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HBCU CAPITAL FINANCING ADVISORY BOARD MEETING

Washington, D.C.

Friday, January 20, 2012

10:15 a.m.

The HBCU Capital Financing Advisory Board Meeting convened on Friday, January 20, 2012, at 10:15 a.m., at the U.S. Department of Education, 80 F Street, Northwest, Washington, D.C., before Dr. Norman Francis, Chairperson, and Elizabeth Mingione, Registered Professional Reporter and Notary Public.

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Pages: 1 - 239

1 APPEARANCES OF MEMBERS:

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3 Dr. Lezli Baskerville, President and CEO

4 Dr. Norman Francis, President

5 Dr. Robert M. Franklin, President

6 Ms. Edith L. Bartley,

7 Dr. Adena Williams Loston, President

8 Dr. John S. Wilson, Jr., Executive Director

9 Dr. Dianne Boardley Suber, President

10 Mr. Johnny C. Taylor, President & CEO

11 Dr. Eduardo M. Ochoa, Assistant Secretary

12 Dr. Debra Saunders-White, Deputy Assistant Secretary

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

2 DR. FRANCIS: I would like to call this
3 meeting to order. I think we found a view here that
4 looks like we've got a quorum, and so we can get
5 started, and we'll have a roll call. I'll ask
6 Mr. Watson to call the roll call please.

7 MR. WATSON: Lezli Baskerville.

8 MS. BASKERVILLE: Present.

9 MR. WATSON: Norman Francis.

10 DR. FRANCIS: Here.

11 MR. WATSON: Robert Franklin?

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

13 MS. BARTLEY: Present.

14 MR. WATSON: Adena Loston.

15 DR. LOSTON: Present.

16 MR. WATSON: Donald Reaves.

17 DR. REAVES: Present.

18 MR. WATSON: Trudie Reed? Dianne Boardley

19 Suber.

20 MS. SUBER: Present.

21 MR. WATSON: Johnny Taylor.

1 MR. TAYLOR: I'm here.

2 MR. WATSON: John Wilson.

3 DR. WILSON: I'm here.

4 MR. WATSON: Chairman, we have a quorum.

5 DR. FRANCIS: Thank you very much. I want

6 to welcome you all to this chilly weather here. I

7 guess you have gotten used to it. Those of us from

8 San Antonio and New Orleans, this sort of thing, we

9 don't like this. We are going to get out of town as

10 fast as we can, but I am really happy to welcome you.

11 I was very worried. You know if you are

12 ever traveling early in the morning trying to make a

13 ten o'clock meeting and your plane is going to land at

14 9:30, you know, hope for a lot of good things: One, a

15 good pilot, that's number 1, good wind, a tail wind

16 and no snow. And it worked very well.

17 I would have liked to have come in last

18 night, but I should tell you I was MC'ing the

19 investiture of a new African-American female as a

20 federal judge for the Eastern District of New Orleans.

21 And that was quite a fine affair.

1 Only thing that made me uncomfortable, they
2 had all nine of the judges there, and they had the
3 Court of Appeal judges there. We had enough judges
4 there to hold court for the next year. So we did get
5 out of court, and I didn't get convicted, so I'm in
6 good shape this morning.

7 Well, this is always a very important
8 meeting for us. We've had difficulty in the past
9 trying to meet, you know, right on schedule. But when
10 you get the type of people who are very much involved
11 as you are, and try to put this together, it gets
12 difficult. But Don and I have agreed that we will
13 continue to do so. And we'll do what other
14 organizations do. We hold a meeting in New Orleans.

15 We never miss a quorum for any meeting I've
16 ever heard if it's held in New Orleans.

17 DR. SUBER: Works for me.

18 DR. FRANCIS: Works still for you? Well,
19 we are going to try. Now you get your schedules
20 ready, but not at Mardi Gras. I might do it at
21 Essence, and we might do it at Jazz Fest, but not at

1 Mardi Gras. But let's get started.

2 I guess I should be first to say welcome to
3 our guests here. And I'm going to ask you, Dr. Ochoa,
4 give us some remarks, as many as you want. And I want
5 to also welcome Dr. Debbie Saunders White. Met her
6 for the first time, Johnny, with the Secretary. She
7 had just started, and didn't stop, I understand. But
8 same thing with you I assume, Doctor. It's a new
9 world.

10 And I thought I saw Leonard Haynes? There
11 he is. Hi, Leonard. Leonard is a Louisiana boy, so
12 he doesn't like this weather either, but he must be
13 acclimated by now. It's all right.

14 But, Dr. Ochoa, welcome. And we wish you
15 continued good health and good work for us.

16 DR. OCHOA: Thank you, Dr. Francis. It's a
17 pleasure to be here today to meet with you and share a
18 few remarks with you about the work that we are doing
19 at the Department of Education.

20 I'm sure you are well aware of the
21 President's 20/20 goal for once again becoming the

1 most educated nation in the world, which means raising
2 the college attainment levels of our nation
3 substantially. And it specifically means raising
4 substantially even, you know, closing the gap in the
5 college attainment levels of minority population,
6 Latinos, African-Americans and others.

7 And that's actually a very key aspect of
8 the overall goal. And in that quest institutions like
9 HBCUs and other minority-serving institutions have
10 unique advantages and insights because of their
11 experience in serving that population. So it's -- as
12 a group of institutions, you stand poised to play a
13 critical role in achieving this goal. And so it's
14 very important for this administration to pay
15 attention to your needs and support you in every way
16 we can.

17 There's also of course an even longer
18 legacy for HBCUs in particular because of the
19 historical role that they have played. And that's
20 another important aspect of the commitment of the
21 federal government to supporting these institutions.

1 The fiscal year 2012 budget was finally
2 passed, in a manner of speaking. And it does provide
3 for \$367 million for loan and loan modifications for
4 this program. And it allows for loans to both public
5 and private HBCUs. So that's specifically going to be
6 your focus in this board, and we are looking forward
7 to your recommendations.

8 I want to recognize the good work of Don
9 Watson in supporting you, and also want to also
10 recognize Debra Saunders-White who I selected to join
11 me in the Department as my deputy assistant secretary.
12 And I'm very proud of her and the work that she's been
13 doing. She has had quite an impact already in the
14 higher education programs section of the office of
15 post secondary education, which I head.

16 And this has not gone unnoticed across the
17 department, I must say. So we are really happy to
18 have her with us.

19 DR. SUBER: So you are pleased with her
20 work.

21 MR. OCHOA: Absolutely.

1 DR. WHITE: Go ahead and tell the story.

2 DR. SUBER: Then I can tell you that I

3 raised her. So she is all that she is because I

4 raised her.

5 MR. OCHOA: Thank you.

6 DR. FRANCIS: Those are some of the kindest

7 words you'll ever get.

8 MR. OCHOA: Well, I don't have anything

9 more specifically that I wanted to share with you but,

10 you know, if you have any questions or comments you

11 care to make for my benefit in the work that I do in

12 the office, I'd be happy to hear about it before I

13 surrender the podium.

14 DR. FRANCIS: Well, we are going to need

15 your help going forward. We made a lot of

16 recommendations last time we met. What was our

17 batting score, Don? One out of five.

18 MR. WATSON: We did a little better than

19 that, Mr. Chairman. Yes, three out of ten. So we are

20 at 30 percent, but I'll get into more details about

21 that.

1 DR. FRANCIS: All right. He's got his
2 report because I've asked him to give back to us the
3 reactions to the number of recommendations we made.
4 We made a number of them, and some of them are very
5 still alive and very important to the program, Doctor.

6 And some of course we understand are going
7 to be more difficult, particularly in this economic
8 time, but there are some things that would be
9 beneficial even fiscally both to the government and to
10 the schools if we adopt them. And we did not get I
11 guess one or two of them in the bill that we wanted,
12 but we are going to talk about them today and more
13 than likely put them back on the table.

14 This won't hurt because we are coming to a
15 time where we are going to be challenged, as you put
16 it, in educating young people. But there are going to
17 have to be not just resources which are money but
18 resources in terms of buildings and capital and the
19 rest because it is difficult for us to compete and
20 then keep kids in school if we don't have those two
21 things working together. You understand -- certainly

1 understand that.

2 And we also understand the difficult times,
3 we understand the economic times and the like. I've
4 been at this a long time, as you may know. And my
5 problem is that in funding it is always difficult to
6 get to the equity side of business. You know
7 everybody knows that we fought for equality, but when
8 things are not equal going in, putting equal amounts
9 of water in unequal glasses, the glasses remain
10 unequal.

11 So the only way you do it is put more in
12 some glasses than others in order to do it equitably.
13 And that doesn't mean putting it in there just for the
14 sake of putting it in there, but if we are going to be
15 able to compete, we've got to be able to compete in
16 ways that the future is depending on us.

17 And we all as you put it have I guess all
18 of the centuries that we've been in, and looks like
19 centuries, I know it's one and a half, but we have
20 done what a lot of other institutions have not done
21 with much less than they. And I think we take pride

1 in saying that. But that is not to say that we don't
2 understand the fiduciary responsibility we have for
3 funding, the fiduciary responsibility we have as
4 institutions for the country as a whole.

