you: And that's strictly for the ten
14 schools that -- I say ten -- that we originally talked
15 about, it's not for the total program?

16 MS. CHISOLM:

17 Well, actually, we would offer that for the entire
18 program--

19 DR. FRANCIS:

20 Okay.

21 MS. CHISOLM:

22 --and we had discussions and negotiations, if it has
23 to pare back to the smaller number, based on that
24 criteria, obviously we would be up for that.

25 But originally I think your direction back to us was

1 how do we make this--

2 DR. FRANCIS:

3 Right.

4 MS. CHISOLM:

5 --for the entire community.

6 DR. FRANCIS:

7 Correct.

8 MS. CHISOLM:

9 So these are three fair points for the entire
10 community.

11 DR. FRANCIS:

12 Yeah, it has to be for the entire -- I just wanted to
13 make sure we were clear--

14 MS. CHISOLM:

15 Yes.

16 DR. FRANCIS:

17 --that it would be for the entire community. Now
18 processwise, I must confess you having struggled with this
19 since we met in Atlanta, and then we had Thurgood
20 Marshall, UNCF, and NAFIO (phonetic) to sign off on the
21 program that got shot down.

22 How do we get into that committee that is being
23 chaired by Miller now? And I'm not sure about that, to be
24 honest with you.

25 I think that that which you are proposing would have

1 to come as a part of a combination -- and I think you
2 indicated, maybe you didn't -- what the Congress has said,
3 and that put the staff of that committee in particular,
4 that committee, that staff as a group, has bounced any
5 proposal back to the three organizations and asked for
6 their approval of proposals, and that's the reason why I
7 knew so much about the other one, in a sense.

8 Now, I don't know whether there is, as you call it,
9 time is running on us, because we don't know when the
10 committee is gonna act. There are some people here
11 tomorrow that we're gonna ask that question of.

12 But what I'm -- and I'm a little confused -- is that
13 the difference between what you are recommending and what
14 was, what was considered by the Congress that got shot
15 down earlier, I'm not sure if there's any difference
16 between what it is you're proposing, with respect to these
17 various discounts or interest payments, and the like. And
18 I think that has to go through, I guess, some
19 tailoring.

20 MS. CHISOLM:

21 Yeah, and I think actually there are some significant
22 ones. One is the interest rate, is it 1 percent, which,
23 you know, there were concerns that it was gonna cost them
24 to win. So, tying it to a rate that they currently lend
25 out, lend to other institutions, financial institutions,

1 if not a loss to, you know, to the federal financing bank.

2 So that's one issue. So you're not lending at quote
3 a loss. Second, we did not pass the issuance cost at 1
4 percent; it stays at 2 percent.

5 DR. FRANCIS:

6 Right.

7 MS. CHISOLM:

8 It's currently in the legislature. The splits are as
9 they are in the legislation and we're just asking you to
10 apply it to the incremental, for the other money that has
11 already been allocated pursuant to the loans that were
12 made, so that doesn't change the cost. So that's not an
13 issue.

14 And then the escrow requirement of 5 percent did not
15 change. All we're saying is to pool it to eliminate the
16 pool, not to eliminate the requirements of 5% escrow.

17 So really we have addressed, and have not, you know,
18 not changed the technical point for the Department of
19 Education, but we have made the program better for our
20 institutions, because of the borrowing rate.

21 And so, and that affords us, you know, quite a bit,
22 and it forces the underwriting to stay really within the
23 institution, as opposed to cross-collateralizing it, so on
24 the go-forward. And that is on the \$400 million. So I,
25 you know, everything that's been done on the other, you

1 know, it's been done. So we're not trying to untangle
2 that, but to go forward.

3 DR. FRANCIS:

4 I think I do understand that. Is Sally still on?

5 MS. WANNER:

6 Yes.

7 DR. FRANCIS:

8 One issue: Under that proposal, would the Congress
9 and/or would all the CBO want to come back in and say we
10 gotta score that as well?

11 MS. WANNER:

12 I would think so, yes.

13 DR. FRANCIS:

14 And the reason I'm saying all this, we, we -- I'm
15 concerned about how fast the Congress is gonna act, if
16 it's gonna act at all.

17 And yours is rightfully (phone interference). You
18 are, you are on a quick time; you want and you need funds
19 now, but I think time is gonna be against us on this one.

