

HISTORICALLY BLACK COLLEGE and UNIVERSITY CAPITAL FINANCING PROGRAM

HISTORICALLY BLACK COLLEGE and UNIVERSITY
CAPITAL FINANCING ADVISORY BOARD MEETING MINUTES

CLARK ATLANTA UNIVERSITY
Thomas W. Cole Science Research Center
First Floor Boardroom
223 James P. Brawley Drive
Atlanta, Georgia 30314

Friday - November 30, 2007

10:26 a.m.

1 BOARD MEMBERS PRESENT:

- 2 DR. NORMAN FRANCIS, CHAIRMAN
- MR. DON WATSON, EXECUTIVE DIRECTOR
- 3 DR. LEONARD HAYNES
- DR. MARVALENE HUGHES
- 4 DR. ANDREW HUGINE, JR.
- DR. HAYWOOD STRICKLAND
- 5 DR. CAROLYN MYERS
- DR. LEZLI BASKERVILLE (Present via telephone)

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

2 DR. STRICKLAND: Thank you for
3 coming.

4 We have a quorum now, and we are expecting
5 Dr. Haywood Strickland here very shortly, so I
6 thought we might get started for those of us
7 who have schedules. We hope to have a very
8 productive meeting here this morning.

9 You have your agenda listed under 1. I
10 have two pages. The second page, it says call
11 to order, which we have done. I've given my
12 welcome introductions.

13 Any introductions we need other than in a
14 minute we'll do a roll call? Let's do our roll
15 call for the members of the Advisory Committee.
16 Would you do that for us?

17 MR. WATSON: Yes. Dr. Lezli
18 Baskerville.

19 DR. BASKERVILLE: Present. Good
20 morning all.

21 DR. FRANCIS: Good morning.

22 DR. HUGHES: Good morning.

23 DR. HAYNES: Good morning.

24 DR. MYERS: Good morning.

25 DR. HUGINE: Good morning.

1 MR. WATSON: Note that

2 Dr. Baskerville is on the phone.

3 DR. FRANCIS: We'll ask you to speak

4 loudly, because she has to hear us because

5 she's got a lot of good things to say, right,

6 Lezli?

7 DR. BASKERVILLE: Yes, Mr. Chairman.

8 MR. WATSON: Dr. Norman Francis.

9 DR. FRANCIS: Here.

10 MR. WATSON: Dr. Leonard Haynes.

11 DR. HAYNES: Here.

12 MR. WATSON: Dr. Marvalene Hughes.

13 DR. HUGHES: Here.

14 MR. WATSON: Dr. Andrew Hugine, Jr.

15 DR. HUGINE: Here.

16 MR. WATSON: Dr. Michael Lomax.

17 (No response.)

18 MR. WATSON: Dr. Ernest McNealey.

19 (No response.)

20 MR. WATSON: Dr. Carolyn Myers.

21 DR. MYERS: Here.

22 MR. WATSON: Dr. Haywood Strickland.

23 (No response.)

24 MR. WATSON: And Don Watson. I'm

25 here.

1 DR. FRANCIS: You're here. Glad.

2 Very happy.

3 We need to approve the minutes. And let
4 me say something before Lezli Baskerville does.
5 We have had the transcript of the record, which
6 you may have had a chance to read, and we have
7 to work out some way -- and I'm not so sure how
8 best we do this, Don -- where we can go through
9 those and pick out either actions that we've
10 taken and/or maybe significant comments, but
11 that's all, and then make this a much tighter
12 set of minutes.

13 I don't know what the Federal Rules are
14 about this. But if we did that to the best
15 that we could, then we could certify that at
16 least it's the substance of what the record is.
17 And the record will always be there apparently
18 for posterity, unless there was some things
19 said in the record that you wanted to correct.
20 I would certainly entertain that now.

21 There may be one or two things. When a
22 reporter does that typing, there are names that
23 may be off here or there, but that's okay. We
24 can correct that. But if there are any
25 comments that you want to make that the record

1 indicated something you said that may not have
2 been accurate, I'll certainly entertain that
3 and promise that the next time around we'll cut
4 it down to a much shorter version of the
5 minutes and then we can approve only the
6 actions. Marvalene.

7 DR. HUGHES: Is it possible that we
8 could correct these as minutes, because from my
9 perspective, there was no coherence to what I
10 was reading. And I think we need really
11 coherence, systematic minutes that reflect all
12 of our actions and activities.

13 DR. FRANCIS: Would you help us?

14 DR. BASKERVILLE: I second that
15 sentiment.

16 DR. FRANCIS: Well, I think I've got
17 a committee of two. Lezli Baskerville and
18 Dr. Marvalene Hughes are going to go through
19 those minutes and make them coherent. And then
20 Lezli is going to check it and then see if they
21 agree.

22 I agree with you, but, you know, like I'm
23 speaking to you right now --

24 DR. BASKERVILLE: Mr. Chairman --

25 DR. FRANCIS: -- the recorder is

1 going to have to say it like she thinks I said
2 it.

3 DR. HUGINE: And I concur with your
4 earlier observations. Obviously, I am new, but
5 as I read through this, it was just voluminous.
6 And I really was concerned about getting to
7 what the action items were.

8 And so while we do need coherence, as long
9 as we do that with some degree of brevity, I
10 certainly would concur.

11 DR. HUGHES: Right. Right.

12 DR. FRANCIS: Let's try it again so
13 you'll know. Most of us are new. This is my
14 second time. And I've read these, and I find
15 that we need to just go through them and pick
16 out were there action items there, put them
17 down. And if there were significant comments
18 that may bear on something for the future, put
19 that down. And we can get it down to four
20 pages at least.

21 DR. HUGHES: Or less.

22 DR. FRANCIS: Or less.

23 DR. HUGINE: Splendid.

24 MR. WATSON: Mr. Chairman, can I make
25 a suggestion?

1 DR. FRANCIS: Yes. Yes.

2 MR. WATSON: If you turn to page 2,
3 at the last meeting I provided a synopsis for
4 the board. I'm not sure -- I believe at the
5 last meeting the synopsis wasn't sufficient.
6 And that's actually a page and a half. If you
7 actually let me know exactly what it is you
8 want to see, then --

9 DR. FRANCIS: Well, I must confess, I
10 didn't see this. This is in our book for the
11 first --

12 MR. WATSON: No. It's actually from
13 the last meeting. But the last meeting it was
14 suggested that this wasn't done right. I need
15 some concrete suggestions how you want me to do
16 it.

17 DR. FRANCIS: Okay. All right. Let
18 me do this. This is the synopsis of our
19 meeting that -- at least I was not there.

20 MR. WATSON: Right. Right.

21 DR. FRANCIS: What does it say here?
22 Called the meeting, presided -- Friday,
23 October 27, 2006. Is that the synopsis of
24 these minutes?

25 MR. WATSON: Not these minutes. The

1 meeting prior to our April 20th meeting.

2 DR. FRANCIS: Okay. Well, who was on
3 the -- who was on this Advisory Committee when
4 this was done?

5 MR. WATSON: No one. Dr. Baskerville
6 was the only one.

7 DR. FRANCIS: Well, that's one vote
8 to pass the synopsis.

9 Lezli --

10 DR. BASKERVILLE: Yes, sir.

11 DR. FRANCIS: -- have you seen the
12 synopsis of the minutes of October 27th, 2006?

13 MR. WATSON: It was prepared for our
14 last meeting, our April 20th meeting, so it
15 was -- everyone had it.

16 DR. FRANCIS: Okay.

17 DR. BASKERVILLE: I don't -- I don't
18 have it in front of me. I'm sure I had it. I
19 can quickly get that notebook.

20 DR. FRANCIS: Well, no. Let me get
21 out the conundrum. One, you're the only one
22 who was there for this synopsis. And nobody
23 here could vote for this -- may vote for the
24 form of it, but I don't think any of us could
25 vote to say that this is exactly what happened.

1 And what I'm going to do with a consensus,
2 if you don't mind, that what we have just
3 talked about before Mr. Watson pointed this
4 out, this is what we're trying to get to.

5 MR. WATSON: Okay. Great.

6 DR. FRANCIS: So on the matter of
7 getting it down to a synopsis, that's what
8 we're trying to do. But we can't today pass on
9 these October minutes because we were not here
10 except Lezli. So I will defer this in terms of
11 its substance to Lezli so you will look at it,
12 because the other members are gone.

13 However, after we get a chance to take a
14 look at this on its substance, then I think at
15 the next meeting we can say do this for what we
16 read for the meeting of the past and the one
17 that we're going to have today, okay?

18 MR. WATSON: Great. Great.

19 DR. FRANCIS: I know that's a lot of
20 work, but -- I hate to say this, but for those
21 of us who have been on boards and the like, I
22 don't want to sit before a grand jury one day
23 and say, now, you agreed to those minutes,
24 didn't you?

25 So it's an important -- it is an important

1 action, and it's a lot of work. And I think,
2 if anything, we will defer at least the action
3 on the minutes of the one for April knowing
4 that we read the transcript and then ask that
5 you do the April one in this format.

6 And then at the end of this meeting, we'll
7 have our nice recorder's work, and you will do
8 the same thing. And we will put both of them
9 together so that we will agree that they
10 represent what it is we have done, okay?

11 DR. HUGHES: Does that mean that when
12 we see the minutes of this meeting --

13 DR. FRANCIS: Right.

14 DR. HUGHES: -- they will be in
15 appropriate format for minutes rather than the
16 dialogue?

17 DR. FRANCIS: Yeah. What Mr. Watson
18 is saying is this is what he has done with a
19 similar meeting that was held at Howard, to do
20 a synopsis.

21 And if we agree -- and you can contact --
22 if you agree this meets what our needs are,
23 then he will do that for both the meeting in
24 April and the meeting that will take place
25 today.

1 MR. WATSON: I do want to make a
2 point of clarity, though. The Federal
3 Guidelines Act, because this is a federal
4 advisory board, dictate that after this we
5 receive the court report. And at least three
6 weeks after this meeting, Dr. Francis, as the
7 chair, has to certify the minutes.

8 So that's what the court reporter has
9 done, is transcribed the business that we've
10 done. But you won't have this synopsis format
11 at the same time.

12 DR. FRANCIS: The time is too short
13 for you to do it in. I don't mind signing that
14 that's what the court reporter has done. It's
15 just a matter of our putting it in a format
16 that would pick up the major parts of it.

17 I mean, you know, I see a lot of things
18 and I break my sentences up, and then I read it
19 and say, whoa, I better do a better job in how
20 I speak. But at the same time, at least we
21 have the document itself. And that's the audit
22 trail from which we will go back to,
23 Ms. Grammar notwithstanding.

24 DR. HUGHES: You've got to get it
25 right, Dr. Francis.

1 DR. FRANCIS: Get it to what we did.

2 Welcome, Doctor.

3 DR. STRICKLAND: Good morning.

4 DR. FRANCIS: I know it's a long way
5 from Texas. Takes a plane a long time to fly.

6 DR. STRICKLAND: Sure does. Then you
7 can't find your way once you get here.

8 DR. FRANCIS: Have to talk to the
9 president about that.

10 MR. WATSON: I want to note that
11 Dr. Haywood Strickland has arrived.

12 DR. FRANCIS: For the record and the
13 minutes.

14 Okay. We have certified, and I will
15 certify -- I'll certify the minutes from April
16 and I'll certify these at the end of this
17 meeting. And then we'll come back in our next
18 meeting with the synopsis, okay?

19 MR. WATSON: Okay. Great.

20 DR. FRANCIS: All right. Satisfied.
21 Any objections to that?

22 So when we write these minutes up, we will
23 write that there were no objections to the
24 actions that I've just described, okay?

25 I'm not going to take a vote on that.

1 It's a consensus. Because I don't want to
2 argue this for another 20 minutes.

3 Let me thank Dr. Broadnax and his team for
4 inviting us here to this great campus. I have
5 to say, I can't remember when -- I can only
6 date it when the Republican group in the
7 Congress rebelled and took over as the new
8 order in a revolt. And that was how many
9 years?

10 DR. HAYNES: '94.

11 DR. FRANCIS: '94. So if it was '94,
12 I came here as a SACS chair of the legal team
13 to look at the consolidation of the
14 undergraduate school and the graduate school at
15 Clark Atlanta University. Wasn't it '94, give
16 or take? Do you remember? You weren't here
17 then.

18 DR. STRICKLAND: That was '88.

19 DR. FRANCIS: I remember being in the
20 hotel looking --

21 DR. STRICKLAND: The consolidation
22 was '88.

23 DR. FRANCIS: '88. Okay. Well, then
24 when did our friend from Georgia -- Ringrich, I
25 called --

1 DR. STRICKLAND: That was '94.

2 DR. FRANCIS: Well, then I came back.

3 I came back to do the tenures reaffirmation,

4 but I came with the legal team for the

5 consolidation. And I used the right word

6 consolidation. Beat that into my head. It was

7 a consolidation.

8 So I'm thrilled to be back on the campus.

9 And, Mr. President, we certainly would like to

10 hear from you. We don't have all the money yet

11 to provide you, but we'd be happy for your

12 comments as we start our HBCU Capital Meeting

13 this morning.

14 DR. BROADNAX: Terrific. How would

15 you like to position me?

16 DR. FRANCIS: Right here so that

17 Lezli can hear you.

18 Lezli, are you still hearing us?

19 DR. BASKERVILLE: Yes, I am. Thank

20 you.

21 How are you, Dr. Broadnax?

22 DR. BROADNAX: Fine, Lezli. How are

23 you?

24 DR. BASKERVILLE: Well. Thank you.

25 I'm sorry I'm not on your beautiful campus, but

1 I'm definitely with the team in spirit.

2 DR. BROADNAX: Well, I'm sorry you're
3 not here so I can get my kiss.

4 DR. FRANCIS: Uh-oh. Cut the record.
5 We don't want that in the record.

6 MR. BACOTE: She's got it.

7 DR. FRANCIS: He's not a member of
8 the Advisory Committee.

9 DR. BROADNAX: It's a great
10 opportunity to be able to talk to the board a
11 bit about our experience. And I have some
12 wonderful notes here, but I'm sort of getting a
13 feel for the tenor of the meeting, so I'm not
14 going to be overly formal and retreat to those
15 notes.

16 And I've got people here who really do
17 know things, particularly my CFO, so any errors
18 I make, they can be corrected almost on the
19 spot so that you don't go away with a bad --

20 DR. FRANCIS: Would you introduce
21 them for us?

22 DR. BROADNAX: Yes.

23 DR. FRANCIS: I know some of your
24 great staff members, but not all of them.

25 DR. BROADNAX: Bobby Young.

1 DR. FRANCIS: Mr. Young.

2 MR. YOUNG: Good to meet you.

3 DR. BROADNAX: And my executive vice
4 president, Carlton Brown.

5 MR. YOUNG: That's it.

6 DR. BROADNAX: So I'm well covered,
7 or you're well covered, because you're the ones
8 that will be injured by the bad information.

9 Let me say that the Capital Financing
10 Program for me here at Clark Atlanta came into
11 sharp relief a while after I was aware of it.
12 It was not when I first heard about it that it
13 became important and I thought that this was
14 something that we could embrace and that it
15 would do us a world of good. It came after we
16 had gone through the financial recovery here at
17 Clark Atlanta. And let me just say a few
18 things about that.

19 When we started this watch at Clark
20 Atlanta, we had a substantial deficit that we
21 were facing, and an even more substantial cash
22 flow deficit that we were facing to the extent
23 that we were under some tremendous pressure and
24 threat, particularly from our bond insurers.

25 And it finally reached a point that there

1 was nowhere to turn, that this institution was
2 going to be faced with having to do some very
3 difficult things in order to not have the
4 institution basically go into receivership.

5 And the conversation did get as far as the
6 bond insurers talking about the total asset
7 value of the institution and how they might
8 want to begin to think about sort of a ladder
9 or a schedule of presenting different parts of
10 the institution.

11 As I talk about this, you know, it
12 truncates what was more of an elongated process
13 and a process where we were sobering as we were
14 going through these conversations, because as
15 all of you know, the kind of medicine that was
16 about to be laid out for an academic
17 institution is totally anaphora, because at the
18 end of the day what it meant was, is we were
19 too large for the resources that we had
20 available to us and we had to become a size
21 that fitted the resources that we did have
22 available to us.

23 And so at the end of the day, consultants
24 came to the campus. And this was part of the
25 deal with the bond insurers. And we

1 constructed a road map for the recovery. And
2 it was well done by the consultants, but what
3 it involved was some major cuts.

4 We ended up laying off over a hundred
5 staff. We had some vacancies, so we could get
6 rid of those vacancies, but there were bodies
7 in over a hundred staff positions. And we had
8 to cut programs and reduce faculty size. In
9 total it was 75 faculty over time that would be
10 phased out along with the programs.

11 DR. FRANCIS: Of a faculty of how
12 large?

13 DR. BROADNAX: The faculty was over
14 300 at that point. About 329, 330, something
15 like that.

16 DR. FRANCIS: 25 percent.

17 DR. BROADNAX: Yeah. Yeah. That's
18 exactly right. So tough medicine, right?

19 And some of the programs -- we went
20 through an elaborate process on the campus,
21 various committees trying to come up with ways
22 how we could do this, because consultants did
23 not tell us which programs. They just told us
24 the dollar amounts that you got to hit to show
25 that you are going to be on your way out. You

1 go and figure out the programs.

2 Now, some people wanted us to declare
3 financial exigency, but that seemed to us that
4 that just sort of created more turmoil. So
5 you're going to have to work with the folks
6 that are there anyway, so you might as well
7 start out right now. So we did. And we worked
8 through these committees. And we finally came
9 up with a list of proposed programs.

10 And then we sat with our board and went
11 through those. And there was some change with
12 the board, but not a lot. And we finally came
13 up with it. And it was five programs.

14 And then we started having meetings on the
15 campus and worked all of that through. And
16 then June 30th came, and we pulled the trigger,
17 so to speak.

18 Now, also embedded in this was some other
19 cuts. It wasn't just people, but we had to
20 make other cuts. And one of them was the
21 university had acquired this icon called
22 Pascal's Restaurant. And maybe some of you
23 read about it in the New York Times. And I
24 always joke and say that when you're a
25 university president and you make the New York

1 Times, you know you've bottomed out. And so
2 that I had probably gone as low as I could to
3 have my name show up in the New York Times.
4 And it was not favorable or pleasant.

5 But the point was, is that we had decided
6 we were losing a substantial amount of money
7 every year on this and we couldn't afford to
8 keep operating it. So we were going to shut it
9 down. And that would save us a great deal of
10 money.

11 I say all that to give you an idea of the
12 backdrop of what became described as phase one
13 of the transformation of this institution.

14 When I came, this was not at all what I was
15 thinking about doing. And I'm sure that there
16 are other people around the table who could
17 echo that. But once we got into it, we
18 realized that it was transformation that we
19 were going to be about. And the farther we got
20 into it, we began to think of that as phase one
21 of the transformation.

22 What we had not talked about was the
23 condition of the place, which was the other
24 part. Because as we worked through the
25 financial recovery, we realized that really the

1 big issues were competitiveness and student
2 satisfaction and parental satisfaction. It was
3 all the questions that you face every day. So
4 since we're on this road, then let's really go
5 get them. So how can we do something about the
6 physical plant, became a really important part
7 of this. We had a deferred maintenance tab
8 of --

9 MR. YOUNG: 76 million.

10 DR. BROADNAX: -- \$76 million. When
11 we mentioned that to our board facilities
12 committee, I was shocked at their shock and
13 doubt about the size of the number. And we
14 were queried really hard about how could it be
15 that much.