5 So when we talk about funds, we are talking
6 about it to make, quote, the kind of goals the
7 President wants. And I'll say it off the cuff. The
8 way we are going now, we are not going to make those
9 goal unless we rev it up and we have more money.

10 And I know for those of us who are
11 presidents and a lot of people say we always talk
12 about more money, more money, more money. Well, not
13 all of these will need money, but most of them will.

14 So, I am happy you have come to be with us
15 because we'd like your support. We'd like to be able
16 to respond and help you where you think your support
17 would be helpful as you become our speaker in places
18 that we won't show up yet.

19 And that's part of what it is we do every
20 day. We try to find those where we will have
21 champions of the cause, where we won't be there but

1 they will know why they are championing it if we can
2 collaborate it. And I do remember one of the main
3 things in our July meeting with Secretary. It was
4 communication, the fact that we and the Department
5 must communicate and do so in a way that we understand
6 our respective roles.

7 So I will be very happy you came, and stay
8 as long as you want. You know your desk will be piled
9 with e-mails and all when you get back, but it's the
10 weekend and we spend the time on the weekends going
11 through our e-mails. I am sure you do too.

12 MR. OCHOA: So you know I work best in a
13 dialogical sort of mode as an academic, and I can't
14 stop myself from, you know, reacting or sharing some
15 more thoughts based on your remarks.

16 DR. FRANCIS: Please.

17 MR. OCHOA: We do have, I mean, I came to
18 the Department from higher education. I was a provost
19 at Sonoma State University, one of the campuses of the
20 California State University. And I became very
21 concerned about the fact that the President's 2020

1 goal seemed to be in a collision course with the
2 realities of funding, particularly public higher
3 education that was being defunded so drastically.

4 And so this has been one of my concerns is
5 trying to find some way to affect the public dialogue
6 in this respect to try to sort of get real about the
7 situation. And one thing that happened is that in
8 dialogue with the American Council on Education, they
9 have gone ahead and created a commission on
10 educational attainment which really was a response to
11 my plea for higher education to come together and
12 develop a strategic vision for the country hoping to
13 achieve these goals.

14 And that commission is headed by President
15 Dee from Ohio State, put a number of good people in
16 it. And they are sort of in their quiet phase right
17 now. They are developing white papers and generally
18 gathering information, but eventually they will come
19 out with some things that should impact the public
20 debate on this.

21 The other thing that I'm also sort of

1 embraced as my issue is the issue of productivity. In
2 higher education universally we are a lot like the
3 health care industry. We are very concerned with
4 quality and always doing things better, but we don't
5 necessarily watch the bottom line or have, certainly
6 our faculty don't have as one of their objectives how
7 to do things more efficiently.

8 Unless something that as a sector we can no
9 longer afford because precisely because the need for
10 post-secondary education now is so much more
11 widespread we have to play such a large role. So just
12 like the health care industry is catering to growing
13 need as populations extend, we are also catering to
14 growing need. And we have to find a way to increase
15 productivity.

16 So that's another area that I think is a
17 common challenge both for HBCUs and for the rest of
18 the sector.

19 DR. FRANCIS: Sure. Well, my only
20 response, I couldn't agree with you more. And it's
21 continuing to be a challenge. The only response I

1 would say to you is that in our sector I think what
2 our major challenge, we have been able to do so much
3 more with so little. But the time comes when you
4 can't continue to do that.

5 And that time is really now. But it
6 doesn't -- it's not an excuse to continue to do that.
7 And that's a real challenge. And that's our goal, you
8 know, is efficiency and effectiveness and serving the
9 people who come to us, students, and showing what
10 happens to them after they come and making sure that
11 they make progress and they complete their work.

12 I'll say it because I just come back from
13 Haiti on Friday. And it -- it was most depressing,
14 most depressing, because I look at where they were
15 before the earthquake, look at them now. And you look
16 at the youngsters who need to be educated.

17 And so if we don't -- they don't start
18 doing as fast as they can, that gap only widens. And
19 the efficiency, effectiveness and where the money is
20 going to come from is another story. But I guess I
21 would invite you all to go look, but I left there so

1 depressed. And I'm not normally -- I'm always upbeat
2 bate and optimistic and the like but I'm really
3 concerned about it.

4 So the point you make is that if we are
5 going to make the President's goal, and our own goals,
6 you are right, the efficiency thing, but we need help
7 from faculty. As an administrator, that's a big
8 challenge. How many hours you teach, how much time
9 you are going to spend on it, time on task, and -- but
10 we have faculties who they are there because they are
11 not making big salaries, so they are committed and
12 it's a matter of working.

13 I want to recognize Taylor.

14 MR. TAYLOR: Chair Francis, thank you.
15 Just had a quick question for you, Secretary. Do the
16 commission that you described, do we have any HBCU
17 presidents?

18 DR. FRANCIS: On the ACE.

19 MR. TAYLOR: On that commission?

20 DR. FRANCIS: I don't know. I have not --
21 this is the first time I'm hearing about it, but --

1 MR. TAYLOR: And so that's one of the
2 things that I will comment is as we are looking at
3 these 2020 goals and making these decisions, and you
4 are saying you are relying on the presidents around
5 the table and throughout our 105 university network,
6 that we have some folks at the table who can bring the
7 perspective, Chair Francis, that you are mentioning
8 now.

9 So I think that is an area we should go
10 back and revisit if it's not too late to have our
11 voice heard at the table. We need to be there.

12 DR. FRANCIS: I'll send an e-mail to Molly
13 Broad on Monday.

14 DR. SUBER: And also the 2020 goal may be
15 lofty by your own admission. But even if you were to
16 reduce it, the expectation that we would be the
17 leading country in the world, I mean to come from 29
18 to the leading by 2020 I agree is a big leap, but even
19 if you were to say we are going to be 13th in the
20 world it does require in fact that you target and
21 educate that population of people who will be the

1 population in 2020.

2 And if you don't do that, that population
3 of people are still going to be there. And so the
4 question is if you don't educate them, then what are
5 you going to do with them? Where do they -- where is
6 the expenditure? Because they will be there. They
7 will be real.

8 It seems to me that as we talk about the
9 goal, that the reality of it is, is that if you think
10 that education is the under girder for everything
11 else, then that somewhere in a common sense kind of
12 discussion that becomes a priority. And that given
13 that, you know, the bumper sticker that says "thank a
14 teacher," well you can apply that to just about any
15 discipline that you want that at some point the
16 educational foundation of a country is what sustains
17 it.

18 And so I appreciate the concept that our
19 institutions are major contributors to this goal, it's
20 just a little hard for me to reconcile how if I'm
21 really so important I am sustaining the major cut of

1 the process. And so, that's the only question I raise
2 is that I think whatever the goal is, we've still got
3 to move the population of people that we serve because
4 in 2020 they are going to be there.

5 They are either going to be educated or
6 uneducated, which will have a rippling effect on this
7 nation and this world in ways I don't think people
8 have even begun to think about.

9 MR. OCHOA: Well, as you know we, the
10 Department of Education, we are not masters of our
11 fate when it comes to the budget.

12 DR. FRANCIS: Don't we know.

13 MR. OCHOA: So I couldn't agree more with
14 everything that you said, but that we are facing some
15 real constraints. And I should say in my call for
16 greater efficiency I am not suggesting that that's
17 all -- that that can by itself create the added
18 capacity that we need.

19 We obviously need for the trends that we
20 see in public support for higher education reversed.
21 But it's just that I don't see them even if we were to

1 have an impact on where those trends are going, it's
2 not going to all by itself get us to where we need to.
3 So we need to have both.

4 DR. FRANCIS: Right. Exactly. I would
5 just recommend that when I'm ready to start this
6 meeting, given your comments, Dr. Suber, the ETS
7 produced a major research paper about four years ago
8 called "The Perfect Storm." And I'd recommend to each
9 of you to go on the web and read that. It fits that
10 very well.

11 Dr. Ochoa will -- if you haven't seen it,
12 you would appreciate that very much because it talks
13 about exactly what you say. We are on a collision
14 course.

15 Okay. All right. Lezli, I'll recognize
16 you before we start.

17 DR. BASKERVILLE: Thank you, Mr. Chairman.
18 I just wanted to add in terms of commending some
19 reading, the Maryland Higher Education Equity in
20 Excellence Case which is also the HBCU's case against
21 the State of Maryland for equity and funding and

1 excellence provides a tremendous snapshot of the
2 challenges but also the abilities of HBCUs to thrive
3 and what we've done with so little. And I would
4 encourage anyone, particularly you, sir, to look at
5 it's called the Excellence, the Committee for
6 Excellence and Equity in Higher Education versus the
7 State of Maryland.

8 And in it some of our current presidents
9 and former presidents, the former Maryland president
10 Earl Richardson testified. Current president David
11 Wilson, president Morgan State testified; president of
12 Bowie State testified, Mickey Burnim; President Avery
13 at Coppin State. Their testimony is compelling and it
14 is just a historical overview of what our institutions
15 have been able to do with so little.