20 Can you send, can you send your proposal to Don so
21 that we will have on the record a public comment. We can
22 find out, even tomorrow if necessary, what we know about
23 Congressional action because there are people here who
24 have been dealing with this, and I don't know whether --
25 at least whether you heard -- what I have heard was that

1 the committee had come very close to making a -- I used
2 the word "cunning," but maybe that's not fair to them --
3 saying that they were not gonna quote change aspects of
4 the program, like the Senate did, that the conference
5 committee is gonna agree, but the Senate to the secretary,
6 who in turn would ask the advice of this school, regarding
7 any proposals on the HBCU Capital.

8 Now if I'm wrong or not, I may try to get that
9 clarified tomorrow.

10 But the point is that the committee in session now,
11 with George Miller chairing it, is not quote persuaded to
12 make any changes, but to send it to the secretary, and
13 then to us, to see how we can help the institutions in the
14 HBCU Capital, which includes the proposal that I think
15 you're making. That's the word.

16 MS. CHISOLM:

17 In our -- and this is in our back channel, with our
18 Sen. Lamar Alexander, from Tennessee, former education
19 secretary, if we can have your support, and we can work --
20 and "support," meaning both in support with Chairman
21 Miller, just to take these three points, and then we can
22 go to work on the Senate side.

23 But they need our community to be strong and have...
24 at least on these three points, and get them back on
25 Chairman Miller's radar screen, and they will, we can duke

1 it out. Because this isn't, you know, obviously between
2 LeMoyne and Fisk, it's important to him, as our senior
3 senator, so, you know, he is, he is our advocate and we
4 will guard this for us, but he needs us to step up to the
5 plate and not be, you know, silent on it, or not stress
6 how important it is.

7 And it really would mean a tremendous amount if we
8 could have the support of this advisory board committee,
9 and I have sent these points and recommendations on to
10 you, so it should be on your e-mail.

11 DR. FRANCIS:

12 Okay.

13 MR. WATSON:

14 Bridget, Bridget, this group doesn't have the
15 authority to, I'd say this group doesn't have the
16 authority to make any recommendations to the Congress. We
17 can only make recommendations to the secretary herself.

18 MS. CHISOLM:

19 But you can support it, because that's -- I mean, you
20 can offer, you could make a motion to support these three
21 items, if you feel comfortable with them, your board with
22 that. Because that's coming from the direction that we
23 had from before.

24 DR. HAYNES:

25 Well, I think what Don is trying to say, and we are

1 all listening, because we're not the experts in this, but
2 we can't do this without going through the secretary.
3 Ours is advice to the secretary, not to the Congress.

4 And I think the secretary has taken a position at
5 this point I time regarding this, but we are barred from
6 making a direct recommendation to the Congress.

7 MR. WATSON:

8 Exactly.

9 DR. HAYNES:

10 And that's the reason why, Bridget, that our other
11 group, three, went and ask for a consideration, and they
12 bounced it back and said, all three have to sign off, and
13 then we'll bring it.

14 And after doing that, we still lost when the CBO came
15 in. That's the only reason we were given for it.

16 But I don't think we, as a group, can make that as a
17 direct recommendation.

18 Let me ask you: Is Senator Lamar Alexander on that
19 conference committee? Do you know?

20 MS. CHISOLM:

21 No, he's been working with Senator Kennedy's staff,
22 the Senator's office, and he is not on the conference
23 committee.

24 DR. FRANCIS:

25 Okay. Yeah, we've got people asking, answering

1 questions from the Sen. Kennedy's staff as well, and I
2 would like to make a phone call myself to find out where
3 this at this point, because I got the impression -- and I
4 hate to say this -- that they've closed the book on us,
5 and is gonna send it to the secretary, and then the
6 secretary was gonna be instructed to talk to us.

7 And at that point we could say what our position is,
8 directly to the secretary.

9 And that's why we really need to see what you have,
10 because it sounds a lot like what they shot down on us,
11 but you've adjusted some of the things.

12 But what I'm hearing you say is that you've changed
13 nothing, other than you're asking that the pooling not
14 take place. Is that it?

15 MS. CHISOLM:

16 That's right.

17 DR. FRANCIS:

18 Is that -- I'm just -- because you gotta know, you're
19 talking to somebody who now happens to be chairing this,
20 but I've been arguing about getting rid of the pooling for
21 a long time, and I got shot down on that.

22 So, I'm not against the proposal, it's just that that
23 isn't flying because of the collateral situation, and the
24 rest.

25 But, go ahead. Did we read that correctly?--is

1 pooling a major concern of that proposal, is that correct?