16 And we finally retreated to saying, well,
17 you know, we invite you, just walk around
18 during the lunch break and you come back and
19 you tell us what you think it is, but you got
20 to go in some of the places and look around.
21 You come back and you tell us what you think it
22 is. And I think that calmed them down some
23 that they maybe started looking a little
24 harder.

25 And so we said, how can we then address

1 this problem? I've got to give Bobby Young,
2 our CFO, all the credit in the world because he
3 was the guy that brought me back -- he had
4 introduced me to this program early in my
5 tenure. And as I said, I didn't pay it a lot
6 of attention. Didn't see the immediate value
7 of what it could do for us.

8 He brought that thing back, and he said
9 not only can we start to do something about,
10 with this program, our physical infrastructure,
11 which is really important to us, but it can
12 help us with some of our financial problems
13 that we are dealing with in the context of this
14 recovery.

15 And so he began the conversations. And I
16 had a couple meetings with people from the
17 program, and it got integrated into my psyche
18 in terms of this phase two, which was going to
19 be the physical Clark Atlanta.

20 We've done some things with Title III.
21 And I don't want to muddy the waters talking
22 about that, but between the two things,
23 Title III and the Capital Financing Program, we
24 were able to then put together a corpus of
25 resources that have helped us in total here.

1 We calculate that we've invested somewhere
2 north of a hundred million dollars into the
3 physical Clark Atlanta over the last five
4 years.

5 DR. FRANCIS: Five years.

6 DR. BROADNAX: And \$20 million of
7 that is new money which has helped us through
8 the Capital Financing Program to renovate three
9 of our old dormitories. Because all of you
10 know, housing is extremely important. And
11 because we're in the inner city, which I had
12 never thought about before, it becomes even
13 more important.

14 I've always thought about residential
15 facility as being really important if you're
16 sort of isolated at schools like -- you know,
17 that are out in the country. But here people
18 say it's great. I want my child in the city
19 but if they're freshmen or sophomores, I want
20 them to be safe. And that means --

21 DR. FRANCIS: You take care of them.

22 DR. BROADNAX: You take care of them.

23 DR. FRANCIS: That's right. Guard at
24 every door.

25 DR. BROADNAX: Absolutely. Exactly

1 Been there. And folks shaking their fingers,
2 as you know, in your face as they're getting
3 ready to leave their kids saying, "I'm holding
4 you responsible for my son or daughter."

5 So my excitement just went like this
6 (indicating a hand gesture) about what we could
7 then do and being able to get at this deferred
8 maintenance issue. And I had no idea earlier
9 on how we might do that.

10 This \$20 million in and of itself will
11 virtually finish the transformation of the core
12 of Clark Atlanta.

13 Now, if I had a photograph of what the
14 school looked like in 2002 and what it looks
15 like now -- and, see, it becomes hazy to me,
16 right? Because I'm coming here, not every day,
17 but a lot of days in each week. People talking
18 about how different it looks.

19 But it will be virtually a new institution
20 when those dormitories -- those three
21 dormitories are finished in terms of the
22 remodeling along with the next academic
23 building we're going to do, which is our School
24 of Education which is called Clement Hall,
25 which is not far from here. In fact, it's sort

1 of right across here. When you go out the door
2 and go down the sidewalk, it's the building to
3 your left. Trevor Arnett is next, to your
4 right, and it's right down the hill. And
5 you'll notice that's going on.

6 It's been magnificent. The refinancing of
7 the debt and the money that that saved us in
8 the recovery is tremendous. The only sad thing
9 about it, it's hidden to the campus, that
10 probably no more people outside of Carlton,
11 Bobby, myself, and two or three other people
12 really get or understand that. And, think
13 about it. If we hadn't been able to do that,
14 that would have been another -- what?-- almost
15 14 million --

16 MR. YOUNG: Uh-huh.

17 DR. BROADNAX: -- that we'd of had to
18 find a way to come up with. But by refinancing
19 that debt, that saved people, that saved more
20 pain.

21 So I'm here, not only willingly, but
22 enthusiastically supporting this program,
23 because a lot of our institutions, as I've
24 talked to my colleagues over the last five, six
25 years, I know have some of the same challenges,

1 particularly in terms of their physical plant.

2 And you go around this city, and I look at
3 the competition, Georgia State and Georgia
4 Tech, and, you know, you've got kids you want,
5 high-quality kids to come to your institution,
6 and they go down there and look at all the
7 wonderful stuff, and then come up here and say,
8 "Well, where's the air conditioning and where's
9 the WIFI and the rec rooms?"

10 And you say, "We don't have any of that,
11 but we've got history. Boy, have we got
12 history. So all those comforts you were
13 interested in you, just but that in abeyance,
14 and four years from now you'll see that we were
15 right."

16 DR. FRANCIS: That dog won't hunt.

17 DR. BROADNAX: It's helped us
18 tremendously to have parents and people comment
19 now about how good things are looking these
20 days at Clark Atlanta. And the story is it's
21 going to look even better in the short term.

22 So by 2009, phase two of the
23 transformation we intend to have completed,
24 which is when those dorms will be completed and
25 Clement Hall will be completed. And Davage

1 Auditorium, for those who know the campus,
2 which had a tremendous amount of traffic -- I
3 mean, we did everything there, all of our
4 theatrical stuff. We do chapel there. And it
5 seats about 500 people. And the place is
6 really beaten up. And that will be completely
7 refurbished with new sound systems and so
8 forth.

9 So Sam Bacote and his colleagues deserve a
10 tremendous vote of thanks and appreciation.
11 They were patient with me because --

12 DR. FRANCIS: They had to be. You
13 were so skeptical and not knowing it in the
14 beginning. Had to lead you by the hand. But
15 now you've got it, and look at your testimony
16 this morning. That's going to be in the
17 record.

18 DR. BROADNAX: That's why I say don't
19 give up on those C students, that you just keep
20 working with them, and, by George, some day
21 you're going to see them down the road and
22 they'll be president of a college or
23 university.

24 DR. FRANCIS: Well, Mr. President,
25 you've done very well. Let me say that. And I

1 preface my remarks by saying I came for the
2 consolidation, I came then for the affirmation.
3 And I know what the struggle was. I know -- I
4 saw it coming at the time because you were
5 being -- well, you weren't here, but Clark
6 Atlanta was being inundated with students. I
7 mean, inundated. They were hiring faculty two
8 weeks before classes because of students coming
9 in. And this is 20 -- what? -- some odd years
10 ago. About 20 years ago.

11 So all of these things sort of catch up
12 with you. And, unfortunately -- I guess we
13 will end with this -- for those of us who are
14 presidents and staff, you do work that people
15 don't see, people take for granted. Mostly
16 faculty.

17 I don't blame them. I just get a little
18 upset when they don't acknowledge what it took
19 to get to where you are. And it's unfortunate.

20 I think Martin Luther King said it very
21 well. He said, "You will hear the criticism of
22 your enemies and the silence of your friends."
23 Remember that. And you've been there.

24 DR. BROADNAX: I've been there.

25 DR. FRANCIS: And yet you have to

1 keep on keeping on. And that's what they --
2 they don't pay you for that. There isn't
3 enough money in the world to pay you for that,
4 but they do remunerate you at least to keep
5 body and soul together. Of course, they are
6 not paying you like Georgia Tech and all the
7 rest.

8 I want to congratulate you. I'm glad you
9 were here to give us this report. I think it's
10 encouraging. It's certainly encouraging for
11 all of us as we will talk later about why we
12 must keep this program going and get the money
13 that is needed for those others who are out
14 there who need the same thing, and use Clark
15 Atlanta as an example of what that's all about.

16 DR. BROADNAX: Thank you very much,
17 Mr. Chairman. I haven't read this piece that
18 Leonard has handed out, but I think one of the
19 things that we suffer from could be cured
20 through programs like this.

21 I mean, what people see -- it's hard to
22 try to talk to families about the high quality
23 of your faculty if they're looking at a
24 building that's falling down and you're going
25 to say you're going to teach their children in

1 that building. So it's really important work.

2 DR. FRANCIS: No question about it.

3 We thank you.

4 DR. BROADNAX: Thank you very much.

5 DR. FRANCIS: We wish you well, and

6 we wish you to continue to thrive and folks

7 downtown will look and say, "Well, my goodness

8 look at this. We've got big-time competition

9 down there at Clark Atlanta."

10 DR. BROADNAX: Dr. Brown is becoming

11 just a first-class cheerleader. I mean, he

12 talks loud and strong about us being the force.

13 It scares me a little bit, you know, this

14 force, not only in Atlanta, but in the region,

15 in the world. So, you know, I have to drink my

16 strong coffee to try to --

17 DR. FRANCIS: We know Dr. Brown very

18 well. And you can always point the finger and

19 say that's what he says.

20 Thank you, Dr. Broadnax. Appreciate it

21 very much.

22 DR. BROADNAX: Thank you.

23 DR. FRANCIS: Keep up the good work.

24 DR. BROADNAX: Thanks much.

25 DR. FRANCIS: All righty. We will

1 have now the ethics update for new members.

2 And we have only one new member, right?

3 MR. WATSON: Actually, we have two
4 new members. We actually have three ethics
5 primers to go out. The two members are
6 Dr. Haynes, who is the Executive Director of
7 the White House Initiative on HBCU, and Dr.
8 Hugine, who is the president of South Carolina
9 State University.

10 DR. FRANCIS: Who is going to do the
11 duties, today?

12 MR. WATSON: Actually, same as
13 before. Very simple. I'll just pass these
14 out.

15 Dr. Haynes, this is just the ethics rules
16 of what the responsibilities are of being on
17 the Advisory Board. One is for actually
18 Dr. Myers as well. Although, you're not a new
19 member, I missed giving you that the last time.
20 That's provided you to read at your leisure.
21 If you have any question, I can put you in
22 contact with our attorney.

23 That's about it for your ethics.

24 DR. FRANCIS: That saved 30 minutes.

25 Well, my goodness, Dr. Haynes, you've seen

1 so many of those --

2 DR. STRICKLAND: He still has a
3 problem reading them, though.

4 DR. HAYNES: I was a C student.

5 DR. FRANCIS: We want to welcome our
6 new members to the Advisory Committee.
7 Interestingly enough, we are only one year old
8 or new. We're all in this together.

9 You've been with us Doctor, what? How
10 many years? You're a senior.

11 DR. STRICKLAND: Where? Here on
12 this?

13 DR. FRANCIS: Yes.

14 DR. STRICKLAND: No.

15 DR. FRANCIS: What about Lezli?

16 DR. STRICKLAND: I came with you.

17 MR. WATSON: She's been here for a
18 while.

19 DR. FRANCIS: She's the senior.
20 That's why her vote counts so much on that
21 October Howard meeting.

22 DR. BASKERVILLE: I love being the
23 senior rep.

24 DR. FRANCIS: Okay. Now we'll move
25 on, do our program update.

1 Let me thank Dr. Watson for the work that
2 he does. He doesn't have a big staff. He's
3 got Dr. Watson, right? That means he's got to
4 make visits, he's got to put all this together
5 and make sure that this is all in good order.
6 And we compliment him for that. And I want to
7 thank you, Mr. Watson, for that. But I'll turn
8 it over to you now for your director's report
9 as we go along in this meeting, on schedule,
10 too.

11 MR. WATSON: Actually, I'm the only
12 Department of Education employee, but there are
13 other people who work with me to make this
14 happen, Commerce and PMO folks that make it
15 happen for me as well. I had to put that out
16 there.

17 DR. FRANCIS: We know that, but you
18 got to carry that load on the Department of
19 Education side. These guys -- I know what
20 these guys do. They do what Dr. Broadnax just
21 got through saying. This is what you've got to
22 do. This is you. Okay. Go ahead.

23 MR. WATSON: On tab -- it's tab 7 in
24 your notebooks. It's the director's report.
25 I'm going to highlight some things here. Of

1 course, if you have any questions, I can
2 address your questions as we go through the
3 report. I want to thank the Chairman of the
4 Board for allowing me to provide this report to
5 you.

6 The first item, as you'll see, is our
7 Barber-Scotia update. Barber-Scotia is the
8 only loan that is in default in the program.
9 During the last meeting I reported that we were
10 going out to do an appraisal. We had not yet
11 looked at it.

12 We have looked at that appraisal, and
13 we're taking the next steps to review the
14 market conditions and those other things that
15 are important to see what we can actually get
16 out of a foreclosure if we were to foreclose on
17 this property.

18 The Department, along with the trustee,
19 the designated bonding authority will do all we
20 can and recover any outstanding --
21 Barber-Scotia's outstanding loan, but until we
22 actually make a sale and foreclose on this, we
23 can't say with certainty how much we would get
24 for a particular property or Barber-Scotia's
25 collateral.

1 We're in the process of retaining an after
2 broker to see what those market conditions are
3 for a property such as a college. And we
4 also -- within the Department of Education,
5 we'll look to see what alternative uses of the
6 property -- the property can be used for. So
7 far it's been said possibly a military academy.
8 There may be some interest someplace on a
9 charter school, something like that, but
10 there's nothing as of this date. There's no
11 one interested in that as an alternative use
12 within the Department of Education.

13 DR. FRANCIS: I don't know if this is
14 a fair question or not, but I thought I read
15 that Barber-Scotia was trying to recover and go
16 on and start a campaign. From your comments,
17 it doesn't sound like that's going to happen.

18 MR. WATSON: Well, I've been here for
19 about a year. And prior to me coming,
20 Barber-Scotia has been working on this plan.
21 I've made several visits to Barber-Scotia.
22 I've been in contact with President Flamer as
23 well as members of their board to try to help
24 them work out a plan. But, I mean, as of this
25 date, we have not yet seen any plans from

1 Barber-Scotia.

2 As far as from the standpoint of the
3 borrowers within the program, we have to
4 proceed forward. Borrowers in the program
5 actually plan for Barber-Scotia's debt service.
6 That's presently a 5 percent escrow within the
7 program. And so for those other borrowers in
8 the program, we have to proceed to make some
9 kind of -- make those borrowers whole again.

10 DR. FRANCIS: How many in that group?

11 Five?

12 MR. HANSEL: That are subsidizing the
13 Barber-Scotia?

14 DR. FRANCIS: Yes.

15 MR. HANSEL: It's about 10 or 11.

16 DR. FRANCIS: So what you're saying
17 for the record is that, like in any business
18 deal, you have to foreclose, sell the
19 properties in order to make whole the money
20 that was borrowed as well as the monies that
21 were in escrow to pay.

22 So, I mean, it's just not Barber-Scotia
23 that's at risk. It's the trust fund for the
24 others that --

25 MR. WATSON: Right.

1 DR. FRANCIS: So you've got to make
2 that whole to the extent it can be made whole.

3 MR. WATSON: Right.

4 DR. FRANCIS: Okay.

5 MR. WATSON: Now, the problem is
6 also, as I informed Barber-Scotia with --
7 Barber-Scotia wants to come up with a valid
8 plan and that kind of a thing, which we would
9 consider a release of collateral, but we have
10 to move forward.

11 DR. FRANCIS: I understand. I
12 understand.

13 DR. HUGHES: Can I ask a question?

14 DR. FRANCIS: Yes.

15 DR. HUGHES: In applying for the
16 loan, I assume Barber-Scotia was required to
17 put forward its payment plan and receive
18 approval according to the payment plan.

19 MR. WATSON: When you say payment
20 plan --

21 DR. HUGHES: To repay the loan.

22 MR. WATSON: Right. They had a debt
23 service.

24 DR. HUGHES: So something must have
25 happened. I think there's some lessons to be

1 learned here. Something must have happened.

2 MR. WATSON: I'll say this. I'm

3 sorry. Are you finished?

4 DR. HUGHES: I'm just trying to

5 learn.

6 MR. WATSON: Okay. Well,

7 Barber-Scotia actually defaulted --

8 Barber-Scotia lost its accreditation. And I'll

9 say here, and I'll say it anyplace, if any

10 institution loses its accreditation, it loses

11 Title IV eligibility. And once you lose Title

12 IV eligibility --

13 DR. FRANCIS: It's a death penalty.

14 MR. WATSON: No matter how large your

15 endowment may be, it's only -- at some point

16 your institution is going to have to close,

17 close its doors. And that is why Barber-Scotia

18 actually -- they lost their accreditation and

19 Title IV aid.

20 Most of our institutions are heavily

21 relying upon tuition, which that tuition is

22 funded through Title IV student aid.

23 DR. FRANCIS: Well, for somebody who

24 has been at this for a while, I can assure you

25 from the day one, I have said all along,

1 irrespective of borrowing money, if you lose
2 any steps in financial aid in Title IV from the
3 government, you're out of business.

4 I mean -- and, fortunately, thank God for
5 every administration in Congress over the many
6 years that we've been, financially it has been
7 there and it continues to be there. But it's
8 not a day that we should not be trying to keep
9 Title IV.

10 And that is -- I mean, that is the answer
11 to your question, that when you lose the
12 accreditation, you lose Title IV funds with
13 students, it's your backbone, and the bottom
14 falls out.

15 Yes. Sam, you wanted to say something.

16 MR. BACOTE: I just wanted to say, as
17 the DBA, it's part of our job to advise the
18 Department really the likelihood of the school
19 making payment. And prior to the loss, it was
20 not believed that that would occur. So we
21 believed the school could make those payments.
22 And then the loss occurred.

23 MR. HANSEL: To follow up on that --
24 but, you know, your point -- to your point,
25 Dr. Hughes, your question is, are there lessons

1 to be learned from the default. And I would
2 tell you that both the Department, the
3 designated bonding authority, and our counsel
4 Patty Wilkinson, have worked together to try to
5 look at the Barber-Scotia situation to see,
6 okay, what are the lessons to be learned from
7 this in terms of making sure that security is
8 properly documented, making sure that there's a
9 full understanding of how these loans are
10 secured.

11 Dr. Francis has talked a lot before about
12 the fact -- you know, the nature of this -- the
13 general program with the cross-collateralized
14 escrow. To a certain extent, you know, all of
15 the borrowers are put together.

16 And so if one has a problem, it becomes a
17 problem for the body of the borrowers. And so
18 it's very important for the Department, the
19 designated bonding authority, and our counsel
20 to work together to make sure that these loans
21 are as secure as possible, partly to protect
22 the Department's financial interest and the
23 interest of the federal taxpayers, but also to
24 protect the financial interests of all of the
25 program participants who are pooled together.

1 And so we really have, I would say,
2 tightened up how we look at that. Not so much
3 tightened up in terms of the loans that we
4 make, but make sure that everything is properly
5 documented and secured in such a way, you know,
6 hopefully, this won't be an issue ever again.

7 DR. STRICKLAND: Mr. Chairman, I'd
8 just like for the record to say to Mr. Watson
9 that though he is 90 percent correct, he's not
10 100 percent correct, that an institution can
11 lose its accreditation and move back into
12 viability.