16 And it gives a clear picture of I think the
17 return on the investments, a paltry investment with
18 huge returns. And this case is the first HBCU equity
19 in excellence case to reach the courts in the last 30
20 years. And it's also going to establish the landscape
21 for at least six or seven other states that have

1 actions that are in cue.

2 But it's an excellent overview. If you
3 can't get it, our office has it. We'll be happy to
4 send you not the entire transcript, but the testimony
5 in particular of the presidents of the HBCUs that
6 testified.

7 DR. FRANCIS: Very good.

8 MR. OCHOA: Thank you for that tip. Well,
9 I'm going to leave in a few minutes, but I'm also
10 going to leave with you here with Debra some of my
11 card. So if anybody wants to reach me, you are
12 welcome to do so.

13 DR. FRANCIS: Thanks so much for coming,
14 Doctor. Dr. White do you wish to make some comments
15 with us.

16 DR. WHITE: I just want to extend my
17 appreciation to each and every one of you for your
18 continued dedication to our community. I know that
19 this is one of many boards that you serve on in your
20 day-to-day commitment. I think that, you know, we
21 struggled to find a day for this meeting, and I am

1 very delighted that coincidentally we happened to have
2 it on the eve of or on the fortnight really of the
3 Martin Luther King Day celebration.

4 So when we talk about our commitment to
5 service, what a wonderful time to be in Washington,
6 D.C. to ratify that. I must say that, you know, you
7 stand on many shoulders when you go through life. And
8 I've never been -- I haven't been in a public forum
9 like this, and I want to publicly acknowledge in my
10 appreciation to Dr. Dianne Boardley Suber. I've known
11 her since the 7th grade, so she's very correct.

12 DR. SUBER: Since she was in the 7th grade.
13 I was grown.

14 DR. WHITE: So I have known her since that
15 point in time in my life, and so I am -- I am evidence
16 of the work or product of the work that you labor in
17 each and every day. I'm here, Mr. Chairman, to
18 hopefully advance the agenda. You have 30 percent hit
19 rate.

20 It's ambitious to say that we are going to
21 have -- get to 100 percent, but I'm here so that I can

1 help support Don and --

2 DR. FRANCIS: Beautiful.

3 DR. WHITE: Dr. Haynes in their efforts so
4 that our message is clear and your message is clear.

5 DR. FRANCIS: Thank you.

6 DR. WHITE: So I'm here to take on that
7 advocacy role. And it is with extreme delight that
8 I've been given this opportunity by Dr. Eduardo Ochoa.

9 DR. FRANCIS: We are happy to have you with
10 us and happy to have Dr. Ochoa with us too. And but
11 watch these -- last night I introduced what was
12 supposed to be the senior senator from Louisiana, but
13 with all those judges, I said the senior citizen.

14 (Laughter)

15 DR. FRANCIS: And Senator Mary Landrieu
16 said to me if I had not gone to law school with her
17 daddy, she would kick me out. But every now and then
18 I was getting too far left preaching and get to
19 meddling. She said don't do that again.

20 Thank you both for being here. You'll be
21 with us for awhile.

1 DR. WHITE: Yes.

2 DR. FRANCIS: All right. We need to do the
3 first thing and that is to -- you remember them,
4 approve the minutes of our last meeting which really
5 was July 30, 2010. I remember that was a hot date
6 too. John?

7 MR. TAYLOR: So moved.

8 DR. FRANCIS: Got a second?

9 RESPONSE: Second.

10 DR. FRANCIS: Thank you. Any questions at
11 all? In a few minutes executive director will go
12 through details on that, but I looked at them and they
13 looked very good, very clear as compared to reading
14 the old transcript itself.

15 All those in favor of that motion please
16 signify by saying "Aye."

17 RESPONSES: Aye.

18 DR. FRANCIS: Opposed? Motion is carried,
19 and I would like now to turn it over to our
20 distinguished executive director who has gotten a
21 little help now and we are going to get some more, the

1 man that doesn't stop. He's like that little rabbit.

2 So, Don, it's all yours.

3 MR. WATSON: Thank you, Mr. Chairman.

4 Thank you, board members. I'm pleased to present my

5 report to the board. It's an update, you all have it

6 in your yellow packets.

7 The Secretary approved as you know the

8 marketing sale of Barber Scotia. At this point the

9 designated bond authority, the trustee and the bond

10 authority's counsel have reviewed those documents, and

11 those documents are now with the Department of

12 Education's general counsel being reviewed.

13 Basically what's going on in that process,

14 there's a marketing sale agreement. So Barber Scotia

15 will receive this. Their counsel and review it. The

16 board will look at it. They'll sign it and then we'll

17 start to market the property.

18 And the reason we are going -- just to

19 remind you why we are going that route instead of

20 having a full-blown foreclosures. Foreclosing campus

21 means that we have to provide security, insurance,

1 those sort of things that Barber Scotia itself is
2 already providing. So it sort of cuts down the cost.

3 And as you know, the cost of Barber Scotia
4 eats into the escrow of the other borrowers in the
5 program. So we try to keep the cost as low as
6 possible by allowing us to go through this marketing
7 sale process. That's the basic update on that piece.

8 Are there any questions from members of the
9 board on that for further discussion.

10 DR. FRANCIS: Been going on a long time.
11 Looks like it's coming to reasonable conclusion. How
12 much time do you think left?

13 MR. WATSON: Well, the interesting part
14 about this, we collateralized the entire campus. And
15 campuses aren't real estate that are sold every day.
16 In this market houses are being difficult to sell, so
17 you have to imagine that it's going to be more
18 difficult to sell an entire campus or parcels of that
19 campus.

20 DR. SUBER: What is the selling price
21 projected to be?

1 MR. WATSON: It's the market price.

2 DR. SUBER: Oh.

3 MR. WATSON: And that's why we had it for
4 sale, just so we can actually get a market feel for
5 it. Just to throw out a price wouldn't be fair to the
6 University or the borrowers in the program, so we let
7 the market dictate what will happen in that case.

8 DR. SUBER: And your time frame again is?

9 MR. WATSON: Well, general counsel should
10 be finished their review I guess maybe the next 30
11 days or so, then once that happens, we'll actually
12 I'll take a trip down to Barber Scotia so we can have
13 a discussion about that. DBA, bond counsel, trustee
14 will go down to Barber Scotia to have a discussion
15 with them and their board about the next steps in the
16 process.

17 Although they will default the school,
18 there still needs to be some sensitivity to this and
19 to the process. And then once they sign the document,
20 it actually lists for sale and then individuals can
21 start going through the process of making bids or

1 offers on the property and things of that nature.

2 Most likely we'll ask -- require additional
3 updated appraisal for the property.

4 DR. FRANCIS: Don, as one issue that comes
5 to mind because it's in our packet, and I've been
6 chanting this about four years, what about the escrow
7 that was there in the group? Has it been depleted
8 yet?

9 MR. WATSON: No, sir. The good thing about
10 this escrow is that as you may recall that the program
11 can now make a significantly -- a significant amount
12 of loans. It's no longer -- four years ago we started
13 the program it was \$130 million outstanding. Now it's
14 \$150 million outstanding.

15 As institutions make loans, it's a way to
16 add support. So Barber Scotia's portion of the debt
17 service payment is being now -- the support of that is
18 being paid by each institution escrow. So the escrows
19 actually grown over time.

20 I think the escrow is about 17-18 million
21 dollars at this point. And it grows as we make each

1 loan. So it's not that we can deplete it. At one
2 time we were in discussions with on be as to actually
3 paying off the Barber Scotia loan and just allowing
4 that process to take place.

5 That would have to have a deeper
6 conversation with all the institutions in the program
7 because they would actually have to agree that a
8 portion of their escrows would be lost until the
9 campus is sold. And they were not guaranteed that we
10 will recoup all of their escrow that went into the
11 sale.

12 DR. FRANCIS: So new borrowers' escrow go
13 into that pot from --

14 MR. WATSON: Every borrower.

15 DR. FRANCIS: So everybody's in the pool.
16 I thought only the tranche that came in at the time.
17 So it's broadened?

18 MR. WATSON: Yes. Yes. It's broadened by
19 statute. That's something that the higher education
20 dictates that every borrower gets a loan through the
21 program actually has to put five percent of their draw

1 into the pool.

2 DR. FRANCIS: I just had the
3 misunderstanding, I thought if I came in with a
4 tranche of five schools that our escrow was in that
5 pool but everybody else who comes in -- see how that
6 pool would grow. And I can see why I think we need to
7 put that back on the agenda because I think it's,
8 well, I've always felt it's a deterrent for schools to
9 come into the loan program because you are coming in,
10 putting in an escrow that you are saying for myself,
11 but I am coming to all of you.

12 MR. WATSON: Right. And just to give a
13 little explanation on this, if you --

14 DR. SUBER: I thought it was for the people
15 who were already in. So it's everybody new.

16 MR. WATSON: Everyone who comes to the
17 program. And just so you have an understanding of how
18 the program works, just so you have an understanding
19 how the program works, this is no different from any
20 other bond issue we have. If you think about any
21 other bond issue and most of you on campuses you have

1 gone through bond deals and you understand that

2 there's a reserve fee.