2 MS. CHISOLM:

3 Right. And the two major points are that a building,
4 that the interest rates be lowered down, during, putting
5 it through the fed borrowing rate at the banks, or
6 consistent with that, and then making sure that the
7 incremental \$400 million, and that the pooling, you know,
8 go away. And if the pooling can't, if the pooling must
9 stay, then to have the interest rate.

10 Because, we can -- you know, again, we're trying to
11 have the pool, to have the best structure we can have when
12 we do these loans.

13 DR. FRANCIS:

14 Well I under--

15 MS. CHISOLM:

16 And right now, you know, the structure is so, is so
17 tight that you have very little flexibility in what you
18 can do. And this gives us options, and we have to nego-
19 tiate based on the strengths of our respective ins-
20 titutions.

21 DR. FRANCIS:

22 Okay. Well--

23 MR. HANSEL:

24 Dr. Francis, is Derek Hansel. I want to actually
25 just point out a quick thing on the interest rate.

1 MR. WATSON:

2 Derek, Derek, I was just wanting to get through the
3 public comment period, just so that we can let the public
4 make their comments, because we're actually going over
5 time again.

6 But--

7 MR. HANSEL:

8 Okay.

9 MR. WATSON:

10 --I am going to explain to the board about the fed
11 funds rate after the meeting, and how that affects
12 borrowing costs and things like that. Because it's not
13 the same as a fixed interest rate or even the six--

14 MR. HANSEL:

15 Well, that was the point I was going to make.

16 DR. FRANCIS:

17 Well, okay, he is gonna cover that, Derek, with us.
18 I just want to give the public as much time as possible,
19 and I know we've run over it a little bit, but that's a
20 major concern, and I think we got the picture, and I think
21 in being prepared for whatever we are able to do, which
22 means going through the secretary at this point, I'd like
23 for you to email this by -- what's the day?--I don't know
24 even know what day it is, today is Friday?

25

1 MR. WATSON:

2 I have to see her on Monday, I'll see Bridget on
3 Monday.

4 DR. FRANCIS:

5 On Monday. On Monday then we get this entire
6 document and I'm not being, or want to throw cold water,
7 but everything I'm hearing you say that blew us out of the
8 water on already. Because my pooling went out before we
9 could even get to the 1 percent money, and the like.

10 But, I'd like you to send that to Don. We would be
11 able, as I just asked Sally, as general counsel, how does
12 CBO fit into this.

13 And, number two, it is of course based on the \$400
14 million that we don't have now, but, of course, hopefully
15 we'll get.

16 And then know, what is it as a fact that George
17 Miller is asking us, or his committee is asking us to do.
18 And as you probably know, we have people who are direct,
19 are in direct contact with that staff, and I want to make
20 sure that that door hasn't closed completely. If it's
21 still open, we need to know that.

22 But that's not what I, that's not what I heard, and
23 the like, and we spent a lot of time with them on it.

24 So, would you get that to Don, because, again, it's
25 not that we have not showed an interest, we went really

1 with the three organizations to the mat with the staff,
2 and didn't win. And if we're gonna try another attempt at
3 it, we want to make sure it's distinct from the work that
4 we've done thus far, so that we don't get shot down again.

5 Don, is that an understanding, that we want that, and
6 we can deal with our general counsel? And, and find out
7 what the secretary is asking and is prepared to do.

8 MR. WATSON:

9 Right. That is the--

10 DR. FRANCIS:

11 The secretary may have been already told that the
12 conference committee is sending it back to her. Okay?

13 Thank you, Bridget, and, again, we all, as you've
14 heard the first part of this discussion, in the first part
15 of this meeting, we want to try to make this program work,
16 get money in it, and to help the schools that you
17 represent, and need those resources. Is there anybody
18 else?

19 MR. WATSON:

20 Andrea?

21 MS. HARRIS:

22 Yes, I just wanted to thank the advisory board for
23 your leadership, and in particular Dr. Francis for helping
24 us to move this issue along.

25 I would simply ask that we support all those

1 recommendations that have come from Bridget, and really
2 ask that the trade association, representing HBCU stay on
3 track of this issue as well, because I don't think that
4 we're gonna get a chance any time in the future to make
5 this much difference for HBCU.

6 DR. FRANCIS:

7 I'm optimistic in this sense. I'm not optimistic, as
8 I said earlier, about what's gonna happen immediately.
9 Because it seems like the committee has done everything
10 it's going to do on this, and in particularly in the
11 Senate, it didn't even touch it in their own, and we were
12 fighting it through the manager's report in the conference
13 committee.