13 I happened to take over one in 1994 I knew
14 was going to lose accreditation within a year,
15 and lost financial aid. And it's now restored
16 and part of SACS and all and thriving. So
17 there's some leadership kinds of things that
18 often take place that --

19 DR. FRANCIS: No question about that.

20 DR. STRICKLAND: -- offset that
21 statement.

22 DR. FRANCIS: But it's a major -- it
23 is a major factor. I think it was in an answer
24 to Dr. Hughes, what was the --

25 MR. HANSEL: What was the

1 precipitating factor.

2 DR. FRANCIS: Where was the link?

3 And that was the link.

4 DR. HUGINE: I guess the question it
5 raises, I'll make this comment, when an
6 analysis is made as to whether or not an
7 institution has the ability to pay, I suppose
8 that's more financial and based on enrollment
9 projections. But is there another part that
10 would deal with the programmatic aspect of it
11 more towards, you know, is the institution in
12 jeopardy of losing accreditation or other --
13 those programmatic factors, as opposed to just
14 purely the financial factors.

15 MR. WATSON: Well, a couple things
16 happened. Before I came to this program, I
17 actually worked in Title IV. So when I came on
18 board and I heard about the Barber-Scotia
19 situation, I started thinking of situations in
20 which a school could close programmatically.
21 Two reasons. One was called default rate. And
22 so I asked Sam to actually make that part of
23 our application.

24 DR. HUGINE: Okay. Okay.

25 MR. WATSON: The other piece, I'm

1 actually in talks now internally at the
2 Department with our accreditation staff to see
3 if we at some point can -- if there's a way in
4 which SACS or someone else can let us know in
5 advance when they're going to look at these
6 institutions, so we can start to have a little
7 more involvement with where an institution may
8 stand in its accreditation or get some insight
9 on accreditation, more than just what we have
10 today. So I sort of want to expand those
11 things. And that's something, I guess, lessons
12 learned and --

13 DR. HAYNES: I think we have to be
14 very careful.

15 DR. STRICKLAND: This is our
16 conversation at our last meeting, that SACS
17 should not be a part of this process.

18 I fully understand the fact that you want
19 to know whether or not a school is reasonably
20 expected to continue, but I think that you will
21 destroy the program if you begin to use SACS as
22 a vehicle by which you determine -- I know
23 you're not saying that.

24 MR. WATSON: Right.

25 DR. STRICKLAND: But we need to be

1 careful when we go down that road.

2 DR. HAYNES: The Department, as you
3 know, Don -- the Secretary recognizes
4 accrediting bodies. We don't actually do that.
5 So we have to keep that separation there and
6 not invite or encourage the regionals to do
7 things that they think they're doing at our
8 request. So we have to be very careful about
9 that.

10 MR. WATSON: Just let me clarify for
11 the record. I was not suggesting that SACS or
12 anyone else be involved in our process. What I
13 was suggesting, that you can see an
14 institution -- and, again, we need information
15 from the institution. And that's where we
16 requested information from.

17 But if we're about to make a loan on an
18 institution, and all we're relying on is
19 documentation that's, say, ten years old, in
20 their accreditation, then we need to -- and we
21 know it's not going to be accredited again, we
22 need to ask the more -- we can ask some more
23 pointed questions.

24 The Department does have regulations which
25 will guide us in some idea of what happens in

1 accreditation. So we can ask more pointed
2 questions to the institutions, not -- I'm not
3 suggesting at all to go to SACS or anyone else
4 other than the institution. That's who we work
5 with, the institution, to get information from
6 those institutions.

7 So that's what I'm looking for, to ask the
8 institutions more questions about their
9 accreditation and where they stand. You know,
10 if you have anything that we need to know -- I
11 mean, because we want to be a helpful body, not
12 necessarily just to make loans, but, again, we
13 want the institutions to last.

14 DR. HUGINE: And you are correct. I
15 don't think that we want the Southern
16 Association coming in making that kind of
17 assessment and determination. But, again, if
18 you go on the financial side, you bring in
19 experts, you bring in bonding persons who kind
20 of review the books and be sure that everything
21 is in order.

22 It would seem to me that, not SACS, but
23 the program itself could have similar persons
24 that come in and look at the information which
25 is provided to make some assessment. They

1 aren't passing judgment on the accreditation of
2 the university or none of that, but they are
3 assessing the information that's been presented
4 just as you would assess the financial
5 information to see whether or not there's a
6 likelihood that this institution would be able
7 to maintain its accreditation.

8 DR. FRANCIS: And that's a part of
9 your system.

10 MR. HANSEL: I would tell you, that's
11 part of it. It's important to note that
12 Barber-Scotia lost its accreditation, not as
13 part of the tenure process. It lost its
14 accreditation very suddenly as a result of
15 certain actions that the university had taken.

16 I don't want to really go much further
17 into that. But this was not part of its normal
18 review, and it's really not something, frankly,
19 any of us could have foreseen.

20 DR. FRANCIS: I think that we said
21 last meeting -- and Dr. Strickland raised it --
22 we've had bad experiences -- or let's put it
23 allegedly information being provided that
24 should not have been provided by the
25 Association.

1 DR. HAYNES: Yes.

2 DR. FRANCIS: We don't want to -- we
3 want to separate the two things. However, the
4 issue stays with the HBCU Capital Financing
5 Plan with the institution. And all of those
6 questions that you have to answer, whether it's
7 enrollment, what programs you're going into,
8 what it looks like, which is important
9 wholistically, but not passing on -- now,
10 accreditation is a matter of public record so
11 that if, in fact, you were on probation, for an
12 example, that's public record. Sure, that's
13 one of the questions we ask, how are you doing
14 with respect to dealing with that? That's a
15 legitimate -- that's a question that goes to
16 the institution, not to SACS.

17 MR. WATSON: Exactly.

18 MR. HANSEL: That's exactly right.

19 MS. WILKINSON: Couldn't you think
20 about instituting policies and procedures that
21 would have on the front end of a loss of
22 accreditation type of monitoring with the
23 school, and then to establish some policies in
24 what you would do in a generic situation if a
25 school lost its accreditation?

1 Because we sort of went through the
2 Barber-Scotia -- and I think that there were
3 ideas on the Department of Education side, but
4 I think you have to be very careful in terms of
5 stepping over the line and getting involved in
6 how Barber-Scotia resolved its situation.

7 So it seems that you have to really
8 consider as a board all the policy issues and
9 how you want to proceed with the school if you
10 ever got into the situation again.

11 DR. HUGHES: Let me raise a question,
12 because I'm concerned about Barber-Scotia, but
13 I'm also concerned from a larger perspective.

14 There is an aspect of this that clearly
15 relates to managerial accountability. And I
16 know that it is the responsibility of the
17 management of institutions to be accountable.
18 But when it's very apparent that that's not
19 happening, at what point does something else
20 kick in?

21 No, it should not be SACS, but at some
22 point there should be a check on fiscal
23 accountability. And I even wanted to ask
24 Dr. Broadnax that, because I know what he
25 walked into, but it's very, very important that

1 we raise those questions and decide how to give
2 assistance.

3 DR. FRANCIS: Well, I think that's
4 absolutely correct. I think you put your
5 finger on it. It inures back to management of
6 the institution, that if it is having problems
7 with this agency over here, that you know what
8 those are you. You go to the right side for
9 consultants to handle the problems that have
10 been identified, but you don't go to the agency
11 that's evaluating you. You go to an agency
12 that says how can we get auditors in here to
13 make sure that our auditing report is right, to
14 get a look at what is the inventory of the
15 prospects of students and so forth. I think
16 it's really back to management without
17 question.

18 And for the record, or not for the record,
19 but for the record, right now in the Higher
20 Education Act there is a major battle going on
21 with respect to the accreditors' concern about
22 the federal government's entry into requiring
23 certain things of accreditors that will come
24 back to the institution.

25 And the basic argument is that you should

1 have the institution's management, its board,
2 its presidents and the like in control of what
3 it is they do and that they do their own
4 inventory about "self-evaluation."

5 And all the accreditor is supposed to do
6 is what an auditor does when you audit your
7 books. They only come in and say, "You said
8 your mission was this. You're doing this.
9 Does that fit?" "Yes, it does." "No, it
10 doesn't." And it's not that they will tell you
11 what to do.

12 And I think it all comes back to we have
13 to be in control of our fiduciary
14 responsibility. And that's why I've always
15 said -- and the Doctor here knows it -- he was
16 in this business -- we have to be involved in
17 the accrediting process so that the accrediting
18 process doesn't "ask for things that are
19 impossible given the circumstances of higher
20 education in terms of people."

21 I think if we keep it in that context --
22 but you have to build some Chinese walls. And
23 I can just tell you watch the current passage
24 of the Higher Education Act. And if, in fact,
25 some of the language that's in the House

1 Bill -- it's in the Senate Bill and whether in
2 the Senate bill it will "be amended" to protect
3 the institutions through -- now, it's the
4 accrediting agencies that are complaining about
5 it.

6 So let me just -- so we understand what
7 you said and we understand what I think has
8 happened. I started the question by trying to
9 find out what is the future for Barber-Scotia.

10 And I think what I'm hearing is, like in
11 anything else, if, in fact, by some reason a
12 plan is developed, funds are forthcoming,
13 obviously the Department will look at that.

14 But in the meantime, like any other, I guess,
15 bank loan from any bank, until that happens,
16 the foreclosure process is ongoing.

17 MR. WATSON: That's correct.

18 DR. FRANCIS: Okay. Any other
19 questions on that report?

20 (No response.)

21 DR. FRANCIS: And we go back to you,
22 Mr. Executive.

23 MR. WATSON: The next item is the
24 results of the GAO audit. Last year the
25 program -- the Government Accountability Office

1 audited the program about this time last year,
2 asked us to look at several things. I guess
3 about three weeks ago we actually closed the
4 audit. So the audit is completed.

5 Some of the things we did to close the
6 audit was continue having these board meetings
7 at least twice a year. Inform individuals of
8 how the process works, overview of the process.
9 And we did that by creating frequently asked
10 questions on the Department of Education's Web
11 site. Customer satisfaction survey that we
12 send out to borrowing institutions and everyone
13 at least 15 days after the loan is closed.

14 We also -- there was an issue about
15 Federal Financing Bank fees in which the DBA,
16 had held those fees. Those fees are now being
17 transferred to the Department of Education.
18 They're also included in what's called the
19 Department of Education Cash Model.

20 DR. FRANCIS: Would you explain that.

21 MR. WATSON: It's just -- not a lot
22 of individuals look at this program as just
23 having the Department of Education and the DBA
24 designated bond authority, but another partner
25 in this is also the Federal Financing Bank,

1 which is an arm of the Treasury.

2 The Federal Financing Bank charges .125
3 percent, which is attached to a payment of a
4 loan as sort of a servicing transaction fee, if
5 you will. And that -- the DBA was holding that
6 fee. The GAO felt that this was the
7 Department's federal money and it should come
8 into --

9 DR. FRANCIS: Goes back to the
10 Department of Education.

11 MR. WATSON: Initially, it's supposed
12 to go up to the Federal Financing Bank.
13 However, the Federal Financing Bank --

14 DR. FRANCIS: The Treasury.

15 MR. WATSON: Right. The Treasury
16 said you all keep it. And so that's exactly
17 what we're doing. And that money is being
18 transferred, because as payments come in, a
19 portion of the payment is Federal Financing
20 Bank fees. So those monies are being
21 transferred to the Department on an ongoing
22 basis.

23 DR. FRANCIS: And that money goes
24 into the Department's treasury, so to speak,
25 not the Federal Financial Bank treasury?

1 MR. WATSON: Right. And the way you
2 look at it, the Federal Financing Bank vehicle,
3 the escrow, comes into play when looking at the
4 subsidy for the program.

5 And we spoke earlier about the escrow and
6 how the escrow was being affected from --
7 borrowers' escrow was being affected. But the
8 Federal Financing Bank fee comes into play,
9 too.

10 The final thing that the Department
11 actually does is issue a letter of credit.
12 Once the current borrower's escrow is depleted,
13 the Department issues a letter of credit.

14 DR. FRANCIS: All right. Next is the
15 independent review.

16 Any other questions on that? Sorry.
17 Please ask any questions as the director goes
18 over the results of the GAO audit.

19 Did everybody get a copy of that, of the
20 Advisory Board? Do you know? I'm talking
21 about the GAO report.

22 MR. WATSON: The actual report
23 itself, I did not -- you won't find in your
24 notebook, but my last director's report had the
25 recommendations as well as our action items. I

1 can provide you all with an actual copy, if
2 that's what you want.

3 DR. FRANCIS: I had the pleasure of
4 getting one early right after it was released.
5 And I think it might be some good reading for
6 you to see what an audit of this program was by
7 the GAO.

8 And our executive, what he has done is he
9 has picked out some of the main things the
10 audit said we should be doing as an
11 organization, right?

12 MR. WATSON: Right.

13 DR. HAYNES: Norm, I would agree with
14 that, because you need to see the entire report
15 to get some sense of the tone, because it's
16 contained in there, and just to see the
17 experts, you need to --

18 DR. FRANCIS: It would be helpful.
19 Those of you who would like to have a copy,
20 just tell the executive and you can read that
21 and get a picture -- get a picture of it.

22 All right. The next is the independent --
23 you said the independent review of the DBA, the
24 handling of loan funds. That sort of ties in
25 with the one above it. It's right after -- it

1 says the handling of loan funds and associated
2 fee. That was in your outline for your GAO
3 report.

4 MR. WATSON: That's something --
5 we've already completed that item as well. We
6 actually had someone going to review the DBA,
7 to see if there were any programmatic changes
8 we needed to make, how can we improve the
9 program, those sort of things. We actually did
10 that.

11 And later on you'll see our program
12 objectives for the upcoming year and some
13 things that we're going to do. And those are
14 things that we're going to work on, what the
15 independent review actually told us. The
16 suggestions they gave us, we're going to look
17 at some of those things.

18 DR. FRANCIS: The last thing I'm
19 looking at on page 1 of 3, we're requiring the
20 DBA to submit quarterly reports on the status
21 of the program.

22 MR. WATSON: Right. Those quarterly
23 reports was also part of the GAO --

24 DR. FRANCIS: Uh-huh. Right.

25 MR. WATSON: The GAO basically was

1 saying that we need to monitor the DBA a little
2 bit better, have a little bit more management
3 control. Those are some of the things we're
4 doing. Having quarterly reports for marketing
5 activities, what kind of institutions we're
6 looking at, what kind of institutions we're
7 loaning to. Part of the report said we weren't
8 looking at small institutions. We were only
9 looking at large institutions.

10 DR. FRANCIS: It's interesting. It
11 talks about student enrollments, types,
12 locations as well.

13 MR. WATSON: Right. Those are part
14 only because, although as part of our marketing
15 program we visit many institutions, GAO just
16 felt that the program in lending money only
17 loaned money to institutions at certain levels.

18 But, again, I think most people need to
19 realize that this program, no matter what
20 institution you are, you have to meet the
21 credit criteria to be able to repay the loan.

22 So if you're a small institution and you
23 meet that, we have no problem in lending money
24 to you. This report just shows what
25 institutions we're reaching out to and that

1 kind of thing.

2 DR. FRANCIS: Okay.

3 DR. STRICKLAND: Is there -- was
4 there a written review, the independent review
5 of the DBA? Was that written?

6 MR. WATSON: It was a written review.
7 It's a written review of their suggestions,
8 things they found, things they were required to
9 look at, things we asked them to look at.

10 And -- let's see -- I think it's page 3 of
11 3 where it says 2007 Program Objectives and it
12 reviews the four areas in which we're going to
13 be working on over the next year or so.

14 DR. FRANCIS: Let's run through,
15 then, and get to Dr. Strickland's question. On
16 page 2 of 3, it starts the areas of work that
17 we'll be doing, is it not, if I'm looking at
18 this correctly?

19 MR. WATSON: On page 2 of 3,
20 actually, we're going to talk a little bit
21 about the program cap and some statutory things
22 that are going on. And the Secretary supported
23 it.

24 DR. FRANCIS: Right.

25 MR. WATSON: The performance

1 assessment rating tool is another measurement,
2 another way to re-look, sort of monitor the
3 management program.

4 And then page 3 of 3 actually gets into
5 more what Dr. Strickland was talking about.

6 DR. FRANCIS: Okay. Okay.

7 MR. WATSON: So if you want to go to
8 page 3 of 3, you can do that.

9 DR. FRANCIS: Let me ask if there are
10 any questions on page 2 of 3. The first part
11 of 2 of 3 talks about the fact that we reached
12 our limit, right?

13 MR. WATSON: Right.

14 DR. FRANCIS: Over the last few weeks
15 we've briefed the Secretary on that. The
16 option -- the Secretary chose to do several
17 things apparently. Change the escrow
18 requirement to provide for our risk premium and
19 origination fee, and to increase the program's
20 insurance authority \$1.1 billion.

21 MR. WATSON: Right.

22 DR. FRANCIS: And what follows are
23 the specifics.

24 MR. WATSON: Yes. And just to let
25 you know that the House -- the Secretary's

1 options and these proposals actually went all
2 the way to Congressman Miller's office.

3 However, in the House itself, the only
4 things in there is increasing the program
5 insurance authority. The other piece about
6 changing the escrow requirement did not make it
7 all the way through to the Congress.

8 DR. HUGINE: I would like to, I
9 guess, have some discussions of the advantages
10 or disadvantages of what's being suggested here
11 versus what exists currently.

12 One of the things I see is that neither --
13 and maybe I don't understand this -- but
14 neither the origination fee nor the premiums
15 will be returned to the borrower.

16 MR. WATSON: Yes.

17 DR. HUGINE: That's different from
18 what's in existence now?

19 MR. WATSON: That's different than
20 what's in existence now. What happens today
21 with the escrow fund, if the escrow fund is
22 returned to the borrowers in the case that --

23 DR. HUGINE: It's not used.

24 MR. WATSON: It's not used for
25 delinquent payments or defaulted payments, you

1 turn it back to the borrower.

2 The other piece of that is that you have
3 institutions who say that they don't want to be
4 tied to -- their escrows be tied to someone
5 else. And this is a way to get around that.

6 The funds wouldn't be returned because
7 there would be a reserve fund. In theory there
8 would be -- and all of this is -- we hadn't
9 laid down how we'd actually implement it. But
10 in theory what would actually happen is the
11 reserve fund would actually have -- be kept
12 aside for any defaults, for the Secretary to
13 use in the case of defaults. But the
14 origination fee and a risk payment would be
15 attached which would give you somewhere near
16 the 5 percent that you would pay now. It's
17 just that you wouldn't get the money back.

18 DR. HUGINE: So assuming that there
19 are no defaults, then what would be the
20 advantage of that to what we do currently?
21 Notwithstanding if we don't have a default in
22 the program -- and we've only had one, correct?

23 MR. WATSON: One.

24 DR. HUGINE: Then you've got a pot of
25 money, some 5 percent or so that's being held

1 that the institutions will not get back.

2 What's the benefit to the universities, to the
3 institutions, of that?

4 I know -- there's always a risk. I mean,
5 the current process has a risk because we're
6 all tied together.

7 MR. WATSON: Right.

8 DR. HUGINE: But assuming that you do
9 not have any future defaults, what would be the
10 advantage of not returning the 5 percent versus
11 leaving it the way that it is?