3 We call ours a pooled escrow. The norm

4 reserve fee if you look at our five percent escrow,

5 it's much lower than the ten percent of your bond,

6 your total. Bond it's much less than 125 percent of

7 maximum debt service. And those are standards in the

8 regular market. So we are all always going to be

9 lower.

10 Also just for any worst-case scenario, if

11 you were to lose your entire escrow, add about a half

12 a percent to your interest rate and we'll still be --

13 especially in this market we'll still beat anyone out

14 there. So those kind of things you have to look at

15 when you are looking at your overall bond cost.

16 And I will tell you there are some schools

17 that had the same sort of concept where they don't

18 want to be part of escrow. You have some other

19 entities tell them, well, we can do better. They

20 realized that they weren't doing better because of

21 the overall effect of cost of borrowing, and they

1 ended upcoming back to the program.

2 So you have those things you sort of have

3 to look at when looking at the program.

4 DR. FRANCIS: Yeah. You know we all know

5 when you take out a bond you have got to put an escrow

6 in. I just was, I'll admit, misunderstood the fact

7 that it's like a big bond, and every time you get into

8 it you are putting in your escrow, and your escrow is

9 liable for everybody else's. That's a -- see when

10 we -- each one of us does it, we are responsible for

11 our own.

12 MR. WATSON: Exactly.

13 DR. FRANCIS: Now my famous Louisiana, it's

14 we are not in Salito. We are separate. And I think

15 -- I think our next step is to put it in again, see if

16 we can get congressional authority to separate it out.

17 MR. WATSON: And I'll go into more detail

18 because as you recall the board actually recommended

19 that the department look at changing the escrow. So

20 I'll go into more detail as we get responses to that.

21 And you'll see that's actually one of the

1 recommendations to keep going on that.

2 DR. FRANCIS: Okay.

3 MR. WATSON: So any more questions about
4 the Barber Scotia and escrow?

5 DR. FRANCIS: Let's go down the line.

6 MR. WATSON: All right. I also want to
7 report to the board that the program went through
8 what's called a 1, 2, 3 risk assessment. And
9 basically it's an internal assessment to the
10 Department of Education that determines if there are
11 any high-level risks for a program.

12 We wanted to go on that process. And
13 basically what -- way the process works, someone will
14 come in, ask me how the program works. I describe the
15 program from beginning to end. Then they are looking
16 at the controls inside the process.

17 We had a finding. That finding was that we
18 have more control points in which they want -- there's
19 a memorandum before the Secretary -- Assistant
20 Secretary signs the letter of credit and the Secretary
21 Certificate. Debra White Saunders looks at it, she

1 reviews it. There's sort of a sheet attached to it.

2 She approves it. It goes up to Dr. Ochoa for his
3 signature.

4 And so I actually expanded that a little
5 bit to include a little more information about the
6 process and how the process worked. And just to say,
7 that I actually reviewed the documents. I'm okay with
8 it. And that's the sort of thing that we put in to
9 close this finding.

10 So we are looking to close the finding, I
11 guess the date is April, but I've already provided all
12 the information and all the data so I just haven't
13 provided -- do a closing memorandum to officially
14 close the audit.

15 DR. FRANCIS: So we made the grade in the
16 rest risk assessment or you've got to --

17 MR. WATSON: For me, no. I wish it was
18 zero, but always thinking something's going to come
19 up. And for that to be -- came up, I am pretty
20 satisfied with that.

21 DR. FRANCIS: Okay.

1 DR. WHITE: It was a very minor.

2 DR. FRANCIS: Good.

3 DR. WHITE: Don isn't giving himself proper
4 due in this regard. This was an internal assessment.
5 These are the kinds of things that the department
6 looks at when we look at the viability of programs and
7 our ability to manage the program. And, you know, you
8 all are well aware of what auditors do.

9 And to come up with one minor finding like
10 this where it just caused us to put better controls in
11 place I think really bespeaks to Don's leadership.

12 DR. FRANCIS: Good. Well, that's very
13 important to all of us because if you don't manage it
14 right, and we are managing it correctly, you tend to
15 lose it.

16 DR. WHITE: Exactly.

17 DR. FRANCIS: And so all of us know about
18 auditors. I deal with them every day. And I have to
19 keep my own books. Go ahead. Kind congratulations.
20 That's very important.

21 UNIDENTIFIED SPEAKER: Here, here.

1 MR. WATSON: Thank you. The next item to
2 report is the Federal Advisory Committee. That actual
3 statute that governs how this board runs and that sort
4 of thing.

5 Every year, that's during October, I have
6 to go in and update the report basically to find what
7 the cost of the program to run the board, what the
8 board -- who the board members are, what the board
9 recommendations are, how many of those recommendations
10 were accepted by the department, how many were not.
11 And so a pretty simple report, doesn't require a lot
12 of things.

13 Whatever we do here, we just basically
14 report that there and Dr. Ochoa signs off from that
15 and that goes to GSA to be reported to Congress. So
16 it's not a good or bad sort of report but it's just
17 something that we do annually and just want you to
18 know that that's something that happens.

19 Also you all received the updated charter
20 that also dictates how the board runs and how the
21 board make up the funds of the board that sort of

1 thing. Secretary Duncan approved that through 2014,
2 so I believe I sent you all a copy of that last year
3 when that went out. So I just wanted to get you
4 updated a little. That won't happen again for another
5 year.

6 I just want to report that I've been
7 helping the College Housing Facility Loan Program.
8 Mark Somerville is in the audience. He actually runs
9 that program. We took a trip down to Richmond to the
10 Federal Reserve to have a better partnership between
11 the Federal Reserve and the department when it comes
12 to running the program and tha kind of thing to get a
13 better understanding of what the Federal Reserve can
14 help us to improve the program, we what we can do to
15 help the Federal Reserve manage their program.

16 I think it was a pretty successful meeting.
17 We were there all day, accomplished a lot. We came
18 out with a lot to do, and so but it was an important
19 meeting that needed to be had. And we have some
20 follow-up to do, but it's coming along pretty good.

21 DR. FRANCIS: You do any reporting to the

1 Federal Reserve Board or just that for communications
2 and so forth, you know, the relationship?

3 MR. WATSON: Not for me, it's not a Capital
4 Finance function. I was there simply to assist, but
5 there's no report per say to --

6 DR. FRANCIS: It's a matter of keeping the
7 relationship that they know what we are and what we
8 are doing basically.

9 MR. WATSON: Exactly. And basically what
10 the Federal Reserve position was, they actually acted
11 as a servicer in a sense. They collect the payments
12 and send out payment notices. What we discovered was
13 that they wanted also more input from the department.

14 If something goes on with the loan, they
15 wanted to have our input as to how it should be
16 handled and those sort of things. So that was the
17 bulk of our discussion to get some understanding of
18 what they needed from us and what we needed from them
19 to, again, improve customer service to borrowers.

20 And it's not just chapter program is not
21 just for HBCUs, it was what I call a predecessor to

1 Capital Finance because it was college housing
2 facility loan. And HBCUs are participants all I guess
3 there's tons of a variety of institutions that
4 actually participate in that program.

5 DR. FRANCIS: Good. Keep in good touch.

6 MR. WATSON: Also -- yes?

7 DR. BASKERVILLE: I'm sorry. Finish your
8 report first. Thank you.

9 MR. WATSON: Also Morris Brown is a member
10 of board of that portfolio. They have sent in a
11 request to ask for us to look at relieving some of
12 their debt of the chapter, some of the chapter debt
13 for an amount. The department has some discussion
14 about that and is still having some discussion about
15 that proposal.

16 DR. BASKERVILLE: So I really was just
17 going to ask are you at liberty to discuss with us or
18 do you know what will be your recommendations
19 regarding Morris Brown.

20 MR. WATSON: No. There's internal
21 discussion within the department but a resolution has

1 not been made. Of course there are negotiations back
2 and forth, so I am sure there will be back and forth
3 with Morris Brown and Department personnel.

4 DR. BASKERVILLE: Thank you.

5 MR. WATSON: Any more questions on that
6 issue?

7 DR. WHITE: Can you give a date when you
8 think that you will be able to have Morris Brown's
9 request resolved?

10 MR. WATSON: Most likely can't give a date
11 today. And again because it involves general counsel,
12 Department of Justice, because they are actually
13 asking for the department to sort of forgive a debt.
14 And that becomes sort of an issue outside of just the
15 realm of Department of Education.

16 The department has to write a
17 recommendation, Justice has to accept it, that sort of
18 thing. So we probably can do something I'm guessing
19 maybe 90 days because it's not just Department of
20 Education, but we have to involve outside
21 institutions. And there's some back and forth with

1 the university I'm sure.