14 And I think they've already punted. But that's what
15 we're gonna check out.

16 But all is not lost. I understand the need for money
17 now, but I think if you look down the road, if we can get
18 our \$1.1 billion, which we have to have, and then keep
19 coming back, you heard earlier in the meeting how certain
20 things we have been able to get changed, working with the
21 DBA and the like.

22 I think it's unfortunate that all the stars have to
23 line up, and I think time is gonna be extremely important.
24 And we took our one best shot, but I don't think it's over
25 with at all.

1 MS. HARRIS:

2 I really appreciate it, and I do think that, from my
3 vantage point, you have heard statements that, well, it
4 looks like if the community works together, the community,
5 some may not have been speaking with consistent or ask
6 that we be consistent, because when we send mixed
7 messages, even the leadership of the Senate will say that
8 sometimes we may well become within the HBCU community our
9 own worst enemy in not being able to move something
10 forward.

11 But as we stay on point with that. I would also ask
12 that, at some point, we not, we not give up on the, on
13 moving forward to deal with this issue of eliminating the
14 pools escrow, because there is no pools escrow with the
15 private school loans within the Department of Education.
16 There is no pools escrow to the Rural Housing and Low
17 Income Housing Development Fund, and there is no pools
18 escrow within Rural or Commercial, or Urban
19 Infrastructure, lending programs. There is no pools
20 escrow and so when you look at the intent of this program,
21 when you look at the intent of this program, then you
22 recognize that those with limited wealth, and in the
23 least of positions, are being asked to cover one another,
24 and no one has asked that other investment firm... of
25 anyone else.

1 So, I still have some challenges with the pools
2 escrow, and I have in turn asked, just so you know, the
3 Center for Responsible Lending, and the NAFCA (phonetic)
4 Reinvestment Coalition of the CRA Advocates, and they must
5 join with us, in taking a look at issues around pools
6 escrow, where they do and do not exist.

7 And also looking at whether or not there's anything
8 that we can do in a larger form to also address mandatory
9 arbitration language that still exists in some of these,
10 in some documents.

11 DR. FRANCIS:

12 Well--

13 MS. HARRIS:

14 Make sure that you are in a strong position, and I
15 would ask that -- the one thing that I would ask that the
16 committee not do and that is that the committee not agree
17 to putting anything, any efforts off for six months to
18 study, you know. That means that nothing happens, that's
19 all the study means, so I'd ask that you proceed with
20 having the conversations, when you can't make
21 recommendations, you can only make recommendations to the
22 secretary, but if you have no conversations with those
23 other legislators that will be at your conference this
24 week, ...some of us who have limited resources, they fly
25 down there for two hours to meet.

1 DR. FRANCIS:

2 Well, this -- well, it just happens that Natio
3 (phonetic) was here, and Natio (phonetic) invited the
4 other people, and they presented us an opportunity to
5 speak, but make sure it's clear, when I said I was told
6 that the committee was going to send it back, it wasn't
7 that we asked that it be sent back, but that they were
8 sending it back because the committee could not, and did
9 not, agree once the CBO scored the whole thing.

10 So, and I'm just also saying, I chaired at least four
11 different meetings of the three groups, and I can tell
12 you, unless somebody knows more than I know about this,
13 and I saw the letters, the HBCU Capital Program that we
14 submitted had, as its highest priority, all of the things
15 that was recommended, from the 1 percent on down.

16 I mean, there was no break in that chain. If there
17 was a question, the question was on another part of the
18 agreement where we would help the schools, that were
19 discussed in Atlanta, for monies aside from the capital
20 finance program.

21 And that one got to be a matter of contention, but I
22 thought that was settled, but at the same time, HBCU
23 Capital was our number one priority, without question.

24 Well, I thank you very much. And we will again keep
25 in touch, and with the sense of what is out there, what we

1 need to do. One of the items on our agenda, which we
2 talked about, is how can we help the schools under our
3 program? And that's not gonna change.

4 Thank you all very much for being so diligent in
5 working with us for the last two and half hours.

6 MR. WATSON:

7 Thank you.

8 MS. HARRIS:

9 Thank you.

10 MS. CHISOLM:

11 Thank you, goodbye.

12 DR. HAYNES:

13 Are we adjourned?

14 I move that we adjourn.

15 DR. FRANCIS:

16 I got a motion to adjourn.

17 DR. STRICKLAND:

18 So moved.

19 DR. FRANCIS:

20 All those in favor?

21 (Chorus of "ayes.")

22 (Whereupon the above-named meeting was concluded.)

23

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CERTIFICATE OF COURT REPORTER

I, RAYMOND JOSEPH PORTELL, Court Reporter, and
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Court Reporter