12 MR. WATSON: Well, there's a couple
13 things going on. Let me just go back a little
14 bit. These options came out of HBCU week when
15 the Secretary announced that she would be
16 looking into -- someone had told her that -- it
17 was the issues with universities in the
18 program, current borrowers and borrowers who
19 were interested in the program have not
20 borrowed found that having this escrow
21 requirement the way it is in today's program
22 was a problem.

23 In that HBCU week she actually said that
24 she would look into changing the escrow
25 requirement as well as increasing the program

1 insurance authority. There was several
2 options. And part of this -- and let me just
3 give you a little more history.

4 Part of this is that there's a subsidy
5 cost. When the program was first created, the
6 program was created at zero subsidy, which
7 means there was -- the default risk was zero.
8 Today the -- it went from 10 -- I'm sorry --
9 from zero to 10 percent of a subsidy. In the
10 current environment the -- we have a deficiency
11 of about 6 or 7 percent on subsidy, which the
12 program still needs to be a zero subsidy
13 program.

14 And so the Secretary -- we have to have
15 money from someplace to say this is what we're
16 going to do in the case of a default. This was
17 just one of the options. But, of course, that
18 did not make it to the Congress. And if this
19 board has other suggestions, we will look at
20 that. But this was a way to get around
21 institutions saying they didn't want to have
22 their collateral tied in with someone else.

23 It also seemed reasonable because it
24 was -- a risk payment would be attached based
25 on credit risk and that kind of thing. But the

1 origination fee -- I can't recall -- 3 percent
2 origination fee would be something very similar
3 to what someone would have to pay anyway in
4 getting a loan.

5 DR. BASKERVILLE: I'm sorry. On the
6 origination fee -- I don't know which
7 legislation or which iteration of the
8 legislation you all are looking at now, but it
9 was not my understanding that that would be
10 nonrefundable.

11 And as we worked with staff on it, there
12 were a couple of things that were attractive.
13 One was that the pool itself would be increased
14 to \$1.1 billion so there would be additional
15 dollars. There would be --

16 DR. FRANCIS: Let's go down the line
17 because I'm starting to make a list. That has
18 been done now, right? The Secretary has
19 recommended to the Congress to do the 1.1?

20 DR. BASKERVILLE: 1.1 billion.

21 DR. FRANCIS: Okay.

22 DR. BASKERVILLE: And then the cap
23 would be raised to -- oh, that's the 1.1
24 billion. There was an origination fee, the 3
25 percent origination fee.

1 Now, when we responded in support of
2 that -- and in our discussions we never talked
3 about any irrevocable origination fee. I need
4 to look at the language and see if that's what
5 it says. But we supported a revocable fee.
6 And then in terms of the risk premium, there
7 was no cap in the legislation that the
8 administration advanced, but we suggested that
9 the risk premium could in no case exceed the 5
10 percent that they have under the existing
11 bill -- under the existing legislation.

12 So there would be the 3 percent
13 origination fee and a cap on the risk premium
14 of not more than 2 additional percentage points
15 so that the institutions that were high risk
16 would not have to put up more than they
17 presently do, which is the 5 percent.

18 And the other -- the very attractive piece
19 was the elimination of the pooling requirement
20 that's in the current legislation. And all of
21 our members have said that the pooling
22 requirement is troubling because they're
23 carrying the risk and the burden of someone
24 else.

25 So that was the legislation we looked at.

1 And, Don, I'll look at -- I don't know what
2 you're looking at right now. I need to revisit
3 it. And, certainly, if it is the
4 administration's intent that it is an
5 irrevocable fee, then we need to be clear in
6 our comments against the irrevocability of the
7 origination fee.

8 MR. WATSON: And, again, these were
9 only options that were provided to the
10 Secretary. Some of the things that you're
11 actually talking about are probably -- a
12 borrower paying 2 percent risk premium is
13 really, really expensive.

14 MR. HANSEL: It would be at the high
15 end. Not to exceed.

16 MR. WATSON: I mean, that's --

17 DR. BASKERVILLE: So it could be
18 none.

19 MR. WATSON: Right. Exactly. It
20 could be none.

21 DR. FRANCIS: What's the current?

22 DR. BASKERVILLE: It's a 5 percent
23 pooling requirement presently.

24 MR. HANSEL: With no risk premium.

25 DR. BASKERVILLE: With no risk

1 premium.

2 DR. FRANCIS: So the 5 percent that
3 you have just described is similar to what
4 happens now except that you pay a 2 percent
5 risk premium. Is that what I'm hearing?

6 DR. BASKERVILLE: The 3 percent
7 origination fee, and not to exceed a 2 percent
8 risk premium.

9 DR. FRANCIS: So it could be zero
10 you're saying?

11 DR. BASKERVILLE: Correct. But you
12 still don't have the pooling requirement. So
13 for the strongest institutions that are
14 vehemently opposed to this pooling requirement,
15 you don't have that. Then for the weakest,
16 they would be in no worse position than they
17 are now because it would not exceed the 5
18 percent.

19 DR. FRANCIS: The difference in all
20 of what we are saying is whether or not this is
21 returned at any point in time?

22 MR. BACOTE: That's correct.

23 DR. FRANCIS: In the current in the
24 pooling, it's returned that which is left. It
25 sounds like -- I guess you do an insurance.

1 You buy insurance, hope you don't die soon.
2 But if you don't die, you still don't get your
3 premiums back. And so I think that's what I'm
4 hearing here. As a trade-off for being in the
5 pool, you buy the insurance with the hope that
6 nobody --

7 DR. HUGINE: Uses the insurance.

8 DR. FRANCIS: Exactly. Exactly. But
9 you don't get your money back.

10 DR. HUGINE: And maybe there is a
11 point in the middle -- obviously, I understand
12 the risk factor, because, obviously, if you do
13 it in the private sector, you may have to pay
14 private mortgage insurance. So that's not
15 atypical.

16 But the compromise might very well be the
17 risk insurance up 2 percent, but some portion
18 of that 3 percent be returned to the
19 institutions.

20 DR. FRANCIS: I think that's,
21 obviously, what ought to be looked at, because
22 of the things we have learned in the program,
23 and much of what I have read, is that the
24 institutions, HBCUs, have found it more
25 expensive to do this program than in the

1 private sector.

2 So what we want to do is bring it down in
3 here to be more competitive. And if the deal
4 breaker gets to be, say, the risk fee premium,
5 that could be a deal breaker.

6 DR. HUGINE: Uh-huh.

7 DR. FRANCIS: And what we're trying
8 to do -- now, I must confess, the deal breaker
9 talking strictly for me was I didn't want to be
10 in the pool because -- that was the deal
11 breaker. And I stayed in the private market.

12 In the current thing, we're not in a pool,
13 although we are going to have a trust escrow
14 fund to cover, I assume, what it is that may
15 happen to us. But I'm not worried about what
16 happens to Dillard, because they're never going
17 to default. But even though I love them, I
18 didn't want to be in the pool with them, and
19 she didn't want to be in the pool with me.

20 My point is every bucket sits on its own
21 base in what we are now. Now, the question is:
22 What do you pay for that? And I think what I'm
23 hearing is the government is saying with a zero
24 subsidy risk, we've got to have something that
25 meets the law. And, Lezli, you may want to

1 look at that.

2 DR. BASKERVILLE: Yeah. In fact,
3 I've got to go over to the Hill. We're trying
4 to come up with some language with the staff
5 today, which is why I couldn't be there. So
6 I'll make sure that their intent is consistent
7 with my understanding that this would be
8 revocable.

9 DR. FRANCIS: Okay.

10 DR. BASKERVILLE: Now, the other
11 thing is that there is a Cohen Bill that's got
12 some momentum because some of our members -- I
13 think five of our members are attempting to
14 legislate so that they can get in. And the
15 Cohen Bill is not all bad, but I have a general
16 problem, and it makes our lives more difficult
17 when we try to legislate or do policy to impact
18 five people.

19 But there's -- in the Cohen Amendment, in
20 order to be eligible for the funds, you have to
21 be a Part B institution, which is no problem.
22 You would have to have limited financial
23 capacity to effectively modernize your campus
24 and compete for students. You'd have to show
25 that you had a decrease in -- that the student

1 body had an increased declined over a ten-year
2 period, that the institution had long-term debt
3 under \$10 million, that they had endowment
4 under \$15 million and some other thing. Oh,
5 net assets, I think it is, right? Net assets
6 under \$15 million.

7 Well, that -- when we looked at that
8 against what the administration was proposing,
9 we -- "we" meaning the collective HBCU
10 community representatives -- UNCF, NAFEO,
11 Thurgood Marshall Group -- supported with the
12 modifications that I just indicated the piece
13 that the administration was showing, because
14 our calculations showed that there were only
15 about five or so institutions that would get in
16 under the Cohen Bill. But they have a team of
17 lobbyists here and they're aggressively seeking
18 support for it. He want those five, but we
19 want a wide range of others to be able to
20 participate.

21 DR. FRANCIS: Lezli, we have a
22 representative from Lemoyne-Owen that is going
23 to be making a presentation to us in the public
24 comment side which covers what you've just
25 said.

1 DR. BASKERVILLE: Okay.

2 DR. FRANCIS: What I think we're
3 dealing with now, which you can be a big help,
4 if indeed there is a "constructive alternative"
5 to what's on the table in these options now
6 wherein the legislation -- I'm talking strictly
7 now about the origination fee and the risk fee
8 premium and the question of return to the
9 institution if, in fact, there are no defaults
10 in this.

11 And you've got to be very careful with
12 that, because if you had one default, you know,
13 you lose the ball game in a sense. You've got
14 to have -- it's got to be nobody defaults
15 because you -- you're either in a pool or
16 you're not in a pool.

17 And so if you're not in a pool, which is
18 positive for me, and if, in fact, there are no
19 defaults, can the 3 percent origination fee be
20 returned in that circumstance? That would be
21 giving merit for good behavior, so to speak.

22 And if that is a consensus of the Advisory
23 Committee's recommendations to the options of
24 the Secretary, I think we may want to comment
25 on that or pass that. That's not dealing with

1 the issue you're talking about. That's dealing
2 with how can we make the program more inviting
3 and competitive for HBCUs. Am I summarizing?

4 DR. HUGINE: Yes.

5 DR. BASKERVILLE: Correct. I really
6 actually need to step off for a while, because
7 I've got to run over to the Hill now on this.
8 And I will expect some additional information.

9 But, Mr. Chairman, is it appropriate or
10 are we as a body able to submit something in
11 writing to advise Congress as they're trying to
12 make final decisions on this?

13 DR. FRANCIS: Well, what I just
14 described in trying to summarize this I think
15 would be appropriate, but only that at this
16 point in time.

17 DR. BASKERVILLE: Okay.

18 DR. FRANCIS: Only the fact that what
19 you have just questioned, and we're all wanting
20 to find out are we correct. And the executive
21 director may be very correct about that. And
22 if he is, then what we're saying is, would you
23 consider in the legislation in order to keep us
24 out of a pool, in some way return monies out of
25 the 3 percent side for those who are in the

1 program where there are no defaults. I think
2 I'm hearing that.

3 It's the only way -- it's hard for me to
4 describe it, because on the one hand you're not
5 all locked together in my Louisiana law of in
6 solito anymore. You know, you are separate.
7 And so it almost has to be that everybody has
8 got to be no default.

9 Now, if you go with history, you may be
10 winning because you've had only one in the
11 years. So it's worth -- it's worth the risk of
12 trying to get some of that 3 percent money
13 back, so --

14 DR. BASKERVILLE: Is that worth the
15 risk, that is the consensus of the Advisory
16 Board?

17 DR. FRANCIS: That's what I was
18 trying to get.

19 DR. BASKERVILLE: Let me run to this
20 meeting, and I'll have some other information.

21 DR. FRANCIS: Lezli, before you
22 run -- before you run, strictly on this point,
23 is there any opposition for what I've just
24 described? Namely, that in keeping with the
25 option to separate those out of the pool, the 3

1 percent and 2 percent that's being recommended,
2 which should be no more than 5 percent, no more
3 than 2 percent that currently we believe would
4 be -- would not be returned, we are
5 recommending that at least 3 percent of that
6 money would be put back to the institutions,
7 returned to the institutions where there are no
8 defaults?

9 Is that -- I'm saying it as best I can in
10 describing that. And if there's no objection
11 to that, I'll take a motion to put it on, we
12 pass it as a recommendation of this Advisory
13 Council.

14 DR. BASKERVILLE: Okay.

15 DR. FRANCIS: That's strictly on this
16 point. Can I get a motion to do that?

17 DR. MYERS: I so move.

18 DR. FRANCIS: Second?

19 DR. HUGHES: Second.

20 DR. FRANCIS: Any questions about it?

21 (No response.)

22 DR. FRANCIS: All those in favor
23 state properly by saying aye.

24 DR. STRICKLAND: Aye.

25 DR. HUGINE: Aye.

1 DR. MYERS: Aye.

2 DR. HAYNES: Aye.

3 DR. HUGHES: Aye.

4 DR. BASKERVILLE: Aye.

5 DR. FRANCIS: Nos?

6 (No response.)

7 DR. FRANCIS: Motion is carried.

8 That's our recommendation.

9 DR. BASKERVILLE: Okay.

10 DR. FRANCIS: Not members of
11 Congress, but we would recommend to the
12 Department of Education that they pursue this
13 in their passage.

14 DR. STRICKLAND: Lezli, we still have
15 time to address the other issues that you
16 raised about the five schools --

17 DR. FRANCIS: Yes. Yes. That's --
18 we will have the presentation from
19 Lemoyne-Owen.

20 Lezli, are you going to be back?

21 DR. BASKERVILLE: Yes, sir.

22 DR. FRANCIS: Well, go for it right,
23 not left.

24 DR. BASKERVILLE: I'll be back.

25 DR. FRANCIS: And, hopefully, you'll

1 come back when we get the presentation, because
2 there are --

3 DR. BASKERVILLE: Tell me -- may I
4 get a sense of the timing, because I want to
5 coordinate so that I am on when --

6 DR. FRANCIS: Well, we are moving
7 rather nicely and deliberating. We're not
8 cutting anybody off. We're down -- we
9 really -- we're down to -- we passed the
10 program data. We're in the program -- I mean,
11 we're on the board side.

12 We've talked about Congressional support
13 to increase the cap, which has happened. And
14 that was the discussion that we just had that
15 we went into, of course, aspects of increasing
16 the cap which had this origination fee and risk
17 fee in it. But we would be going next to the
18 current capital needs of Historically Black
19 Colleges, the needs can be met through the
20 program.

21 DR. STRICKLAND: Have we finished
22 with the director's report yet?

23 DR. FRANCIS: What?

24 DR. STRICKLAND: Have we finished
25 with the director's report yet?

1 MR. WATSON: Almost.

2 DR. FRANCIS: Almost. Almost. We
3 have about three more bullets left of his
4 report.

5 DR. BASKERVILLE: Don, may I call you
6 on your cell phone when I need to be
7 reconnected?

8 MR. WATSON: Yes, ma'am.

9 DR. BASKERVILLE: Okay. Thank you
10 very much.

11 DR. FRANCIS: Do that. And I'd say
12 in about 20 minutes. Stay where you can talk
13 on the phone.

14 DR. BASKERVILLE: Okay. Thanks.

15 DR. FRANCIS: All right. Cut that
16 off.

17 Now, Mr. Executive, let's go about the
18 current capital needs. What tab are we under,
19 8?

20 MR. WATSON: Actually, it's on 9.

21 DR. FRANCIS: Wait a minute. Wait a
22 minute. We have to increase the program
23 insurance authority. I think that's where you
24 are, right?

25 MR. WATSON: Right, unless there's a

1 question on that. I think we've gone through
2 that with Lezli.

3 DR. FRANCIS: So that says the
4 authority -- now, the authority here, it says
5 the insurance authority would not be
6 apportioned by public or private use.

7 MR. WATSON: Well, again, these are
8 the Secretary's recommendations. This is not
9 what was -- I wanted to inform the board what
10 the Secretary was thinking, not what the
11 Congress has actually done.

12 DR. STRICKLAND: Who's informing the
13 Secretary's thinking of these?

14 MR. WATSON: I'm involved, the Deputy
15 Assistant Secretary of the Office of
16 Postsecondary Education, the Assistant
17 Secretary of the Office of Postsecondary
18 Education, the Office of the Congressional
19 Liaison, members from the Secretary's office
20 herself.

21 DR. FRANCIS: Is the Treasury
22 involved?

23 MR. WATSON: No, the Treasury is not
24 involved. I've been updating the Treasury of
25 what our ideas may be, what ideas are floating

1 around, but the Treasury isn't involved in
2 this.

3 DR. FRANCIS: Well, to
4 Dr. Strickland's point, on the one that says
5 insurance authority would not be apportioned by
6 public or private use, you're saying that's the
7 Secretary's, but what does the Congress --

8 MR. WATSON: The Congress wants to
9 leave it just like it is today where two-thirds
10 of the dollars will go to private institutions,
11 one-third will go to public institutions.

12 DR. FRANCIS: And that's how it is
13 now currently?

14 MR. WATSON: Yes.

15 DR. FRANCIS: And the Congress has
16 not been persuaded to change that?

17 MR. WATSON: Right.

18 DR. FRANCIS: What's the betting odds
19 in Las Vegas about that? Who is winning?

20 MR. WATSON: Congress is winning.
21 The Secretary brought it up because having that
22 flexibility, it would allow the Secretary to
23 make loans to individual schools as they came
24 available. In the past it's been very
25 difficult to have states borrow through the

1 program. Most states higher education --

2 DR. FRANCIS: Refuse to --

3 MR. WATSON: They have some state
4 laws now where they either refuse states to
5 allow it.

6 DR. FRANCIS: But it doesn't cut out
7 public institutions?

8 MR. WATSON: No, it does not. We
9 just want the percentage to go away. In fact,
10 in the original option, it gave the Secretary
11 the option if she saw that public institutions
12 weren't coming in, to set money aside. But she
13 wanted that flexibility to do that herself but
14 not to have the Congress to say this is what's
15 going to happen.

16 DR. FRANCIS: Yeah. Okay. Okay.

17 DR. HUGHES: What, in fact, is the
18 history regarding public and private use of
19 funds?

20 DR. FRANCIS: Sam, do you have a --

21 MR. HANSEL: For public borrowers.

22 MR. BACOTE: The par amount is 525
23 committed on private. It's about 110 -- well,
24 110 on public. That gives you some ratio
25 there, too.

1 DR. FRANCIS: Okay. All right. Five
2 to one.

3 MR. HANSEL: Right. Right.

4 MS. WILKINSON: Don, did you say --
5 when we saw the bill, it came out of Congress.
6 And we asked about the public/private split.
7 And you indicated that you were going to try
8 and get that taken away. Have you all tried
9 and you cannot?

10 MR. WATSON: I've actually asked --
11 well, this committee -- well, I've actually
12 asked folks -- the folks I mentioned earlier
13 that I'm working with about it. There hasn't
14 been any feedback yet on it. But, of course,
15 whatever this committee suggests, then I'll go
16 back and relay that to the group as well.

17 I mean, based on what's happening today,
18 we'll probably have about \$150 million to lend
19 to private institutions.