2 DR. WILSON: And what is the size of Morris
3 Brown?

4 MR. WATSON: If I remember, it's close to
5 two million dollars.

6 DR. SUBER: And this back and forth doesn't
7 have any input in terms of recommendation or anything.

8 MR. WATSON: No. The chapter program
9 actually stopped making loans I believe in -- I'm
10 looking at Mark, '90 --

11 UNIDENTIFIED SPEAKER: 1993.

12 MR. WATSON: 1993? So it's been a long
13 active program, so.

14 DR. SUBER: So this evolved afterwards, not
15 as an extension of it.

16 MR. WATSON: Right.

17 DR. SUBER: Okay.

18 MR. WATSON: Yes. The history of these
19 programs before Capital Finance there were three what
20 I call predecessor programs, but they all actually
21 provided some kind of construction facility loan. So

1 that's why I mentioned that they were predecessors to
2 the cap finance program.

3 DR. FRANCIS: Okay. Program activities?

4 MR. WATSON: This part of the report just
5 gives you sort of an idea of what's been going on.
6 There's a small table there that shows in FY 2010 we
7 provided \$178 million in loans to six institutions,
8 five privates, one public. In FY 2011 we did 178
9 million as well to three institutions, one private,
10 two publics.

11 And if you remember, 2011 was an
12 interesting year because we only had money for public
13 HBCUs at the time. There was no money for privates.
14 FY 2012 as Dr. Ochoa mentioned, there's \$376 million
15 available for loans and modification, loan
16 modification.

17 And just to give you an overview, most of
18 time you see the budget for cap finance it will give
19 you some figure, 20 some odd million dollars. And I
20 think it's important to note that even if individuals,
21 if someone gives you 20 bucks and you can come out

1 with \$178, it's a great investment.

2 These are loans being repaid, so it's a
3 very different concept from a grant. You put 20
4 million in and you have 178 million. And in the case
5 of FY 2012, \$367 million. That's a great return on
6 investment for the taxpayer.

7 DR. FRANCIS: And this 367 million that has
8 just been put in by the Congress, there's a sunset on
9 that September 30 this year, right?

10 MR. WATSON: Yes, sir.

11 DR. FRANCIS: And it will go back in and
12 ask for some more.

13 MR. WATSON: Yes, sir.

14 DR. FRANCIS: And show how well we are
15 doing on the ROI and then we get more.

16 MR. WATSON: Something similar to that.
17 This was -- and again some of my report get more in
18 detail inside the board's recommendations to the
19 Department.

20 This \$367 million is part of the
21 President's FY 2012 budget. So with anything in the

1 2012 budget, it actually deadline is September 30.

2 Cap finance, we try to complete loans at least at the
3 earliest we would like to do it September 15.

4 Sometimes things come up every year and to
5 the week after that, but generally we like to make our
6 last loan way before September 30.

7 DR. FRANCIS: You may be getting at this
8 but -- and I don't remember what our recommendations
9 were. I know in last -- in the minutes as well, we
10 asked to move the ceiling because we had reached it.

11 MR. WATSON: Yeah.

12 DR. FRANCIS: And we did get that in. Of
13 course that wasn't part of that, but to be able to
14 keep on top of this, you know, a new battle begins for
15 FY 13.

16 MR. WATSON: Yes.

17 DR. FRANCIS: Right. And in the mood and
18 the environment there is now, we want to make sure
19 that we ask for more, if we using more. And that's,
20 you know, we don't want anybody say you are asking for
21 it but you are not using it.

1 MR. WATSON: Right.

2 DR. FRANCIS: And we don't want to go ask
3 for something if we know it's not possible. I think
4 one of the virtues of this program even in the cutting
5 time is the fact that it is a loan program. It's not
6 a grant.

7 MR. WATSON: Exactly.

8 DR. FRANCIS: That the Congress isn't --
9 I'm just speculating that say, well, we have put it in
10 because they borrowed money, they are going to pay it
11 back. And I think what we want to be sensitive to is
12 what it is we should be asking coming in '13.

13 And this may not be the time. I don't know
14 if any of us have thought about what it ought to be
15 because right now we've got to make sure we spend the
16 367.

17 MR. WATSON: And just to give you a little
18 insight, the subsidy amount hasn't changed at all.
19 The subsidy amount has been 20.3 million, 20.5 million
20 dollars. The subsidy amount hasn't changed in three
21 years. What actually changed was the actual amount to

1 lend.

2 Now the actual amount to lend changes
3 because it depends on whether the number of publics,
4 the number of privates and that sort of thing. So
5 that comes into play. And that's why the number has
6 moved from 178, we were in sort of a --

7 DR. FRANCIS: Standstill.

8 MR. WATSON: a standstill in FY 2011, so
9 that's why it was still 178. But the President's FY
10 2011 budget actually had the amount of \$278 million.
11 So that number changes based on the number of public
12 and private institutions we think we are going to be
13 able to lend to in any particular fiscal year.

14 So next year, if the applications come in
15 and interest in the program is significantly more
16 publics and we can close those publics, then that
17 number will be much higher than 367. If we are the
18 public's won't -- we have less publics and more
19 privates, then that number sort of shrinks. And
20 that's why we have to make sure what we ask for
21 doesn't come into play by the amount of money that we

1 spend in a year. It comes into play by the kinds of
2 schools.

3 In budget service and I, we have the
4 Department of Education budget service and I, we have
5 a tight communications stream. We already had some
6 communications about what's going to happen in 2012,
7 what's going to happen in 2013, and what I'm thinking
8 is going to happen in 2014 based on the interest in
9 the program. Our interest in the program is more than
10 a billion dollars of public and private HBCUs, but
11 that time frame there's things involved in closing the
12 loan that need to happen in some cases.

13 The surveys that need to happen, and again
14 we are facing this September 30 deadline. So if you
15 are not ready to close, we have to move onto the next
16 one and then pick you up in the following fiscal year.
17 So those kind of things sort of take place. And I
18 have those discussions with budget service, and that's
19 why we have these numbers the way they are.

20 DR. FRANCIS: And you are going to discuss
21 either now or later this business of -- that's in our

1 package that if you are not ready, whether you are
2 public or private, or if you run out of requests for
3 public, that you can go to the private side or vice
4 versa.

5 MR. WATSON: Well, currently that's not the
6 case, but --

7 DR. FRANCIS: But I recommended that.

8 MR. WATSON: Right. The board recommended
9 that in the case. Because right now we are up against
10 the \$1.1 billion. So at the end of this year we would
11 exceed that \$1.1 billion. So next year the Congress
12 will have to put in another line item that says
13 Capital Finance program can lend X amount of dollars
14 based on \$20.5 million in subsidy.

15 If that doesn't happen, then we are in a
16 standstill. That's why the board had recommended last
17 time that the cap -- statutory cap rate did not exist,
18 have it in the President's budget, but the statutory
19 cap was raised from 1.1 billion to 1.8 billion.

20 And as some of you may recall the Congress,
21 actually, John and I went on the Hill and the Congress

1 actually suggested that the amount could be much
2 higher than that. So the Congress was willing to do
3 more than what the board did, but I think because of
4 the economic times something may have occurred where
5 it's just a line item now in the appropriations bill
6 rather than making a statutory change.

7 DR. FRANCIS: Go ahead, Edith.

8 MS. BARTLEY: But the language in the FY 12
9 budget, can you just explain what that does provide
10 permissible use the way that it's written?

11 MR. WATSON: Yes. What it actually does
12 allow me to go above the -- before I talk about
13 Capital Finance, just talk about appropriation
14 language of statute in general.

15 The appropriation -- the statute can have
16 one thing, but the appropriation line always trumps
17 the statute. So in the case of cap finance, we are at
18 1.1 billion. So the first \$100 million in loans that
19 we put out, or first \$150 million we put out, we are
20 already over the cap.

21 So, what the appropriation bill does is

1 allow us to irregardless of the statute, what the
2 statute says, allow us to do \$367 million. And again,
3 and I keep stressing modifications and making loans,
4 because the language didn't just say making loans. It
5 says loans and modifications.

6 And so with that, the language also
7 provided that we can actually make loans to public or
8 priors irregardless of what the statute says. And so
9 again without thinking about a one-third, two-third
10 split or those kind of things that we can make loans
11 to the public or private as the institutions come
12 through to close the loans.

13 Now, I must admit now our portfolio -- at
14 one point the portfolio was a little lopsided where
15 there were more publics than privates with the dollar
16 amounts, but now the portfolio is actually coming more
17 into line to be with the statute one-third, two-third
18 split.

19 DR. FRANCIS: So we could go over the cap?

20 MR. WATSON: This year we will exceed the
21 cap.

1 DR. FRANCIS: We would. Okay.

2 MR. WATSON: So next year either the
3 President's budget would have to have another
4 provision like it had this year to provide \$20 million
5 cap finance it, provide X payment of dollars in loans;
6 or the statute need to be raised.

7 DR. WILSON: And I should add that the
8 right people in government are well aware of this, and
9 I think safe to say we have them poised to do the
10 right thing.

11 DR. SUBER: The deadline for applying is
12 September 30?

13 MR. WATSON: Oh, no, please don't apply
14 September 30. The folks here that works with me will
15 tell you we wish to close the loan in three weeks.
16 They always smile at me, but generally we can close
17 the loan from four to six weeks depending on what the
18 real estate looks like, what the collateral package
19 is.