20 MR. HANSEL: We're going to run out
21 of money first.

22 MR. BACOTE: You'll have excess
23 capacity for the public.

24 MR. WATSON: I won't say that because
25 we want them to pass that, but --

1 MR. HANSEL: We're going to hit up
2 against the private cap first.

3 MR. BACOTE: We'll have money sitting
4 there for the public.

5 DR. FRANCIS: So right now the
6 private use has been, you said --

7 MR. BACOTE: About 525.

8 DR. FRANCIS: 525 million.

9 MR. WATSON: And for the record, when
10 the audience speak, if you're speaking, can you
11 say your name so the court reporter can capture
12 it.

13 DR. FRANCIS: And it's been about 5
14 million and 1 million on --

15 MR. BACOTE: 100 million.

16 DR. FRANCIS: Okay. And the current
17 law has it as what proportion to what
18 proportion?

19 MR. WATSON: Two-thirds for private,
20 one-third for public.

21 DR. FRANCIS: Okay. So you're within
22 that format currently? You're at 20 percent.
23 You have a third that you can use, okay? All
24 right. So nobody so far has been hurt, but the
25 cap is always going to be a problem.

1 MR. BACOTE: If we hit the 1.1 in
2 theory, then we will have about 650ish, 675 in
3 the private.

4 MR. HANSEL: 740, I think you and I
5 figured out yesterday.

6 MR. BACOTE: We have 525 now, so --

7 MR. HANSEL: About a couple hundred
8 million.

9 DR. FRANCIS: What's the likelihood
10 our getting at 1.1 appropriation into it?

11 MR. WATSON: We've been -- to
12 increase the cap and leave it at today's
13 proportions, it looks pretty good. And that's
14 part of where the next part of my report comes
15 in.

16 DR. FRANCIS: Okay. Good segue.

17 MR. WATSON: The Office of Management
18 of Budget does what's called a program
19 assessment rating tool. What that tool is
20 designed for is to assess government programs,
21 see how they're working, see if they're needed,
22 how they're performing, and that sort of thing.

23 And just last week I met with them as well
24 as members of the Budget Service and other
25 members in the Office of Postsecondary

1 Education to talk about what kind of -- how
2 we're going to rate the performance of this
3 program.

4 And we looked at -- looking at revenue,
5 looking at change of revenue of the
6 institutions who borrowed through the program,
7 how can we decrease the subsidy in the program
8 as well as delinquent payments, and what we
9 call persistence, which is a measure of
10 first-time, full-time degree-seeking students.

11 And to look at those things and how we're going
12 to assess how these borrowers in the program
13 are performing at those levels.

14 Defining the appropriate measures in doing
15 these surveys -- I sent out the survey, I asked
16 the institution or any program how they'd rate
17 the program if it was their program. Also,
18 Dr. McNealey, who isn't here, provided some
19 assistance in that as well. And that's how we
20 came up with the persistence performance
21 measures.

22 But the performance measures for programs
23 who participate in Title III have always been
24 an issue, because they put the net out for a
25 broad group of people, but I sort of kept this

1 very internal to individuals who actually
2 borrowed from the program to get their
3 feedback.

4 And, also, that informed the Office of
5 Management of Budget, although these may be the
6 measures, that other things that our borrowers
7 would like for us to see to measure to improve
8 performance. We'll look at those things again.
9 I hope this will be an --

10 DR. FRANCIS: Ongoing.

11 MR. WATSON: -- ongoing process where
12 we're actually looking at how we measure the
13 program.

14 And how we measure this program on
15 performance, also, I think, will have a bearing
16 on some of the things we talked about earlier
17 and how a lot of institutions were doing well,
18 tell us how you're doing well.

19 So if an institution has fallen on some
20 hard times, we can maybe provide some
21 assistance through our current borrowers and
22 that kind of thing.

23 And we talk about also creating something
24 called technical assistance which will help the
25 institutions push these numbers up.

1 DR. FRANCIS: Questions on this?

2 (No response.)

3 DR. FRANCIS: Okay. Where are we
4 now?

5 MR. WATSON: Page 3 of 3. And
6 it's -- the Commerce Bank is listed there. I
7 wanted the board to be informed that TD Bank
8 Financial Group and Commerce Bank Corp.
9 announced that TD Financial Bank would acquire
10 Commerce. TD Financial is actually a Canadian
11 bank.

12 I've talked with our general counsel about
13 this. She suggested that we don't look at
14 taking any action on anything until it's
15 actually final. I talked with the Treasurer as
16 well. I haven't heard back from him yet. But
17 we don't see any -- we don't see any need right
18 now to be concerned about this merger. It's
19 about a year away or so.

20 DR. FRANCIS: So at this point, this
21 is information that a definitive agreement for
22 TD Bank to acquire Commerce Bank is in the
23 making?

24 MR. WATSON: Right.

25 DR. FRANCIS: But that has not been

1 finalized, is what I'm hearing?

2 MR. WATSON: Right. That has not yet
3 been finalized.

4 DR. FRANCIS: Okay. And it is being
5 reviewed or at least being discussed by
6 Treasury and general counsel.

7 MR. WATSON: Right. That's the
8 Department of Education general counsel.

9 DR. FRANCIS: That's what I meant,
10 general counsel for the Department of
11 Education.

12 Nothing we can do now.

13 DR. HUGHES: Are there any
14 anticipated pros and cons of a merger versus a
15 non-merger for the HBCUs initially?

16 MR. WATSON: The only thing that
17 possibly could be a concern would be a Canadian
18 bank -- because the way this program works is
19 that the DBA actually issue bonds which the
20 Treasury buys. That's why we want to have a
21 conversation with the Treasury.

22 But at this point, we don't see -- that
23 would be the only thing, but we don't see that
24 would hold any bearing as well. The DBA itself
25 is actually a private corporation in

1 Pennsylvania, not -- and not Commerce. So it
2 most likely won't affect how the program
3 operates.

4 MR. HANSEL: And we don't -- Derek
5 Hansel on behalf of the designated bonding
6 authority.

7 At this point, based on conversations with
8 bank staff, we don't anticipate any changes.
9 There have been no changes that have been
10 highlighted as needing to occur. The staffing
11 is going to continue to be the same. We've had
12 the same staffing at the designated bonding
13 authority for about five years now, and we
14 expect that to be continuous and maintain the
15 continuity that we've had during our tenure as
16 DBA.

17 DR. FRANCIS: But we don't know
18 what's going to happen for sure?

19 MR. BACOTE: Again, it's in process.
20 And once the DOE counsel gets back with us on
21 whatever it sees as concerns, issues, if any,
22 we'll then be prepared to respond to if it
23 requires adjustments, whatever.

24 DR. FRANCIS: We just want to keep
25 close tabs.

1 MR. HANSEL: Absolutely.

2 DR. FRANCIS: It's a foreign bank,
3 and, you know, stockholders are stockholders.
4 And what are the socioeconomic sensitivities
5 always play into this.

6 MR. HANSEL: Mr. Chairman, I can
7 assure you that there are not two people more
8 interested in the outcome of this than
9 Mr. Bacote and I.

10 So we are keeping very close tabs on it.
11 And we will make sure, obviously, that the
12 Department is fully informed and that this
13 board is as well.

14 DR. FRANCIS: For the program itself,
15 it's well designed for assistance to the HBCUs.
16 And we don't want, as I used the word before,
17 deal breaker in where it starts to become a bur
18 under the saddle. So --

19 MR. HANSEL: Neither do we.

20 DR. FRANCIS: Okay. All right.
21 That's information for the record.

22 Program review, did you cover this?

23 MR. WATSON: I think this is where
24 Dr. Strickland's question was going a little
25 bit earlier.

1 DR. FRANCIS: Okay.

2 MR. WATSON: -- about the written
3 report.

4 Because of the massive paper with the
5 minutes and other things, I sort of highlighted
6 some of the things that we looked at, four
7 different sections: review of different fees,
8 the escrow fees, FFB fees, cost of issuance.
9 And under each of those, I've actually listed
10 things that we'll be working on to try to
11 improve the program and to have more written
12 procedures in how things are done.

13 DR. STRICKLAND: So you'll take a
14 closer look at the issuance cost?

15 MR. WATSON: Cost of issuance, yes.
16 Actually, I talked with some borrowers about
17 that earlier. I believe it was in May, June,
18 when we closed the last bit of loans. But
19 we're going to take a look at the cost of
20 issuance and develop some guidelines on how the
21 cost of issuance is actually broke down, those
22 sort of things.

23 DR. STRICKLAND: Whether or not they
24 can be lowered or --

25 MR. WATSON: We're going to take a

1 look at the entire process. And whatever the
2 process is and outcome, we're going to make
3 sure we document those procedures so it's
4 actually part of the record.

5 DR. FRANCIS: And, again, I'm sure a
6 measure of all of this has to be how
7 competitive we are, you know, because if an
8 institution leans, say, to wanting to do this
9 with HBCU capital but finds in the private
10 market that they're better off -- like any
11 competitive business, we want to look at it and
12 say, now, how can we tell the Secretary and the
13 Congress and everybody else -- well, it's nice
14 to say you've got a program for us, but it
15 doesn't meet the private side. So let's look
16 internally.

17 If that's what this is going to be a part
18 of, I think we're in total support of that.
19 Its competitiveness is still important because
20 it's important for us to pay as little of a
21 cost factor. That's why we got the program.

22 DR. STRICKLAND: And, you know, the
23 original thought was, is this would be a better
24 deal for our colleges. It would not have the
25 same rigid requirements that are required from

1 a bank. So that sensitivity still needs to be
2 present, incorporated in the implementation as
3 it was, you know, in the development of this.

4 DR. FRANCIS: Exactly. And that's
5 part of what we talked about last time and now
6 we talk about stuff today. Your marketing has
7 to be strong enough to say to an institution
8 you're better off in this HBCU Capital Program
9 than you are in the private side.

10 And we're getting there, but I don't think
11 we're totally there yet. And part of what we
12 talked about in that 5 percent in that
13 origination fee is one aspect of that.

14 Okay. Assessment and internal controls.
15 I'm leading you a little bit. Are you ready to
16 go there?

17 MR. WATSON: Yes. This is just very
18 basic. Talks about basic guidelines of what
19 our servicing requirements would be, selection
20 process, how we would receive loans, distribute
21 funds, those sort of things, how we want our
22 institutions to borrow from the program, those
23 things.

24 Some of these things are actually in our
25 Agreement to Insure, which is the contract

1 between the Department of Education and the
2 designated bonding authority. I think this
3 sort of needs to be something a little more
4 comprehensible of what's actually in those
5 documents.

6 DR. FRANCIS: Good. Good. Good.

7 MR. WATSON: Again, as I spoke of
8 earlier, part of the GAO report, although we're
9 receiving the quarterly report, probably put
10 some time frame on when the reports want to be.
11 You got some other items that can be in the
12 reports and that sort of thing. We're looking
13 at receiving our first annual report in
14 January.

15 That's it. If there's no questions --

16 DR. FRANCIS: All right. Okay. What
17 we're looking at here is just information
18 regarding --

19 MR. WATSON: What we did last year.

20 DR. FRANCIS: -- what we did last
21 year.

22 MR. BACOTE: In fact, since the last
23 meeting.

24 MR. WATSON: But you'll find it
25 behind -- there's things -- this is going to be

1 a book that you will have for each meeting. So
2 those objectives that you're looking at now are
3 actually things that we've already completed.

4 DR. FRANCIS: Okay. All right. I'm
5 just going past -- I'm just going in my tabs.

6 MR. WATSON: We can go back to tab 6
7 now.

8 DR. FRANCIS: Okay. 6 is the charter
9 you're talking about?

10 MR. WATSON: Right. I just want to
11 point you to the charter because the charter is
12 actually going to address some of the things
13 that we're looking for from the board and just
14 getting feedback from the board on what -- we
15 can talk about the Congressional support and
16 program changes and things like that which may
17 change after we hear from our guest. But
18 the -- and we covered most of that, too, when
19 we talked about the Secretary's options, what
20 her thinking was.

21 DR. STRICKLAND: How do you define in
22 your charter qualified colleges and
23 universities?

24 MR. WATSON: I'm sorry?

25 DR. STRICKLAND: How do you define

1 qualified? You have stated qualified when
2 you're talking about colleges and universities.
3 How is qualified determined or defined?

4 MR. WATSON: Let me clarify a couple
5 of things. The charter is actually the charter
6 for this board, not for the program itself.
7 But the program defines eligible institution by
8 Title III B of the Higher Education Act, which
9 is the same for all other Title III
10 institutions.

11 DR. STRICKLAND: I thought you were
12 trying to change it a bit.

13 MR. WATSON: Oh, no. No.

14 Dr. Haynes, do you want to expand a little
15 bit on the concept of what you're doing?

16 DR. HAYNES: Go head.

17 MR. WATSON: We had an issue where
18 institutions want to become part of the
19 Historical Black College and University
20 designation. Is that what you were talking
21 about?

22 DR. STRICKLAND: No. We're fine.
23 We're fine. I understand now.

24 DR. FRANCIS: I'm at -- back here.

25 The last these questions, current capital needs

1 of Historically Black Colleges and
2 Universities, what tab is that under?

3 MR. WATSON: Actually, it's not under
4 a tab.

5 DR. FRANCIS: You just want to talk
6 about it?

7 MR. WATSON: Well, I just wanted to
8 hear from the board what your input was and
9 what -- if you had any input, capital needs of
10 the program, anything we need to try to look
11 at.

12 DR. FRANCIS: Well, just from this
13 view -- and I'll certainly ask everybody to
14 join in -- I think what's happened to
15 Historical Black Colleges and Universities
16 hasn't changed. The need for capital
17 improvements, the need for refinancing, debt
18 service -- and that first one I think was
19 spoken -- both were spoken to quite eloquently
20 by Dr. Broadnax with respect to that.

21 I mean, he found himself -- and I would
22 say that a number of new college presidents, as
23 well as many who have been at it, but
24 particularly new college presidents come in and
25 find they have got capital needs, deferred

1 maintenance needs, debt service needs, so
2 that -- those are hallmarks of the program that
3 still exist out there.

4 I think what is happening is the
5 exacerbation of those three areas of coming
6 from "HBCU's ability to compete with other
7 institutions," particularly well-financed
8 institutions as well as state institutions.

9 And you can't do that unless you have funds in
10 those first three categories, because those are
11 daily reminders when every president gets up in
12 the morning about how he or she is going to
13 cover those matters.

14 And this program has been a big help in
15 that. And that's the reason we spend the time
16 trying to cut the costs of the program. So we
17 can use most of that money in those areas.

18 Now, I'll stop with that, and then say to
19 the members, add some other things that are out
20 there, what I call wolves at the door that
21 we're facing as well now. This program won't
22 cover all of that. That's why we got Title III
23 and some of those others, but in terms of this
24 program, or the other things we want to add to
25 that. Marvalene.

1 DR. HUGHES: I was just thinking
2 that, like you, I observe anecdotally a lot
3 that is needed by various institutions. I
4 think what I would like to recommend that we do
5 for the future is conduct some kind of survey
6 or assessment so that we have more information
7 based upon the actual status of HBCUs rather
8 than talking in isolation about them. Because
9 I could go down and list and name a number of
10 them.

11 DR. FRANCIS: Some of this we're
12 picking up in your surveys from the current
13 people who are in the program?

14 MR. WATSON: Right. And I'll tell
15 you some things that have actually come up.
16 Short-term financing has come up. And we've
17 seen that with some current borrowers who -- we
18 don't offer that in the program, but in trying
19 to assist them, we've seen that as an issue.

20 But in it getting the surveys out -- I
21 must admit getting surveys back has been --
22 that's been very difficult. I was hoping when
23 we send out -- the next survey I send out, hey,
24 maybe get something great. But I'll try to
25 shorten the survey to get that kind of

1 information. But it's been very difficult to
2 get surveys back.

3 DR. HAYNES: Let me say I think that
4 the present board of advisers for the White
5 House Initiative on Black Colleges has also
6 been wrestling with these same kind of issues,
7 getting good information on the status of
8 institutions.

9 And I think we can probably join forces
10 here and go with a unified front to conduct
11 what I think is a much needed needs assessment,
12 if you will.

13 And I think if we go on the record saying
14 we will do this -- our board meeting meets on
15 December the 8th in New Orleans right before
16 SACS, and I'll put this on our agenda. I think
17 the board would probably be in support of this,
18 because that's what's missing right now, the
19 data on what really is going on in our
20 institutions. It's inconsistent. Even the
21 Wall Street Journal article that I have talks
22 about the data is incomplete so we really can't
23 make a proper assessment of where our schools
24 are standing and the like. So I think we can
25 join forces.

1 DR. FRANCIS: Yeah, we can.
2 Particularly -- I guess in surveys it's
3 difficult. I've got to tell you, college
4 presidents all around this table, we could
5 spend all day just answering surveys. So what
6 we have to do is choose the one that's a
7 priority.

8 And this one would have priority. It's
9 the question of developing the culture in an
10 institution about how important the program is.
11 Once you do that, then they'll be knocking on
12 your doors for it. But that's going to be
13 just -- have some patience. That's going to be
14 part of that.

15 MR. HANSEL: I recommend that. I
16 mean, relatively shortly after we took over as
17 the designated bonding authority, we did, in
18 fact, try a written survey of all of the HBCUs.
19 I want to tell you that I think our response
20 rate was somewhere in the 15 to 20 percent
21 range, which, frankly, just didn't get there.

22 I like the way that you're characterizing
23 it. Instead of characterizing it as a
24 "survey," characterize it as needs assessment.
25 It's something that's going to require,

1 frankly, a lot more follow through, a lot more
2 handholding with chief financial officers and
3 financial staff to really get results that are
4 meaningful and informative.

5 DR. HUGHES: I don't mind putting
6 some reasonable consequences such that people
7 would be required to participate if, in fact,
8 in the future they expect to request support.
9 And if they don't, they don't need to respond.

10 DR. STRICKLAND: Part of the
11 problem --

12 DR. FRANCIS: You might have a
13 constitutional problem there. When I leave the
14 presidency, I'm going to practice law. I don't
15 think you can do that.

16 DR. STRICKLAND: You know, the one
17 problem is in the course of a year, we get
18 about 75 needs assessments, surveys, whatever
19 you want to call them. And they have no
20 meaningful outcome or results to us as we fill
21 them.

22 And so something has to be a part of that.
23 Say, okay, money is available, number one. The
24 cap has been raised, so now there's money
25 available. It's appealing to you because

1 you've got 1 percent interest or whatever, you
2 know.

3 And the other factor is that the issue of
4 accreditation comes into play from both -- from
5 both sides. It may be that this kind of
6 activity would help an institution secure and
7 maintain accreditation, and yet you say if
8 you're not very close to having it, we can't
9 give you the money. So we've got to have a
10 kind of rethinking of this process. How do we
11 make this money really available to
12 institutions that really need it?

13 I mean, I realize that my brother in South
14 Carolina State might have needed it, but I
15 don't think he needed it as much as School X
16 who has having problems with SACS. And if they
17 could redo their campus, refinance -- make
18 their residency centers appealing, getting
19 academic facilities, that would make them a
20 stronger institution in the long run.

21 And so we also got to keep on the table
22 those kinds of thoughts as we look at redoing
23 the legislation or interpreting legislation.
24 And someone has to be at the table to say that.
25 And very few people ever come to the table

1 saying that because they're looking at schools
2 who they know can pay back, who got a decent
3 bond rating, etc., etc. And yet to me, this
4 program ought to have some real meaning for
5 those institutions who only need this impotence
6 or thrust in order to make them stronger and
7 make them viable accredited institutions.