20 But the sooner you get your packet -- you
21 know a lot of folks have a tendency to think when you

1 get your application in, if you are number 1, if you
2 put your application in today and someone else puts it
3 in tomorrow, then the person who puts it in today is
4 going to be ahead of the person who puts it in
5 tomorrow. But it's first ready to close.

6 So you put your application today, and
7 literally we are pretty quick and pretty fast at it.
8 But, again, it's not just the designated bond
9 authority, the trustee, the bond council and the
10 school. We are also partnered with Federal Finance
11 Inspector of Treasury. And the same attorneys who
12 actually work with us on Capital Finance deals are
13 also working on the other deals.

14 For instance, last year they were working
15 on the debt ceiling, so we had to get in, and we fit
16 in. So we sort of try to have a call with the school,
17 their council, their financial advisor, get an
18 understanding of what their time frame would be. And
19 then I'll coordinate dates with the Department of
20 Education's general counsel, the federal financing
21 bank.

1 And for me folks will tell you if it's a
2 holiday, I close, but so if your application is in,
3 we'll work the application and get everything we need
4 to support the application. And we can make something
5 happen. But again it's first ready to close.

6 DR. SUBER: Till the money run out.

7 MR. WATSON: Till the money run out
8 September.

9 DR. SUBER: September 30. Okay.

10 MR. WATSON: And I don't like to do
11 September 30 because the way -- if we close September
12 30, and just give you a little more insight of how the
13 process works, if we -- I like to do a two-day
14 closing, what we call a pre-closing. That's when the
15 trustee, the DBA and the school all sign the
16 documents, sign their documents.

17 By the time they sign their documents, then
18 I can actually go to Dr. Ochoa and Deb and have them
19 look at the letter of credit and those sort of things,
20 have a meeting with Dr. Ochoa to request those things
21 of them and then he signs that. I take that then over

1 to -- walk that to the general counsel's office. They
2 have to write an opinion, a legal opinion on the
3 validity of the loan documents and then the deal in
4 and of itself.

5 And then from that standpoint the second
6 day is the actual closing day. That's when the
7 federal financing bank, their folks have to sign,
8 bring the signed bonds. Our general counsel bring
9 their letter of credit. And on the fourth day that's
10 when we actually deliver the money, so first time you
11 get money in that.

12 So I like to say it's a four-day process.
13 And that's to close, but there's a process leading to
14 that that we need to do.

15 DR. SUBER: And on the fifth day you rest?

16 MR. WATSON: On the fifth day what?

17 DR. SUBER: You rest.

18 (Laughter)

19 DR. WILSON: He doesn't know what that is.

20 DR. SUBER: I get that. I'm getting that.

21 Rest, you know when there's, you know, rest, no

1 activity.

2 MR. WATSON: No. Dr. Francis calls me a
3 one-on paper hanger.

4 DR. FRANCIS: That's right. Few people
5 don't know what that means, but he knows now what that
6 means. But my continuing concern is what Don is
7 explaining is the work he does and insight and all,
8 but I feel I have a responsibility. My Congress
9 person asked me, Do you have enough money in the APC
10 Capital Finance program? I want to say no.

11 I want the Congress to know that this is
12 important. He's doing a great job, but he can't do it
13 if his glass is empty. And so he can't go argue about
14 that. That's not his business, but it is our business
15 and our responsibility.

16 I sat next to the Congressman last night.
17 How are things going. Okay. We need money. And
18 she's effective. She's on the appropriations
19 committee. So I want to know when I should get in the
20 ball game. When do I go play.

21 And I think we've got to play all the time.

1 We've got to say that program is very important. It's
2 making a great contribution. But this congress lady
3 or Mister, whenever you see this come up in the
4 Secretary's budget because he believes that this is
5 good, support it, you know. I think that's our
6 responsibility, not yours.

7 MR. WATSON: Right. And I will say I hear
8 from Thurgood Marshall and NAFTA and UNCF as to how
9 the President budget looks. So there's sort of a
10 tandem working there.

11 DR. FRANCIS: Sure.

12 MR. WATSON: Sitting on this board helps
13 them sort of understand what the needs are an
14 articulate that.

15 DR. FRANCIS: I want to make sure we
16 understand the balance of power. And he's -- he's got
17 his responsibilities and we've got ours. And you all
18 make sure you communicate and we communicate.

19 And that was the message at that meeting.
20 We communicate and as an advisory committee, we give
21 our advice to the Secretary. He may not feel that

1 that's something we should or he can do, but he needs
2 to know what it is, and then we take it from that
3 point on. We do the heavy lifting.

4 DR. SUBER: It would seem that on the face
5 of things that this initiative is consistent with the
6 concept of capacity building and self-sustaining and
7 that it would garner a greater level of consideration
8 because of that. I don't know what the default rate
9 is or any of that other than the two or three schools
10 that we know about.

11 But I would think that if there's a fairly
12 decent track record of institutions borrowing and
13 paying back on time, that we could conceivably argue
14 that this is a, quote, unquote, no-cost benefit to our
15 institutions targeted for long-term sustainability.

16 MR. WATSON: Dr. Suber, you are actually --
17 it's interesting now the conversation is moving
18 because you are overflowing into recommendations into
19 other parts of this. And just to sort of give a
20 little insight, I talk about cap finance, I talk about
21 cap finance in ways that either we are creating jobs,

1 sustaining jobs, and not just that but we also
2 effectively not just at the university level but also
3 in the local level, state level and national.

4 DR. SUBER: Right.

5 MR. WATSON: You know, again I can never
6 emphasize enough when Congress gives \$20 million and
7 the return you have, and they look at it as if it's
8 loans being paid back, that sort of thing, but there's
9 a residual behind those loans that go out into the
10 community. So that's why there's other things being
11 recommended as well by the board.

12 DR. FRANCIS: And that's why I think the
13 Congress would be more apt to do more for it because
14 it helps the economy, it helps everybody in a way.
15 But that's the case we make when we go. Okay.

16 We going to get to where we brought you
17 already. We got you ahead of your report, but we'll
18 understand it better now when you get to it.

19 MR. WATSON: The rest of the report just
20 gives more detail about where the money went, that
21 sort of thing. How many -- the range of students that

1 will be served, the range of loan amounts, that sort
2 of thing. There's 10 active construction projects now
3 on campuses.

4 And just to know that there aren't -- when
5 we make loans there aren't just construction projects.
6 There are construction to refinance the combination of
7 the two. But, again as I said before, there's about a
8 billion dollars of interest in the program, but again
9 we can't make a billion dollars of loans in one year
10 because of the restrictions of the Congress with the
11 subsidy. That's the bulk of -- that's the bulk of my
12 report.

13 DR. FRANCIS: Any others questions? You
14 will be coming back to give us an update, so we'll
15 hold those questions, although we've gotten into that.
16 But you have on here setting dates for future board
17 meetings. And that's all of our best interests.

18 Is there a better time for schedules? You
19 know just looking at this table and our advisory
20 committee, just seems there's no good time ever, but
21 you have to try to find the best and the least

1 obstructive time for our schedules.

2 September while we have our -- yeah, not on
3 the White House initiative but we have our other,
4 quote, meetings of our association. September and
5 October are big times for colleges and universities.
6 And then of course with the White House initiative
7 that adds to the schedule.

8 I'm open. I know Don is open because we
9 really want to try to get at least one if not two
10 meetings depending how things are shaping up because
11 we, again, communication is so important. We want to
12 be able to advise the Secretary if we find there are
13 things that he needs to know and he wants to know or
14 things that he may want to know of us in terms of
15 things that are coming up. But anybody has an idea
16 what's the best time?

17 MR. WATSON: I do, Mr. Chairman.

18 DR. FRANCIS: You do. Good.

19 MR. WATSON: If no board members have any,
20 I do.

21 DR. FRANCIS: We'll follow the leader.

1 MR. WATSON: Before I get into that though
2 I want to recognize Mark Somerville who assisted me in
3 cap finance.

4 DR. FRANCIS: Why don't you come sit up
5 here where we can see you and you can see us. There's
6 a seat right up here. He's been trying to see what we
7 are doing up here. Think we are playing cards up here
8 the way we are talking about money shifting here,
9 money shifting there. Thank you.

10 So what's your recommendation?

11 MR. WATSON: Well, I have two dates.
12 Looking at the table, all the presidents here will be
13 at SATS, so I'm thinking Tuesday, the Tuesday of SATS.

14 DR. FRANCIS: First week in December.

15 MR. WATSON: First week in December. That
16 way we are almost guaranteed to have a quorum. The
17 second time -- and that will be the first time in the
18 fiscal year.

19 Another meeting we can actually attach
20 ourselves to is the Monday before the Friday after the
21 White House initiative. In between those times I

1 think we can attach ourselves to meetings with
2 Thurgood Marshall and NAFU or UNCF. So that way we
3 coordinate the schedules, we can probably -- things
4 that you have planned, we can sort of meet somewhere
5 in the middle and take advantage of some of your
6 events and that way we can sort maximize the presence
7 that's going to be there.