8 DR. HUGHES: We have 103
9 institutions. We're not that big to get lost.
10 And I'm just saying that we should expect more
11 of ourselves and of our institutions.

12 DR. STRICKLAND: Absolutely.

13 DR. FRANCIS: No question.

14 DR. STRICKLAND: Absolutely.

15 DR. FRANCIS: It's just that I don't
16 think you can make a requirement. There's a
17 case in New Orleans right now in the morning
18 paper where a judge wants to put a lawyer in
19 jail because he got somebody else to represent
20 a client who did it pro bono. And breaking the
21 law -- the judge is breaking the law. And you
22 just can't do that. It's a long story. My
23 only point is you have to be careful if you tie
24 in consequences.

25 DR. HUGHES: You can expect it,

1 Dr. Francis.

2 DR. FRANCIS: Oh, yeah, but you can't
3 require it. We've got so many requirements
4 right now, I have to add a new VP for every
5 rule that comes out.

6 All right.

7 MR. WATSON: The same would apply for
8 Dr. Strickland's comments. We have to follow
9 the letter of the law. Unless the law changes,
10 we have to go with the criterion --

11 DR. STRICKLAND: And my only thinking
12 was we ought to work sometimes by changing
13 laws. That's what I was saying. Legislation
14 ought to be changed. That's all I'm saying.

15 DR. FRANCIS: And we've made some
16 progress, but it's one step forward and two
17 steps back. But you have to keep moving
18 forward with it. No question about it.

19 MR. WATSON: Dr. Strickland, attached
20 on that second bullet, how can we meet those
21 needs through the program other than what we're
22 doing, now, just to reiterate, you know, there
23 need to be some changes in the law itself
24 giving more flexibility to those institutions.

25 DR. STRICKLAND: I'm only saying we

1 must have a willingness to do it. We must be
2 proactive in doing it. And it's been on our
3 table all the time. As the board we have to
4 state it, and as the person in charge you have
5 to carry it, you know. Otherwise, it won't
6 happen. Nothing is going to change because we
7 want it changed. Lobbyists are certainly
8 effective, but those of us who are involved in
9 the process ought to continue to restate it and
10 work toward it.

11 MR. WATSON: So you all wouldn't mind
12 if I had that as an agenda item so we can keep
13 it in the record every time?

14 DR. FRANCIS: Oh, absolutely.

15 DR. HAYNES: We could make a
16 resolution to that effect.

17 DR. FRANCIS: I think it's one that's
18 understood, but if you want to have it as a
19 resolution, fine.

20 DR. HAYNES: Because that goes for
21 the record.

22 DR. FRANCIS: Yeah. Want to make it?

23 DR. STRICKLAND: So make it. You can
24 restate it.

25 DR. FRANCIS: Would you describe

1 it -- and I'll put it on the table -- the fact
2 that -- and I'm assuming what I heard you say
3 is that part of our responsibility in reviewing
4 the program needs of HBCUs, we first ought to
5 have good data, and that we should put that
6 data in relationship to what the program
7 objectives are as it relates -- as it relates
8 to the law, but if in deed the law is not
9 consistent with achieving those, we as an
10 advisory group would be aggressive in
11 recommending those changes, as we have done,
12 and ask our executive director to keep that
13 aggressiveness and the monitoring for us. Is
14 that okay?

15 DR. STRICKLAND: That's it.

16 DR. FRANCIS: And you'll make that
17 motion?

18 DR. STRICKLAND: I so move.

19 DR. FRANCIS: Who will second?

20 DR. HAYNES: Second.

21 DR. FRANCIS: All those in favor,
22 please state properly by saying aye.

23 DR. HAYNES: Aye.

24 DR. HUGHES: Aye.

25 DR. HUGINE: Aye.

1 DR. MYERS: Aye.

2 DR. STRICKLAND: Aye.

3 DR. FRANCIS: Opposed.

4 (No response.)

5 DR. FRANCIS: The motion is carried.

6 I think that will keep us moving forward.

7 MR. WATSON: The last item before

8 public comment, I guess we can --

9 traditionally, what we've done, I've checked

10 Dr. Francis's calendar and then send out some

11 dates for everyone to see when and where we're

12 going to have the next meeting. If that's okay

13 this time, we'll do that.

14 DR. FRANCIS: And we'll see what

15 might be a good place and you may recommend

16 that. And we want to make sure we don't

17 overburden you and try to make it where all of

18 us can get there and out.

19 And it's also good if we're able to visit

20 sometimes places where the program, like here,

21 has been helpful, to have a president come and

22 talk about it. And maybe have a place where a

23 program -- president who has been in the

24 program talk about the program, its positives

25 and its negatives, if there are negatives and

1 the like, which will help us. That's where the
2 rubber hits the road really, okay?

3 If you'll look at your watches, we have
4 public comments at 12:15. Not bad for people
5 who can't cooperate.

6 Okay. Do we have public comments? And I
7 think we will get a presentation from
8 Lemoyne-Owen. Is that it?

9 MR. WATSON: Yes.

10 DR. FRANCIS: If you can put -- you
11 know, put that chair and have any of your staff
12 with you, Mr. President. You can identify
13 yourselves.

14 Mr. President, the floor is yours. We
15 welcome you here. And I'll ask for the
16 recorder, you'll state your name for the record
17 and any of your colleagues that you ask to make
18 a presentation will do the same thing.

19 DR. WATSON: Thank you very much.
20 I'm Johnnie B. Watson currently serving as
21 interim president of Lemoyne-Owen College.

22 Thank you for this opportunity, Chairman
23 Francis. To our distinguished colleagues and
24 members of the board and guests, again, my name
25 is Johnnie B. Watson, interim president of

1 Lemoyne-Owen College. Joining me are Jim
2 Dugger to my left, vice president and chief
3 financial officer of the college, and the
4 college's financial adviser to my right,
5 Bridgette Chism. Thank you for the opportunity
6 to address the HBCU Capital Financing Advisory
7 Board.

8 Lemoyne-Owen College located in Memphis,
9 Tennessee has a rich history that dates back
10 almost 150 years. I have been personally
11 associated with the college for 50 years. I
12 enrolled as a student in 1952 and almost --
13 1956, and almost 50 years to the date, I
14 returned as the interim president of the
15 college.

16 I've also served on the board of trustees.
17 And I am the recipient of an honorary doctorate
18 from the college. So I have some ties to the
19 college.

20 The college was founded in 1862 and has
21 survived -- has strived to provide academic
22 rigorous curriculum and adequate physical
23 resources to its student body. However, as
24 many of you know, Lemoyne-Owen is currently
25 fighting for existence. A steady decline in

1 enrollment over the last ten years coupled by
2 aging facilities and our current probationary
3 status has Lemoyne-Owen College struggling to
4 survive. We're on probation primarily due to
5 financial instability.

6 That being said, things are slowly turning
7 around for us. Next week I will be attending
8 the Southern Association of Colleges and
9 Schools that will convene in New Orleans. And
10 we look forward to receiving reaffirmation of
11 our accreditation. I'm extremely positive of
12 that as Mr. Dugger will cite when he goes over
13 some figures with you.

14 I appreciate the opportunity to be here
15 with you today and hope that each of you
16 received my earlier letter this week.

17 Now, I'd like to introduce Mr. Jim Dugger,
18 the CEO and vice president -- CFO. I can't
19 give my job away. He is the CFO and vice
20 president -- to discuss my letter in greater
21 detail. Particularly, the college's financial
22 issues and our need to relate it to the HBCU
23 Capital Financing program. Jim.

24 MR. DUGGER: Good afternoon. I just
25 want to begin by saying that I'm part of HBCU.

1 I attended Alcorn State University and received
2 a BS degree in business administration. My
3 first job was also at an HBCU in the business
4 office of Mississippi Valley State University.

5 But I went on to obtain an MBA from Ohio
6 University and a CPA and a certified internal
7 audit designation.

8 I spent my career starting in public
9 accounting with Arthur Andersen in Milwaukee.

10 I spent approximately 20 years in corporate
11 America at Wisconsin Bell, Ameritech Service,
12 and Ameritech Corporate where I retired in 2000
13 as comptroller of the investment management
14 group responsible for a \$80 million budget, the
15 accounting and financial reporting as well as
16 bank relations for over \$25 billion in pension
17 and savings plan investments.

18 And now I've gone full turn. I'm back at
19 an HBCU at Lemoyne-Owen College. When I
20 arrived at Lemoyne, I found that we had a \$1.5
21 million deficient as of the end of 2006. We
22 were projecting an increased deficient at the
23 end of 2007.

24 We have put together a short-term plan to
25 eliminate our short-term problem. We have gone

1 out and secured funds for approximately \$6.6
2 million over a three-year period. That takes
3 care of our short-term problem, but at the end
4 of that three-year period, we must have a
5 long-term solution in place.

6 If you look at our income statement, there
7 are two items that play the major role in our
8 financial position. One is student revenues,
9 and the other is debt service costs. They both
10 are intertwined. If you can't get the
11 students, you can't get the student revenues.
12 If you don't have the facilities, you can't get
13 the students.

14 We've looked at means of getting low-cost
15 capital. And we find that the HBCU Capital
16 Financing Program is our only option, but we
17 need low-cost capital at modified repayment
18 terms. There's probably 10 percent of the
19 schools that are in our same position.

20 If you take a moment and step back and
21 look at the HBCU Capital Financing Program as a
22 \$1.1 billion business, with 103 customers over
23 the 11-year period, you probably provided
24 service to 25 percent of those customers.
25 We've identified at least 10 percent of your

1 customers that are in the same position that
2 we're in that need low-cost capital with
3 repayment terms that are different from the
4 current program.

5 The current program offers one product.
6 And we think that you need more than one
7 product. And that's why we've gone to Congress
8 members and presented a product that we think
9 that will help that 10 percent of the schools,
10 because we're in dire need. If we don't come
11 up with a long-term solution very quickly,
12 we're not going to survive.

13 So we ask for your support in coming up
14 with an additional program to help those HBCUs
15 that are in dire need of financing.

16 MS. CHISM: I'm Bridgette Chism, and
17 I'm the financial adviser to the college and a
18 friend of the college. I've been involved
19 on -- UNCF chairman for several years and was
20 kind of helping the interim president before
21 Jim came and have also shared this with a
22 colleague from North Carolina, which is my home
23 State, Andrea Harris, who is president of the
24 North Carolina Institute for Minority Economic
25 Development and a Bennett alum, Bennett

1 College.

2 President Hughes, you talked about
3 accountability. The one thing we -- in doing
4 all this is -- to put clear, this is not about
5 mismanagement and not willing to do -- not be
6 accountable. This is, as Jim pointed out,
7 looking at there's only a couple places on your
8 income statement that you can make significant
9 change.

10 As President Broadnax spoke about, you
11 know, you've got -- you've got human capital,
12 your payroll. That's your biggest expense.
13 You guys know that. But the debt service is --
14 you know, for us right now is probably 10
15 percent of our revenues, that cost, which, of
16 course, is killing the operating cash flows for
17 the institution. That's your day-to-day
18 survival.

19 So we wanted to offer, President Francis,
20 is how do we make this program more robust.
21 And that's where the legislation change came,
22 because right now there is one product, because
23 the legislation offers one product. And the
24 special product came because of a natural
25 disaster, which is unplanned.

1 We would submit that for the 12 or so
2 institutions that we've come up with, that
3 natural disaster is now. And it's not because
4 it's because it's been mismanaged. It's just
5 because of simple mathematics. If your
6 revenues are declining, your expense -- your
7 borrowing, your debt service is continuing to
8 grow because of that percentage, you just don't
9 have any money left over to operate the school.

10 So how do you fix it? You fix it with
11 cheaper cost of capital. That's why we were
12 wanting the rates lowered from 5 percent to 1
13 percent. We want a deferment period so you
14 have a chance to catch your breath, if you
15 will, because now that debt service payment can
16 go to your deferred maintenance.

17 You know, President Broadnax mentioned 76
18 million. I submit probably every school has a
19 deferred maintenance number that's pretty high
20 that's unfunded which is a requirement of SACS,
21 that you fund these. And that you have a way
22 of getting a lower cost of capital to do your
23 facilities so that you can be competitive,
24 because that was the other issue, are we
25 competitive for the future?

1 And Andrea will speak to this, but, you
2 know, when times get tough, even the fed
3 doesn't increase the rates. They lower them.
4 When banks -- they want banks to borrow from
5 other banks at 4-1/2 percent, but if a bank --
6 a financial institution gets into trouble, they
7 go to the Federal Reserve Desk and they get a
8 discount rate of 3-1/2 percent so they can get
9 out of trouble.

10 So this notion of applying increased costs
11 because of risk, because a school is in
12 trouble, only exacerbates the problem. It's
13 counterintuitive to the entire world banking
14 financial system. So as a body, it's important
15 that we raise -- if we're going to make a
16 program, that it is a federal program, that,
17 quite frankly, our legislative team thinks that
18 is making a tremendous difference in HBCUs. We
19 can't qualify for it, or it's not competitive
20 in our market. So, you know, we've got a huge
21 disconnect going on.

22 And, you know, since you voted on the
23 resolution to create some legislation -- that's
24 how this started, so that we can do exactly
25 what the fed does. When someone gets in

1 trouble, needs to get out, needs a true
2 economic recovery plan, financial recovery
3 plan, you have a mechanism for lower cost of
4 capital to get you through.

5 And that's kind of, as Jim came in, how do
6 we do this for our institution and the other,
7 you know, 12 or so institutions, which, quite
8 frankly, about 15 schools, individual schools,
9 have taken part of this program over the last
10 11 years. Some schools have done multiple
11 loans, but, really only 15 new schools,
12 individual schools. And that's about the same.

13 So, you know, we just want some other
14 options for the program to make it more robust.

15 DR. FRANCIS: Any comments?

16 MS. HARRIS: As Bridgette said, my
17 name is Andrea Harris, and I'm from North
18 Carolina. And I'm here just out of an overall
19 concern about the future of HBCUs.

20 I am an HBCU graduate. I am president of
21 an organization that was started by the
22 Legislative Black Caucus, significant supporter
23 of our state legislature, and always had strong
24 ties to all the historically black colleges in
25 our state and done my part to try to help

1 support them, both public and private.

2 But at this particular point in time, I
3 think there's a window of opportunity. We have
4 more HBCUs, four-year institutions in North
5 Carolina than any other state in the South.
6 So, naturally, I have a very vested interest.
7 And I also have a vested interest because I
8 believe that HBCUs are critical to the economic
9 future of our community and of our states and
10 our nation.

11 I want to just share something which would
12 maybe give you some idea about -- one of the
13 most recent efforts on our part is to try to do
14 a better job at first educating the HBCU
15 community in North Carolina and others in
16 general around the growing and mounting debt
17 that our students have.

18 And if we just look at the HBCUs, HBCUs
19 collectively, our students in 2006 had a little
20 over \$900 million worth of student loan debt.
21 That's almost a billion dollars worth of
22 student loan debt with terms that I consider
23 predatory where those students are not able to
24 qualify if they fall on hard times to have
25 their student debt included in bankruptcy.

1 I think that where we are as a nation in
2 some respects when it comes to the cost of
3 college and the mounting student debt may be
4 sinful. So college students are now joining
5 with us around the country, and we are working
6 with Congressional leaders and others to try to
7 make some change.

8 The one thing I do celebrate about my
9 state is that we don't always just accept what
10 is. I am around the corner from an institution
11 that tried to work with the minority business
12 and didn't have enough money and had a bake
13 sale and raised a thousand dollars from a bake
14 sale. And today that institution is the
15 Self-Help Credit Union with a billion dollars
16 worth of assets.

17 And it has created an organization called
18 the Center for Responsible Lending that's
19 headquartered in Washington. And I would ask
20 that you work closely in partnership with that
21 institution.

22 I ask that because I think that the window
23 of opportunity to change the terms of loans so
24 that our institutions can service their debt
25 that is affordable that we can put them on

1 sound financial ground for the long term and
2 they can sustain that financial stability is
3 now.

4 Bernanke was in Charlotte on yesterday
5 suggesting to the banking community in North
6 Carolina -- as you know, we are home to
7 Wachovia and Bank of America -- that interest
8 rates will probably be lowered again.

9 The Secretary of the Treasury yesterday
10 was speaking about what will -- steps will
11 probably be taken to deal with subprime
12 mortgages.

13 And I think it is important that we note
14 that most people who have subprime mortgages
15 are not always people who have credit problems.
16 The greatest evidence of that is here in
17 Atlanta where African-Americans with the large
18 number of subprime mortgages, whether perhaps
19 intentionally or unintentionally, steered into
20 higher cost loans than -- while they qualified
21 for more favorable terms.

22 So I just ask for your leadership. And
23 I'm asking that while we have this opportunity,
24 when everybody is looking at credit, when
25 everybody is looking at credit and looking at

1 how we change the standards, we change this for
2 our colleges and for our students, if we don't
3 do it now, then I think we will have lost an
4 opportunity.

5 The danger is that -- you know, I'm from
6 Durham, North Carolina. And I say to folks,
7 you know, that we used to be the Black Wall
8 Street of America, the true Black Wall Street
9 of America with North Carolina Mutual and
10 Mechanics & Farmers Bank and Mutual Savings &
11 Loan. And during the Great Depression no black
12 people suffered in Durham, North Carolina
13 because of our economic infrastructure.

14 But what we see today is that that has
15 eroded and we don't have that wealth. If we
16 lose this opportunity, then when the bottom
17 falls out of white working class America, I
18 hope we understand what's happening in the
19 black community. We should not expect
20 contributions to increase from alarms in the
21 next generation. They won't have the
22 resources. We should not expect after this
23 credit crunch that our schools -- we will have
24 whatever the number is you say we have today,
25 they will not exist unless we take advantage of

1 this opportunity.

2 I am only here asking you for your
3 leadership and your courage not to simply
4 accept what is the tradition in the financial
5 community. If we had done that in Durham, we
6 would not have a billion dollar financial
7 institution today.

8 And if you need additional resources to
9 help address this, then we are offering
10 whatever resources we have in our state,
11 whether that be the resources that we can pull
12 upon in the banking community in Charlotte,
13 whether that be the Center For Responsible
14 Lending, and anyone, to help us move forward.
15 I'm begging -- I am really here taking
16 advantage of their opportunity to beg you for
17 your leadership in making sure that we get some
18 different language in this legislation, because
19 if we don't do it now, I think we'll lose an
20 opportunity long term.

21 Let's make sure that if we can put loans
22 on hold, put them in abeyance, lower the
23 interest rates, do away with the high
24 prepayment penalties. And look at what others
25 are doing now, not just accept what is, but

1 let's take the -- let's be bold and have some
2 courage. So I'm asking for your leadership in
3 at least taking a further step including other
4 institutions, but changing how we do business
5 in a way that allows us to sustain our schools
6 and put them on sound financial ground but give
7 them a resource.

8 You know, the one difference here is
9 you're talking about a governmental program.
10 You're not talking about a private sector
11 program. And I've been -- Bridgette has been
12 trying to help me stay calm in understanding
13 how a governmental program sees itself as
14 needing to have the same level of even greater
15 protection than the private sector.