8 Half of the presence here are public, half
9 are private. And so we can sort of maximize it that
10 way.

11 DR. FRANCIS: The SATS one is a good one.
12 Lezli, how did you all do -- how do you get in the
13 SATS and say we need to get some time? The
14 President's day is the Tuesday of course. And the
15 evening maybe -- I don't know if they schedule
16 anything for President's --

17 DR. SUBER: Why don't we do it the day
18 before and do it on that Monday?

19 MR. WATSON: That's perfectly fine, of
20 course.

21 DR. FRANCIS: Well, yes, we would have to

1 find out from Bell whether she as anything.

2 MR. WATSON: I'm not saying SATS, I'm not
3 necessarily saying be part of SATS. I'm saying take
4 advantage of us being at SATS so the Department of
5 education can actually facilitate, find a space just
6 like we did here in this department facility. We can
7 do the same thing.

8 It doesn't have to be part of SATS, but it
9 can just be because you are going to fly in any way,
10 we can take advantage of that and be there anyway and
11 have the meeting.

12 DR. BASKERVILLE: You can actually have a
13 meeting as a part of the SATS meeting they have slots
14 during the meal hours, so you can have two hours saved
15 between -- or a few hours between 11:00 and 2:00. You
16 can have hours in the morning. Their conference is
17 designed that way. And I will be happy to work the
18 with the appropriate person on your team.

19 DR. FRANCIS: That's what I was trying to
20 get at. That's why I was asking you how you do it.
21 You know there's a slot that I think they do it for

1 the reason we are doing it.

2 DR. BASKERVILLE: Yes.

3 DR. FRANCIS: There are a lot of people who
4 know that they are going to get presidents and other
5 people at SATS and because you better be there coming
6 up, and they allow for an opening like in the evening,
7 maybe not a Monday evening. We might want to -- we
8 might want to -- if you are going to get that Dianne,
9 at the next morning.

10 MR. WATSON: Well, Mr. Chairman, is it
11 probable that we can actually just take a vote of
12 whether SATS or -- amongst the board members. For me,
13 I'm flexible.

14 DR. FRANCIS: No. I think the board
15 members would like to put as many things where they
16 are as humanly possible, and SATS is a good one
17 because you have got some leverage with SATS.

18 DR. REAVES: Makes sense. You are already
19 there.

20 MR. WATSON: I just see faces. I'm
21 recognizing faces.

1 DR. LOSTON: I was going to say --

2 DR. SUBER: -- Monday afternoon that people
3 on the board who don't want to stay at SATS but fly in
4 Monday, meet Monday afternoon, fly out Monday night
5 and then the rest of us that are going to stay could
6 stay. I mean we could put it in between 11:00 and
7 2:00, whatever, that might work. But I think if you
8 made it a separate day it makes it more flexible for
9 the people who aren't going to be there for the SATS
10 convention or meeting.

11 MR. WATSON: I'm fine but whatever the
12 board decides.

13 DR. FRANCIS: Lezli?

14 DR. BASKERVILLE: I'd just note that the
15 only challenge with that is that the members who are
16 not part of SATS, and I don't know if there are any
17 board members who are not part of SATS, but those are
18 the middle states and other accrediting bodies, they
19 meet at the same time, so they wouldn't be able to be
20 there.

21 MR. WATSON: And I said I'm looking at this

1 board because we have one -- everyone who is present
2 sitting on this board is a member of SATS. And we
3 have six, and that's we are just one left from a
4 quorum.

5 DR. BASKERVILLE: Okay.

6 MR. WATSON: Well, we have six. And if all
7 six shows up, that is a quorum. So I think that's a
8 perfect time. If the board composition was a little
9 different, I would suggest we do the same, switch off
10 SATS and switch off.

11 DR. FRANCIS: Well, I think we could agree
12 on your premise that we'll meet at SATS. The question
13 is whether it's a Monday night or the Tuesday when all
14 the presidents are there. And we may want to make a
15 call to SATS and see where they are scheduling, where
16 there would be some openings in those one or two days.

17 I think you -- if you get past Tuesday,
18 folks are ready to go home Wednesday. So you have got
19 to stay in that ballpark. Don't order Saturday.

20 DR. REAVES: They end officially at noon
21 Tuesday, don't they?

1 DR. FRANCIS: No. They -- Tuesday morning
2 is when they make their report and the Monday is the
3 president's day.

4 DR. REAVES: Right. But they are done at
5 noon on -- the whole thing is over at noon on Tuesday.

6 DR. FRANCIS: Exactly.

7 DR. REAVES: So there's Tuesday afternoon.

8 DR. FRANCIS: That's a possibility, yes,
9 although you have got people who can't pick up their
10 papers fast enough once they learn they are not on
11 probation or they have made it and so they head out
12 that afternoon, make sure nothing changes.

13 MR. WATSON: The other piece of this, the
14 structure of the board can be very different. Instead
15 of what we are going through here, this full agenda
16 what we are going through here, it could be more
17 presidents could be there, it could more of an inquiry
18 of what -- ask questions of the board. How do we
19 improve capital financing on college campuses and what
20 are the needs, so that way we can get real time, real
21 life information at that point.

1 So we can sort of change the structure of
2 that and just have some -- I can give some report
3 that's, you know, a little less of what we are doing
4 here. But it also provides enough time to see what's
5 going on with the CR and get updates like that as
6 well.

7 DR. FRANCIS: Okay.

8 MR. WATSON: Sort of changes the structure
9 of the meeting.

10 DR. FRANCIS: That's real time.

11 MR. WATSON: Yeah. It changes the
12 structure of the meeting.

13 DR. FRANCIS: Okay. SATS was one. What
14 was your second one?

15 MR. WATSON: The Monday or Friday following
16 before or after the White House initiative meeting in
17 September.

18 DR. FRANCIS: Okay. The Monday after?

19 DR. WILSON: We have our board meeting
20 right afterwards, but it could happen.

21 MR. WATSON: Well, I think this time I

1 thought it started on Tuesday.

2 DR. WILSON: Right. Right. So before is
3 good.

4 MR. WATSON: Your meeting is Thursday.

5 DR. WILSON: So before is good.

6 MR. WATSON: Your board meeting is on
7 Thursday, right?

8 DR. WILSON: Yes. Which would be right
9 after the conference.

10 MR. WATSON: Right. So I was suggesting
11 Friday.

12 DR. WILSON: Okay. So you are saying after
13 the board meeting.

14 MR. WATSON: Right.

15 DR. WILSON: Okay.

16 MR. WATSON: Right.

17 DR. FRANCIS: You all work that out.

18 DR. SUBER: Don't keep us -- don't keep us
19 Friday after another meeting.

20 DR. FRANCIS: And you are on the board.

21 DR. SUBER: Yes.

1 MR. WATSON: Well, the other alternative
2 literally is coordinating with Thurgood Marshall, NAFU
3 and UNCF for one of the meetings they had there.
4 We've actually done one with NAFU. It was a good
5 show. A lot of people showed up, so the public could
6 attend. We actually had a call-in number at that
7 point so the public could actually call in.

8 And I was talking to Karen Aikens who also
9 works in the White House liaison for the committee
10 management, and there may be some flexibility where we
11 could be one place and set up a room for the public to
12 be -- the public could be here like they are now. And
13 we could be someplace else having a discussion because
14 what the public is going to do afterwards is just give
15 us comments of what -- give us comments.

16 So there's no actually board-public
17 interactions. So again we could be a little more
18 creative, a little more flexible on how these things
19 operate.

20 DR. SUBER: Why don't you work out the best
21 case scenario and send us three choices.

1 DR. FRANCIS: And we'll check off and see
2 what's best. UNCF, I saw my schedule. Tuesday to
3 Friday. That's a long time.

4 DR. REAVES: So are you looking for one
5 meeting or two?

6 DR. FRANCIS: We'd like to do two.

7 MR. WATSON: We'd like to do two, but again
8 if we can get one settled, then we can fit one in.
9 The Chairman alluded to earlier that everyone likes
10 New Orleans. So again we had a meeting in New Orleans
11 and that was well attended.

12 We have a quorum there and the big issue of
13 the board is to make sure we have a quorum. And
14 again, as I said, we can make provisions for the
15 public to attend by again having a room, the board
16 actually being recorded here, say in Washington; the
17 public can be here and the board can be someplace else
18 that. Way there's not -- the public wants to come to
19 New Orleans and they can't afford to, they can also
20 stay here and watch and listen to the meeting that
21 way.

1 DR. FRANCIS: Okay. Well, I think you have
2 got the options. And let's see what you can work out
3 because you've got two and some other ones. For the
4 folks like I came in this cold weather, don't bring
5 them to New Orleans in August.

6 DR. BASKERVILLE: That's right.

7 MR. WATSON: I was in New Orleans in
8 January once and the chairman offered me his coat
9 because I didn't have one.

10 DR. FRANCIS: He didn't know it got cold in
11 New Orleans either, you hit January. And he wanted to
12 catch a cold. And I would be blamed for that and have
13 the federal government sue me, some of that running
14 that top workers in the government, not had a cold.
15 You gave me my coat back though, didn't you.