16 I mean, if it's going to be a governmental
17 program, let's take advantage of an opportunity
18 to do what this initiative was intended to do
19 to start with, to help our neediest schools,
20 but do it in a way that does not harm people.

21 I mean, let us not step on people. Let
22 us, you know, really find ways to put them on
23 sound financial ground. We don't have a lot of
24 time to make that happen, but I ask that you do
25 this. We know that most of our schools are not

1 institutions that have been -- intentionally
2 been derelict in trying to achieve their
3 mission.

4 And so just as those who have started
5 HBCUs didn't start all these institutions
6 simply by looking around and saying, here's
7 what is, so I'm going to accept what is, but
8 had the courage to go a step forward and make a
9 difference.

10 I thank you for your leadership and your
11 commitment here and for being so indulging of
12 allowing me to talk on.

13 DR. FRANCIS: Mr. President. You
14 tried to give away that interim, but you're
15 still president.

16 DR. WATSON: Can you help it?
17 They've slowed down the search. Can you help
18 them a little bit?

19 DR. FRANCIS: There may be
20 questions -- Lezli, as you well know, is the
21 president of NAFEO. And she was starting to
22 talk about this program. And she, obviously,
23 is very interested in the HBCU Capital. And I
24 think she was getting into the very specifics
25 that you're talking about.

1 And I picked up -- and you may have heard
2 this already, and think it's the kind of
3 question that needs to be asked. What I picked
4 up from her was that the program, what is
5 currently listed in the criteria and so forth
6 is designed for schools that meet that
7 parameter now.

8 And the question is, is it one that would
9 keep out others, the other institutions that
10 need as well, because it is -- it is pretty
11 focused, as such. How do we respond to what I
12 think her question was going to be, if we're
13 going to do it, can we do it for all
14 institutions?

15 MS. CHISM: Right. And what we did
16 is we listened to her comments and we expanded
17 the criterion, I mean, because, quite frankly,
18 we think if you have a series of products
19 within the HBCU Capital Financing Program,
20 then, really, you have three different products
21 and you apply under the product that makes
22 sense for your institution. And, so if -- you
23 structure it like that. So if we're going to
24 act like a financial institution, then let's
25 just have different product offerings.

1 And in hearing what she said, we expanded
2 against the definition of an affected
3 institution that would fall under product
4 number 2 under the HBCU program. So we
5 expanded so that instead of -- I think she was
6 thinking of a limit of 5. In making the
7 expansion it created an avenue for 10 or 12 or
8 whoever fit this, but it was -- we just showed
9 any student enrollment decline over the last
10 ten years. So it didn't have to be a
11 continuous decline. That changed the dynamics.

12 And, also, the endowment was a marketable
13 security, if you will, cash, stocks, so that --
14 of 20 million. So that added some additional
15 schools. And then net marketable securities of
16 20 million.

17 So we took her -- the feedback that she
18 had heard so that -- that's net -- so that
19 more -- so that it would be applicable to more
20 schools in the 103 client base, if you will,
21 but recognizing that this would just be one
22 version of a product within this program making
23 it more robust.

24 DR. FRANCIS: Where is -- go ahead.
25 I don't want to cut anybody off. I wanted to

1 follow -- you talk about an opportunity and
2 dealing with legislation, dealing with the
3 Congress. And, yes, you have to be aggressive
4 and you have to -- timing is very important.

5 And, unfortunately, you go through a maze
6 of committees and staff and the like. Where is
7 your current proposal?

8 MS. CHISM: And because --

9 DR. FRANCIS: I say the current --

10 MS. CHISM: The current amendment --
11 because they're in the business of higher
12 education and running other things, we did
13 engage a group, the Carmen Group. Julia, if
14 you would like to give us an update.

15 MS. ERHGOOD: Sure. Sure. I can
16 speak to that.

17 Right now, as you know, the Higher
18 Education Act was approved by the House
19 Committee, and we wish for it to go to the
20 Floor.

21 All of this language that Bridgette has
22 been discussing, that is not currently in the
23 bill. So there is no separate piece of
24 legislation that has been introduced by
25 Congressman Cohen, who represents Lemoyne-Owen,

1 or any other member.

2 DR. FRANCIS: Okay.

3 MS. ERHGOOD: But I will say that
4 there is certainly an appetite, a strong
5 appetite among a number of the members of the
6 committee of the Congressional Black Caucus and
7 then those members that represent the
8 individual institutions that have been
9 recognized as needing the help. They want to
10 help. And there is still an opportunity to do
11 so on the Floor. When the Higher Education Act
12 goes to the House Floor, there's an
13 opportunity.

14 DR. FRANCIS: Has the Senate --

15 MS. EHRGOOD: The Senate has passed
16 this bill. It did that earlier this year. So
17 the Senate Bill is closed, but with the
18 House --

19 DR. FRANCIS: How did it close with
20 respect to what we --

21 MS. EHRGOOD: There is nothing in the
22 bill to increase the cap for the program. It's
23 really silent as to any additional change.

24 DR. FRANCIS: It stands silent?

25 MS. EHRGOOD: That's correct. So the

1 opportunity that exists --

2 DR. FRANCIS: Has to be in the House.

3 MS. EHRGOOD: -- is to have been in
4 the House and then to keep that in Congress.

5 DR. FRANCIS: Go ahead.

6 DR. HUGHES: I think we have to start
7 somewhere. And I'm hearing that we lost the
8 first window, and maybe there's a second window
9 that you can come under.

10 There are principles of economy and
11 economics that I hear which make a lot of sense
12 to me, particularly when you associate them
13 with how this market works today in the United
14 States, and how the Treasury works, for that
15 matter.

16 So it seems to me this is a species that
17 really needs to be silently developed and
18 disassociated -- by the way, this is just my
19 opinion -- disassociated from the principle of
20 Katrina, because I can see you closing
21 yourselves off by that.

22 But if you develop that strong principle
23 of how this economy works, even including the
24 housing market as it exists today and the kind
25 of adjustments that are made in interest to

1 accommodate that, you've got some sound
2 principles, I think, for a good rationale in
3 moving forward.

4 DR. FRANCIS: And the question is how
5 much time? Maybe you can answer that?

6 MS. EHRGOOD: Sure. It's unknown.
7 We always have to be prepared for something to
8 happen anytime. It's unrealistic that the bill
9 will go to the Floor in December, but it is
10 possible. We'll know more this coming week
11 when Congress returns.

12 More likely, the bill will go to the Floor
13 after the new year. It could be a month. It
14 could be two months. From our perspective, we
15 have to be prepared for it to happen in the
16 middle of December.

17 And while it's not ideal in terms of, as
18 you said Dr. Hughes -- you know, we believe we
19 have done a lot of due diligence to make sure
20 that we are doing this in an appropriate way to
21 really optimize the benefits of the program.

22 We want there to be no misunderstanding
23 about what we're trying to do. And that's
24 really why President Watson and his staff have
25 come here before you today. But that being

1 said, as you're alluding to, Dr. Francis, this
2 train is moving, and we want to be on the
3 train.

4 And with your support for what we're
5 trying to do, and whether we slightly modify
6 the eligibility criteria or some other things,
7 I think we can really be effective here. And I
8 know that's important to Lemoyne-Owen. It's
9 entire to the HBCU community.

10 DR. FRANCIS: Any other comments?

11 One of the issues -- and I was hoping that
12 Lezli -- because Lezli is very much involved in
13 this. I know Lezli was asked, Thurgood
14 Marshall Group was asked, UNCF was asked -- I
15 think there is some support there. There are
16 questions that haven't been answered that
17 you're seeing now that even if you were before
18 that committee now you would be amending your
19 original that might meet the requirements of
20 some of the concerns.

21 There's no question about -- as we said
22 earlier, the program that was constituted as an
23 HBCU Capital Program in my view is an evolving
24 one.

25 And you heard earlier, many of our

1 institutions, including my own, did a lot of
2 bond financing and we did not use this program.
3 And so this program has evolved and is
4 evolving. Now, how fast it's going to evolve
5 to the context of what you have described, I
6 don't know and I don't how fast -- I am not as
7 persuaded at this point in time, unless it just
8 flip-flops, Congress will do everything we want
9 them to. And the question is how much can we
10 get in a change now that we get another bite,
11 if we can.

12 The issue of lending is going to be around
13 at least for the next two or three years. I
14 can tell you from the student financial side or
15 loan side, financial literacy, the debt that's
16 being taken on by students, the question of
17 whether the money is being used for core
18 academic work as against others, that's an
19 issue that isn't going away.

20 And we just started to see it with the
21 money that went into Title IV came from the
22 subsidies from banks and the rest to pay for
23 the increase in Pell Grants and the rest. So
24 that's going to be around.

25 But we have got to get some things now if

1 we don't get everything now. The question is
2 what are they?

3 MS. CHISM: And, Chairman Francis,
4 since I am from North Carolina --

5 DR. FRANCIS: We better get somebody
6 here from Tennessee.

7 MS. CHISM: Both my parents went to
8 Tuskegee. Actually, my mama was a
9 Ms. Tuskegee.

10 DR. FRANCIS: That's Alabama.

11 MS. CHISM: This is a Capital
12 Financing Advisory Board. We're talking about
13 the money and the economics. Your leadership
14 in being in front needs to trump protocol.

15 I am going to be direct right now. My
16 Wake Forest, Wharton MBA training, my friends
17 may be a little aggravated. What is the holdup
18 is we need three bodies, associated bodies that
19 have different visions, missions, and agendas
20 to agree to our amended -- to this legislation,
21 whatever form it's in. And, quite frankly --

22 DR. FRANCIS: And that comes from --

23 MS. CHISM: And that would come from
24 the Thurgood Marshall, NAFEO, and the UNCF.
25 And the only support that we have received is

1 from NAFEO in writing informally.

2 The other two institutions wanted for
3 everyone 1 percent money, the 3 percent
4 deferment. You know, these economic principles
5 as you mentioned, President Hughes.

6 However, my legislative bodies are saying
7 to me we will not fund that for everybody. So
8 you have to give some sound rationale as to
9 what is your definition of this. And the
10 thesis is, well, if everybody can't get it,
11 then we won't support it.

12 If only 15 schools have ever taken part of
13 this program, then you already are inconsistent
14 with your thesis. So all I'm suggesting is
15 that you add another vehicle and allow for the
16 same number of schools to participate as the
17 current program. So you're not -- I mean -- so
18 we get these situations -- protocol, and I'm
19 like, no, we are -- lending and credit will
20 always be here. That's an issue.

21 But as soon as Jim and I started talking
22 about, okay, if we got this facility, well, you
23 know, Jim, you're going to have to increase the
24 cost of the dorm rate because it's going to be
25 a new dorm, you got to pay for it, if we do it

1 in the old method.

2 Well, then you get the, well, they're
3 going to have to borrow more. You get to the
4 student side. So now we -- we can't keep
5 operating in the same paradigm. So we really
6 need to -- my ask to this body is help the
7 other -- our legislative team is going to
8 abdicate their power to three associations that
9 don't have the same agendas to decide whether
10 we can move forward with changing a legislative
11 amendment so that we can have more options to
12 this financing program, then, you know, we
13 don't stand a chance.

14 So this -- somebody needs to say, come on,
15 guys, let's get together, because a year from
16 now I want to be sitting here -- because this
17 is easy to fix when it's not mismanagement and
18 it's just financial. Next year we'll sit here
19 and we'll go, see, President Myers, the income
20 from cash flow from operations is up because we
21 didn't have to pay for, you know, our debt
22 service.

23 MS. HARRIS: We didn't have to over
24 collateralize.

25 MS. CHISM: And we built our new

1 dorms that are opening in fall '09 and my
2 enrollment is up. So, hello, the model works,
3 because it's just mathematical. So it's not
4 really deep strategy. It's just --

5 DR. FRANCIS: Have we heard from bond
6 counsels and --

7 MS. CHISM: Well, this is just our
8 own bond counsel.

9 MS. ERHGOOD: If I can just
10 interject, one of the other concerns that I've
11 heard is that by putting this other product --
12 making this available that it would imperil the
13 program.

14 And it's our understanding that -- of
15 course, we would never want to jeopardize the
16 program. And from listening to the discussions
17 today -- Dr. Hugine and Strickland, I do not
18 mean to put words in your mouth in any way --
19 but I sense that there is, you know, a
20 willingness to help the neediest schools, to
21 provide them with some assistance. And in no
22 way are these efforts meant to imperil the
23 program.

24 As a body, if you would believe that this
25 effort would not imperil the program, and if

1 that is something that could be communicated,
2 that would be helpful.

3 DR. HUGHES: Have you used the
4 need-based strategy or some need-based strategy
5 to identify the number of institutions that
6 you're trying to qualify for?

7 MS. CHISM: We did based on this
8 language. I mean, when we say neediest, it's
9 neediest from the sense of declining
10 enrollment, a tremendous amount of debt
11 already, tremendous for your size of balance
12 sheet and institution, the lack of endowment,
13 the lack of net assets, because 20 million is
14 not a lot when you're talking about, you know,
15 running a business, an institution compared to
16 some of our other schools.

17 So when we say neediest, it's defined by
18 this category. And we have -- as Julia said,
19 we have gone through and done a lot of
20 analysis. We actually have, you know,
21 solicited information from, you know, people
22 outside of our, you know, domain.

23 I mean, I have called the Federal Reserve
24 directly because there is an office in Memphis
25 which handles that region. And good luck,

1 sister. And we have talked to these financial
2 institutions across the country, the first and
3 third and largest financial institutions in the
4 country. So this is not done --

5 DR. FRANCIS: What have you asked
6 them?

7 MS. CHISM: Well, we asked them
8 about, you know, access to capital and how do
9 we get better terms for institutions you're
10 trying to turn around.

11 This is about financial recovery. This is
12 not about trying to gouge an institution
13 because, you know, they're highly leveraged
14 already and they're trying to get a new dorm
15 facility, or charging them a premium because
16 they have very limited, you know, net income
17 because they have declining enrollment and they
18 have a high cost of debt service.

19 So this is about other avenues, because if
20 this program isn't going to be available, we
21 still have an institution that must survive.

22 You talk to other places that can --
23 there's more than one way to skin a cat. You
24 know, we want to work, and think this is a
25 great vehicle because it's already a

1 governmental program.

2 However, if we go back and we talk to our
3 legislative body and go it really doesn't work
4 the way you think it works, it's really not
5 helping the way you thought it helped --

6 MS. HARRIS: Or if you look at the
7 number of schools in North Carolina that the
8 program has been able to help -- if you look at
9 Livingston, Bennett, whatever --

10 MR. HANSEL: There's Shaw.

11 MS. HARRIS: We know the schools in
12 North Carolina. If you look at these programs
13 and you look at the terms, and I look at
14 collateralization, I look at prepayment
15 penalties, I look at some of the other terms,
16 and I look at the mandatory arbitration
17 language in the documents, etc., I get
18 incensed. And when I share that with them,
19 it's unbelievable to them.

20 So we're just saying, you know, if we can
21 at least say let's look at another avenue and
22 add that to what exists. And it is responsible
23 language. It is not language that is not
24 responsible.

25 And I do think that we have the support of

1 our delegation from -- at least in North
2 Carolina and some within -- the leadership
3 within the Center for Responsible Lending.

4 DR. FRANCIS: Let me get to the core
5 in a way. I don't think there's a person --
6 I'll just speak for myself -- around this table
7 who would not be interested very much in
8 helping the neediest institutions. But I've
9 got to tell you, I'm not so sure I know exactly
10 what all of the various aspects of the plan are
11 in terms of what you're asking for.

12 I mean, I'd be hard-pressed to support
13 something I'm not sure I know with respect to,
14 you know, what are the interest rates. I say
15 the parameters which you are now changing,
16 which is fine.

17 But in the long run the same thing that I
18 think I would want to see is going to be what
19 the Congressional committees are going to want
20 to see as well as if you say -- who is asking
21 for -- I know they asked UNCF, I know they
22 asked NAFEO and Thurgood Marshall, but I don't
23 think that's the last word on what is to
24 happen. I don't think it is. And if it is, do
25 they know exactly what your detailed plan is?

1 MS. CHISM: And I would just say that
2 you are familiar -- and the only reason we
3 reference the Katrina legislation, is because
4 the only change to that legislation is the
5 definition of affected school. Because, see,
6 that's language in a process that you're very
7 familiar with because you just closed against
8 it. So everything is the same except for the
9 definition of affected institution because it's
10 based on economic. It's not based on a natural
11 disaster.

12 So when you say -- so when I'm reading to
13 you the four criteria -- and that's just to
14 define affected institution. Everything else
15 in the legislation is the same as that amended
16 legislation to allow for that particular
17 product to be introduced --

18 DR. FRANCIS: And still at 1 percent?

19 MS. CHISM: Still at 1 percent.

20 MS. ERHGOOD: But the other terms
21 related to deferment you are willing to --

22 MS. CHISM: Yes. Because, I mean,
23 that's how -- the original language is exactly
24 the same. The feedback we have is, like, well,
25 maybe you could have -- instead of a three-year

1 deferment, could you live with a two-year
2 deferment? I mean, those are negotiating
3 points. But to answer your specific question,
4 everything in that base Cohen Legislation that
5 Lezli referred to before these amendments is
6 exactly the same as the Katrina special
7 legislation --

8 DR. FRANCIS: Did I misspeak when I
9 said that Lezli had questions. You said
10 Lezli -- NAFEO has supported everything you've
11 said.

12 MS. CHISM: With some suggested
13 changes which we incorporated.

14 DR. FRANCIS: But not -- you just
15 incorporated? Not what the other two
16 institutions -- agencies have seen? You
17 separate NAFEO from the other two?

18 MS. CHISM: They were all sent the
19 same thing. NAFEO responded with a letter of
20 support.

21 DR. FRANCIS: With the amendments
22 that you just said?

23 MS. CHISM: With the amendments --
24 with those suggestions. And we did not have a
25 letter of support from the other two.

1 MS. HARRIS: And I think maybe the
2 others were looking at if, well, we're going to
3 go down this route, can we not just include
4 everybody?

5 Well, ideally, that would be the best --
6 the thing that we would all want to do, but how
7 practical it is and -- it's not very practical.
8 It's like, you know, getting -- you have the
9 door open. So since somebody has cracked the
10 door for a few institutions, can we just get it
11 open a little wider. That's all we're asking.

12 But if you try to open it up all the way,
13 that's not going to happen, because that
14 appropriation level would not be increased to
15 allow that to happen in any effective way.

16 DR. FRANCIS: And the complaints of
17 those who can't go into that door?

18 MS. HARRIS: That's right.

19 MS. CHISM: They still have the base
20 program which --

21 DR. FRANCIS: But that's not the
22 program you want.

23 MS. CHISM: That's right. Doesn't
24 work for us. We started with our objectives to
25 make this more robust and competitive, adding

1 some options.

2 MR. WATSON: Can I just make a point
3 of clarification?

4 DR. FRANCIS: Sure. Yes.

5 MR. WATSON: I think a lot of people
6 when hearing about the Katrina situation -- no
7 matter what the interest rates are, what those
8 terms are, you have to qualify for the loan.
9 So I just want to make sure that's understood.

10 The other thing, Dr. Francis alluded to
11 earlier talking about student loans. In
12 getting those increases, we also have to give
13 up something. And in talking about the 1.1,
14 that came into play -- that came into play
15 because of a subsidy issue. That was a
16 difficult battle of trying to discuss how much
17 this current method would pay every year if we
18 increase that level to 1.1 billion.

19 So Congress is thinking about cost. And
20 there's also a 1 percent Katrina. There's a
21 hefty cost of subsidy. Not the 7 million,
22 but -- this is almost more than the program in
23 and of itself at 1.1. So you sort of have to
24 think of all those subsidy costs when making
25 your argument to the Congress or whoever else

1 about what's going to happen and what you need.
2 You have to sort of justify how those subsidy
3 costs are going to play out.

4 MS. HARRIS: I think one of the
5 things that I was suggesting is that perhaps if
6 you use the model of what is happening with
7 home foreclosures and how Congress is
8 responding to that and how the financial
9 community is responding to that, how terms are
10 being changed, how the language is changing,
11 what's happening within that leadership, both
12 within the Congress as well as within the
13 Executive Branch and within the financial
14 community in the private sector, then we can
15 use that as leverage, follow that same track,
16 follow that same track, and we will be able to
17 achieve what we are talking about even to a
18 greater extent if we get the right financial
19 minds around the table.

20 We have to have people who have effected
21 this level of change. I'm just saying that
22 we've got some folks. We know some of these
23 people. Let's engage them to help us put more
24 of our HBCUs on sound footing. They're willing
25 to do that and walk with us in partnership.

1 And I think we have the ears of people in the
2 financial community willing to walk with us on
3 this.

4 DR. FRANCIS: And I'm saying I think
5 it all goes in the pot. I would worry a little
6 bit about using the subprime as an example
7 because it could backfire.

8 MS. HARRIS: Well, I think basically
9 what you've got is subprime if you look at it,
10 right? You can kind of take this effort and
11 you look at how it's structured now, and I
12 almost think of subprime argument.

13 DR. FRANCIS: My point is people are
14 so worried about subprime --

15 MS. HARRIS: All subprime isn't
16 predatory.

17 DR. FRANCIS: Well, I grant you. But
18 my point is, if you're talking about helping
19 the neediest, they start thinking about, oh,
20 now you're going to get another program where
21 you're so-called going to help the neediest.
22 But you're going to put a problem that gets a
23 subprime. I'm not -- I'm talking about
24 perception.

25 MS. HARRIS: I think we can handle

1 that. I really do.

2 DR. FRANCIS: Wait, wait, wait,
3 before you finish. I'm back where you are. I
4 think if you put the creative minds and the
5 talent of people who deal with this, and put a
6 package together where you get UNCF, if you're
7 talking about them, and Thurgood Marshall and
8 NAFEO, and you say this meets all of the,
9 quote, concerns that people would have.

10 MS. HARRIS: I gotcha. Right.

11 DR. FRANCIS: My problem with that --
12 it's not a problem. It's the timing problem.
13 It's the timing problem. I don't -- I don't
14 think as part of UNCF I would totally favor --
15 and we said this in our last meeting. We want
16 to be able to expand.

17 First of all, we supported increasing the
18 cap, ruled by the Secretary and all. And we
19 said in April, if you read our transcript, that
20 we want to help the neediest. We've got to
21 find a way. If this model of the Katrina was
22 anything, can we work on that and how do we do
23 it?

24 And we didn't have an answer, I know at
25 that meeting, as to how. But our interest was

1 getting it done.

2 What you just said is how do we do it?

3 And there's still questions. My major concern

4 is if we tailored two programs, if you will,

5 that you capture more of those institutions

6 other than the ones you're talking about with

7 the data to show that, I think you'd get -- I

8 worry about those same institutions who are

9 sitting out here and saying, oh, you tailored

10 that for this, but we're still out here and you

11 haven't helped us. When is our time?

12 And you say, well, your time is going to

13 be next year. You say, but, no, my time is

14 like yours, right now.

15 MS. CHISM: Well, I think 12 -- and

16 considering only 15 schools have ever gotten a

17 loan out of this program, 12 is not a low

18 number.

19 I mean, I think that we have -- I mean, we

20 are really trying to address that issue of not

21 leaving anybody on the sidelines who qualifies

22 right at this moment in time. And you still

23 have the funding -- because it becomes

24 competitive. We are under no illusion that you

25 can't -- that you have to get through the

1 underwriting.

2 All we're saying is that when we go
3 through this Capital Financing Program, we now
4 have another option. When I call Sam back --
5 we've been talking to him for almost two years.
6 We want to apply under the HBCU program but
7 under this criteria. And then he'll go all
8 right. We're going through underwriting. We
9 understand that process. No one is asking for
10 a hand. We're asking for the tools so we can
11 do our jobs and be held accountable.

12 DR. FRANCIS: And I think -- all I'm
13 saying is I'd like to see what is it, what is
14 it, and what would you be asking us now to do?

15 My first point was what we said before, we
16 want to help the Lemoyne-Owens of the world.
17 We're all brothers and sisters in this. And
18 none of us sit on a mountain so high that all
19 of this doesn't touch us. So let's make sure
20 that's understood.

21 But how you decided to get it passed and
22 not have it reverberate in a way that they say,
23 oh, we made a mistake. You know, we acted too
24 quickly and so forth, I think that's extremely
25 important.

1 But what we do today, it seems to me, can
2 only be done at almost a 5,000 feet level
3 rather than on the ground unless we had it as a
4 drawn-out package almost the same way that
5 you're going to have to do it, because the
6 Senate -- and I can imagine that conference
7 between the Senate and the House when the
8 Senate didn't have any of it in and they
9 started saying, well, how much of it we're
10 going to buy of this.

11 And I want to make it, not only as
12 palatable, but to help -- we were talking
13 earlier about just the short-term cash needs of
14 HBCUs. I mean, short-term. I mean, you know
15 the wolf is at the door. We need 20,000, or we
16 need 500,000, can this program help? And we're
17 looking at doing that.

18 And what you're saying is, well, there's
19 another dimension of this. And you have just
20 described that dimension. How do we sell that?

21 MS. EHRGOOD: And I think certainly
22 this package should be distributed among the
23 board. But I don't think -- today we're not
24 looking for a yea or nay. We know that this
25 is -- you've heard about it, but this is your

1 first real discussion about it. We want to,
2 you know, provide you with the information,
3 provide the opportunity for comments. I'm
4 happy to do that.

5 DR. FRANCIS: Well, let me just say
6 without question -- I'm not saying we did it
7 today. We did it last April. We said, you
8 know, this program that we were a part of was
9 good. How do we extend this now to programs
10 for the needy, and as an advisory council, we
11 would recommend it.

12 We started saying we've got to put more
13 money in the pot. Hopefully, we've got that
14 support. Now, how do you create that and
15 spread it further. So you've got that already.

16 And I think the question is how do you get
17 it in a detail that gets as close as we can to
18 helping, not -- I'm very serious about this
19 one. Not just what you've told us but others
20 outside the pyramid. Because you're
21 persuasive. You say time is everything.

22 Well, if I'm sitting over here and you're
23 talking about timing for you, what's my -- when
24 is my time? And I say my time is your time.
25 And how can you construct it to make it our

1 time? I mean, that's the way I would describe
2 it. That's just a personal view.

3 DR. HUGHES: Dr. Francis, I'm aware
4 that all of us around this table have talked
5 about the limitations of the initiative as it
6 exists. That was even pre-Katrina we talked
7 about that.

8 And I think it's time for us to consider
9 that a very serious issue so that we can make
10 it more relevant and accessible to more
11 institutions. Now, where we start, I don't
12 know, but I do know that there isn't a person
13 who believes that it hasn't been responsive to
14 the HBCUs.

15 DR. FRANCIS: Well, this morning we
16 talked about this trade-off, this pooling
17 thing. I got to tell you, if that pooling
18 thing was not eliminated, I don't know how many
19 of the schools you just described would want to
20 be in the pool.

21 MS. CHISM: We wouldn't.

22 DR. FRANCIS: My point is we've taken
23 those steps. We've chipped away some of the
24 major what I call Draconian parts of the
25 program. And the question is how much more can

1 you chip away? And that's what your program
2 has to do.

3 MR. DUGGER: Well, one thing, we have
4 our institution and, say, a dozen institutions
5 out there that are in dire need of getting some
6 kind of low-cost capital now.

7 So if we do nothing, some of those schools
8 are going to fold. I mean, if we don't come up
9 with a long-term solution for our problem at
10 the end of the three-year period that we've
11 gotten grants from the city, state, county, and
12 United Church of Christ, we're going to be out
13 of luck.

14 I mean, we're going to be exactly at the
15 same point at the end of those three years that
16 we were last year. The accreditation people
17 are going to come back and say due to financial
18 instability, you're on probation again.

19 DR. STRICKLAND: Mr. Chairman, we
20 can't vote. We don't have anything to vote on,
21 a hard-and-fast piece of information.

22 Can we affirm our -- at least that there
23 ought to be some other criteria established
24 that would allow for schools that have great
25 need to become a part of this and then

1 encourage this body to, you know, work on with
2 Congress and even send out our affirmation to
3 UNCF and Thurgood Marshall as a statement?

4 DR. FRANCIS: I think we could craft
5 something to that extent that came from our
6 earlier feeling about it. Namely, that a part
7 of the concern of this Advisory Committee has
8 been the lack of its ability to get more HBCUs
9 into the program, this HBCU Capital Program,
10 and there are aspects of it that history has
11 shown to be counterproductive.

12 We have seen some strides. We made some
13 strides. And you could name them. One, the
14 pooling side that has been eliminated.
15 Although, we are concerned about one aspect
16 that eliminated, but we are working on that
17 now. And that our instructions and
18 recommendations would be for the Department of
19 Education with our concurrence would work to
20 change any aspect of the program that works
21 against helping needy schools in the HBCU
22 Committee.

23 Once you leave -- once you leave that, I
24 don't know what other elements you can put in
25 it. But I think this Advisory Committee is

1 not -- does not have closed ears and it's
2 against going and opening the doors for more
3 institutions.

4 MS. CHISM: And so maybe a good next
5 step, because what we don't have is a lot of
6 time and luxury. I think, Julia, you said
7 January. So we need -- our next steps would be
8 to get you the detailed information so you know
9 what it is we are discussing, and then a
10 timetable for the actions that need to happen,
11 because I recognize you also run major
12 institutions around this country and this may
13 not be the only thing you're working on.

14 DR. FRANCIS: We're got a few other
15 things.

16 MS. CHISM: And then if we can go
17 through those milestones, I mean, because --
18 and I know you're good at keeping the pressure
19 on. We'll put that in your hands.

20 DR. FRANCIS: Let me add. Some of
21 the things you said about the data you've
22 collected, the kind of things you have is
23 extremely important so that we can look other
24 institutions in the eyes that didn't -- because
25 of the fact that we -- you know, you didn't

1 want a Katrina. I can assure you. But it
2 happened to us. And first time it happened in
3 the United States. So that that was
4 significant enough to get the attention of a
5 Congress to help HBCUs.

6 DR. HUGHES: Finally.

7 DR. FRANCIS: Well, there's still a
8 whole lot of things out there.

9 And so that happened. And it was -- some
10 cases people call it an act of God. I guess
11 that's in part. But we know there was some
12 things that were man made in that that caused
13 it. But the point is this happened.

14 There are other aspects of challenges to
15 other institutions, and this program was
16 intended to help those institutions. Now, what
17 are they, and what are the elements inside this
18 program that's keeping this from happening?

19 All I'm saying, it has to be clear and
20 demonstrative. And if you put the minds
21 together quickly, there's no -- I've had no
22 problems -- I've spent 40 years as a president.
23 I've been fighting the battle of HBCUs and
24 aggressively saying things people may not have
25 wanted to hear. And if you read the Wall

1 Street Journal article of this morning about
2 HBCUs, I'm on the record at the HBCU Conference
3 saying, Mr. President, every September you have
4 to remind people about what you mean. And
5 people forget. And you're in that climate, and
6 you're still in that climate.

7 So my only point is I think we've got to
8 be aggressive and persuasive, but you have to
9 be very clear of that, how it is going to meet
10 the criteria that you have established that
11 shows it's worth this program. If it's going
12 to be anything, that's got to help the neediest
13 schools.

14 DR. HUGINE: I don't think there's
15 any question about that.

16 DR. FRANCIS: And that has our vote.

17 DR. HUGINE: I guess one of the
18 things that continues to just send up a flag
19 with me is the definition that you all are
20 coming up with for a needy institution, because
21 it seems to be counterproductive in the sense
22 of what you're attempting to do.

23 You've used enrollment decline as a
24 definition. And I guess in the world of
25 business when you think of decline -- is there

1 some other way to describe what it is you're
2 trying to achieve? You seem to be going
3 backwards. You're identifying an institution
4 because -- I'm not saying the enrollment has
5 not declined. Don't get me wrong. But to use
6 that as a description of an institution, I'm
7 not sure you want to do it that way, because
8 what you want to do is you're trying to grow
9 capacity.

10 And so you are looking at institutions
11 that have the ability to grow or increase
12 capacity as opposed to these institutions that
13 have enrollment decline over the last four or
14 five years. So whatever it's worth.

15 MS. CHISM: And, President Hugine,
16 internally we agree with that wholeheartedly.
17 It was, again, trying to accommodate --

18 MS. HARRIS: The HBCU leadership,
19 organization leadership.

20 MS. CHISM: Because from business you
21 would want --

22 DR. HUGINE: The potential to grow.

23 MS. CHISM: That's right. That's
24 what this is about, long-term --

25 MS. HARRIS: So the language was

1 changed so it would not look like we're saying
2 that this is the trend now, but somewhere over
3 the past decade there's been some decline. But
4 that is counter to what we really want to see
5 happen. But it was really in an effort to be
6 accommodating.

7 DR. HAYNES: Let me say something.
8 Andrew, I think you're right. I agree with
9 you. There's something that you have to
10 emphasize.

11 At the end of the day, any institution is
12 about providing an education. In other words,
13 so the students can achieve academically. If
14 you don't talk about that, it's irrelevant.
15 Why do these schools have to exist? They are
16 teaching.

17 I mean, that's not part of what I'm
18 hearing. And I think that falls on deaf ears,
19 because if you talk about declines, you've got
20 to talk about they exist to provide blah, blah,
21 blah. It's an academic institution.

22 Incidentally, no student goes to any
23 institution, or should go, unless it's for an
24 academic reason. There is no other reason to
25 be there. And we don't emphasize that enough

1 in the language pattern that we use as a
2 community.

3 And I'm concerned about that. We've got
4 to change that. We talk about declines,
5 deferment, but that is for a reason. It's an
6 academic issue that we're trying to attack.
7 It's not football. It's not the band. But you
8 see what I'm getting at?

9 MS. CHISM: Yes.

10 DR. HAYNES: And that's not a part of
11 this.

12 MS. HARRIS: Dr. Francis, if I could
13 I have one final comment.

14 DR. FRANCIS: We've got about five
15 minutes.

16 MS. HARRIS: I won't say anything
17 else.

18 I do come from an economic development
19 organization. And so for me, as I look around
20 my state, and I look around the South, I see
21 what's happening, whether it's in -- whether
22 we're talking about science and technology or
23 whether we're talking about how we're going to
24 make our country competitive and what it is
25 that this country has still as a positive in

1 comparison to other countries. What we have is
2 basically our ability to collaborate.

3 Everything else that we have other
4 countries have right now. But it's our ability
5 to collaborate at the higher education level
6 between the private sector and the public
7 sector. And these institutions of higher
8 education allows you to do the research and be
9 creative.

10 So when I look at my community in
11 particular, and what does it mean for
12 African-Americans or people of color, then the
13 greatest asset we have in one respect are
14 HBCUs, because it is that education that is
15 going to cause us to become competitive.

16 If these institutions are at risk, then
17 that is of concern to me. I mean, we are
18 talking about our best and brightest. So if I
19 know that my community has 10 percent of the
20 wealth of white America, if I know that that
21 divide is growing, if I know that the next
22 generation that's there now will be strapped
23 with student debt and servicing debt for 30
24 years and no economic opportunity, and that
25 that credit score because of that student loan

1 is going to keep them from getting jobs in the
2 financial community and in the insurance
3 community and security and anywhere else, then
4 I know that I have to do something about that
5 and try to partner with whomever I can, not
6 only to try to make sure that we can lessen the
7 debt for who are our best and our brightest,
8 but, also, that we can put our institutions on
9 sound financial ground, because there's nowhere
10 else that our students go where a parent can
11 drop their child off and feel that this one
12 place is the place that's going to care about
13 my child just as much as I care about my child.

14 That is the one positive of an HBCU that I
15 don't think we don't say enough about. But you
16 are critical to the future of our country. And
17 so I want to just thank you for letting me go
18 on, but I want you to also know I value
19 tremendously what you do.

20 DR. FRANCIS: Let me just tell you
21 something. We had a meeting of the college
22 presidents. Dr. Strickland was sitting around
23 the table. This is just a tack-on. But don't
24 drop your student at the church door and leave
25 them without any money. And let me tell you

1 what's happening. I can't tell you how many
2 parents are dropping their students at our
3 doors without a dollar. And our receivables
4 are unbelievable.

5 DR. HUGHES: May I say something?

6 DR. FRANCIS: Yes.

7 DR. HUGHES: Ask for a consideration
8 of something. It's very clear that we have not
9 engaged at this level on this topic before.
10 And it has been very informative, for me at
11 least.

12 I think if you can take from what we have
13 given to you as feedback and listen to
14 everything about how to expand this in a way
15 that's going to make sense, even looking at the
16 criteria that already exists in here and that's
17 being changed, if we could come back with a
18 product given a certain amount of time to
19 reconsider, it might be valuable. But at this
20 time we don't have what we need.

21 DR. FRANCIS: And I think they
22 understand that.

23 I want to thank you, number one, and say,
24 number two, time is of the essence, but you
25 never know how things work, but being this kind

1 of optimistic and an entrepreneur, that if it
2 doesn't work with every effort now, that
3 doesn't mean we give up.

4 I think we start from where we have left
5 off and then start taking it on in a more
6 aggressive fashion with the kind of data you
7 have been talking about, because persuasion --
8 and nobody does anything out of the goodness of
9 their hearts. You've learned that.

10 And you have made a case. And time may
11 not allow us the entirety of what we want, but
12 as I sit here, this is not the last time we'll
13 be trying to change what's in here. It's just
14 been our second meeting.

15 So I want to thank you and let you know
16 you have the support of what we're talking
17 about, but I think it has to be with the detail
18 that would give us something to really bite on.

19 MS. CHISM: Thank you.

20 DR. WATSON: Thank you.

21 MR. DUGGER: Thank you very much.

22 DR. FRANCIS: We're all in the same
23 boat over here.

24 The meeting is now adjourned.

25 (Meeting adjourned at 1:26 p.m.)

1 C E R T I F I C A T E

2 STATE OF GEORGIA)

3 COUNTY OF FULTON)

4 I hereby certify that the foregoing
5 transcript was taken down, as stated in the
6 caption, and the proceedings were reduced to
7 typewriting under my direction and control.

8 I further certify that the transcript is a
9 true and correct record of the evidence given
10 at the said proceedings.

11 I further certify that I am neither a
12 relative or employee or attorney or counsel to
13 any of the parties, nor financially or
14 otherwise interested in this matter.

15 This the 4th day of December, 2007.

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GALA M. REZNICK, B-826

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