16 MR. WATSON: Actually I couldn't fit into
17 it.

18 DR. FRANCIS: All right. We are moving on.

19 MR. WATSON: Now I'm going to update you on
20 the board's recommendations and what came out of the
21 board recommendations from the last meeting.

1 DR. FRANCIS: Okay. There we go.

2 MR. WATSON: As you can see from what's in
3 front of you, what we actually did at the department,
4 we actually looked at each of the board
5 recommendations. We looked at costs associated with
6 and the feasibility of many of the recommendations.

7 The Department actually in eliminating the
8 pooled escrow the board recommended that -- sorry.
9 The board recommended that the department eliminate
10 the pooled escrow or modify it in such a way in which
11 it would no longer be pooled. The department looked
12 at that recommendation, actually agreed with that
13 recommendation and had placed that recommendation into
14 the Pell Protection Act.

15 We worked to get it done. However, it
16 didn't pass on the Hill, so that language did not go
17 in on the Hill. As you see from data there, if we
18 were sort of at a percentage add-on, if you add -- you
19 see the options there. If you left the escrow as it
20 is and no longer pooled it, it would be almost \$280
21 million to implement that sort of program.

1 And again the concept of everything I'm
2 talking in dollars, remember the subsidy of the
3 current federal program is only \$20 million. So keep
4 that in mind as we talk about these options.

5 If you add 0.25 percent to the current
6 interest rate and unpool it, that would be 200, almost
7 300 million dollars. If we add a half percent to
8 that, that would be a half a billion dollars.

9 And again you see these numbers, when you
10 look at these numbers, you will see these numbers as
11 being something that you eliminate the pool escrow
12 altogether or just add a add-on, it becomes something
13 very interesting and a high cost.

14 But what we ended up doing from the
15 department standpoint, we said we would actually give
16 borrowers a choice. You could actually have a
17 percentage add-on, and we couldn't figure out what
18 that actual percentage would be that would not
19 increase borrowing costs so much and create such a
20 huge cost for the government. So we left that piece
21 blank.

1 But what we were going to offer, borrowers
2 could either stay in the pooled escrow or they can
3 choose to go out of the pooled escrow by paying a
4 higher fee, by paying an additional fee.

5 And again we couldn't figure out what that
6 fee was in the short period of time we had to put this
7 in the Pell Protection Act.

8 Any questions about that? And again that's
9 the pooled escrow, I know we had a lot of conversation
10 around that earlier, but if you want to get a little
11 more detail in that, I'm willing to do that as well.

12 DR. REAVES: So going forward what's likely
13 to happen to the pooled escrow?

14 MR. WATSON: Currently the pooled escrow is
15 still operating as --

16 DR. REAVES: I know you are still
17 operating, but the next cycle what happens?

18 MR. WATSON: Well, in the next set of
19 recommendations, the board will recommend the
20 department continue its process, because again the
21 department was in favor of changing the pool or giving

1 options to the pool. It didn't make it through
2 Congress, and so we'll continue that sort of process
3 from the department because again the department did
4 approve -- did support that initiative.

5 So we'll have to team support it, but again
6 it will take a statutory change and Congress --

7 DR. REAVES: So you are going to try it
8 again.

9 DR. FRANCIS: Yes. I think we've got to
10 keep trying.

11 MR. WATSON: It's something the board will
12 keep recommending, so that way it stays on the radar
13 of the department and Congress.

14 DR. FRANCIS: Because you are very
15 knowledgeable about this, and you have done very well
16 at it, what is the constructive alternative to the
17 cost of eliminating the pool on the Secretary side and
18 what it would cost the schools. I mean where is the
19 middle ground where we go -- we both go away happy?

20 Is there a middle ground? There may not
21 be, but we know that the -- what this chart says, they

1 have money and there's going to be all kind of red
2 flags. Is there something that -- I'll call it
3 constructive alternative where both sides could agree
4 that we could eliminate it if we do this?

5 MR. WATSON: I think there is.

6 DR. FRANCIS: Okay.

7 MR. WATSON: But, again, I can't give you a
8 particular number because I haven't ran the analysis
9 for that but I think --

10 DR. FRANCIS: What would be an approach to
11 ti.

12 MR. WATSON: The approach would be to
13 take -- I've sort of done some of this when I first
14 came to the program because I heard this pooled
15 escrow, the JEO did a report on pooled escrow as one
16 of the issues. And I took a look at this pooled
17 escrow piece, and part of it was to add a percentage
18 add-on.

19 Just to go back a little on the actual
20 options, one of the options was to add a percentage
21 add-on and a fee. Percentage add-on, schools would

1 not get that. The fee you would get back.

2 And the percentage add-on would be used by
3 the department to pay any default. But, again, it
4 sort of keeps the cost at that level. And you have to
5 remember cap finance, there's no risk premiums
6 attached to this. Schools are borrowing at Treasury
7 plus 22-and-a-half basis points.

8 And just to sort of give you an idea of
9 what that basis point looks like, the majority of that
10 basis points come back to the department to help keep
11 down the subsidy rate. So it doesn't go back -- FFB
12 doesn't want, federal financing bank doesn't want it.
13 They allow it to come back to the department to help
14 us get the subsidy rate down so we can continue to
15 charge rates at the Treasury.

16 So you have to look at things like that.

17 And the escrow is actually part of that piece that
18 helps keep the subsidy down. And again as the subsidy
19 rate increases, you know, you can see as the subsidy
20 rate increases, so does the subsidy, I mean, so does
21 cost of the actual dollar subsidy amount. So as the

1 percentage increases, the dollar amount increases as

2 well.

3 DR. WILSON: Let me just add to that, Don,

4 because we kind of scrubbed this pretty hard. And the

5 perception that we encountered on the Hill and

6 elsewhere is, actually, we have allies on the Hill on

7 this, but eventually we made our way to the perception

8 that this is a very good deal. Okay.

9 This entire program is a very good deal for

10 HBCUs. You cannot find this anywhere else in the

11 marketplace. This factor that we are dealing with now

12 with the escrow is where some of the risk gets shared

13 and borne by the HBCUs as a counterbalance to the very

14 good deal we are getting.

15 So it's likely that if we broach this

16 again, there is going to be a move made, okay, well,

17 if the risk is not borne there, then where is it going

18 to be born. So we are not dealing with this, we are

19 going to be dealing with something else.

20 Again you can't find rates like this and

21 nor can you find details like this on the rest of the

1 deals that Don is doing. And that's why even those
2 HBCUs have tried elsewhere, they come back to this. I
3 believe this is the perceived burden that we have to
4 bear for the good deal that we have and that if we
5 shift it elsewhere we'll be dealing with what else.
6 That's not to say we shouldn't try.

7 DR. FRANCIS: No. No. What I'm hearing as
8 -- what I am hearing you say, Don, is it could work if
9 we did -- if what we did as some of us have when we
10 went to the open market, not in this, where you buy
11 insurance to cover you for your defaults.

12 MR. WATSON: Well, and that's --

13 DR. FRANCIS: That's what this is heading
14 to, but it would add to the -- add to your cost for
15 the HBCU. But then you have to make a decision as to
16 whether or not what you would be paying for that
17 insurance that you are going to pay is better than
18 what's in the bond market.

19 And I just tell you there's some financial
20 institutions out there -- how long it's going to last,
21 I don't know, but the banks have got a lot of money,

1 and they want to loan that money. And they are

2 starting to be very competitive.

3 MR. WATSON: And just let me give a little

4 more -- Dr. Francis brought up insurance. You go into

5 this three ways but you go through a traditional deal.

6 And I'm talking to Dr. Francis because he always talks

7 about the escrows, but I sort of approach the escrow

8 in a way, I describe it like this.

9 You go into a regular deal, you may have to

10 buy insurance. It's pretty tough to buy insurance in

11 this market. The other thing, you have to have a

12 reserve fee. You can choose which one you want that

13 -- our escrow to be, you want it to be your insurance

14 because the Secretary -- that's what you are paying

15 for, the Secretary's letter of credit.

16 So if you are not rated at all, you are

17 actually getting -- and I'm going to give you an

18 example of a deal we did. We did Texas Southern

19 University, and I think we closed them at six-point --

20 I mean 2.6 and some change. I believe Yale did the

21 same deal. And guess who had the better deal. Guess

1 who had the better deal. Texas Southern University.

2 And I'm saying that to sort of give the
3 idea that you can look at it as paying for insurance
4 or you can look at it as paying your reserve fee in
5 the regular market, but choose one. Because you don't
6 have to pay both the cap finances.

7 MR. TAYLOR: Don, shouldn't we look at this
8 as a benefit for the HBCU, the institutions
9 collectively because there's no question that for
10 those of the presidents around the table who have
11 great finances and can go into the market, they might
12 be able to get competitive rates, but then it leaves
13 the other institutions that aren't so comfortably
14 positioned unable to compete.

15 So when I look at this, in some ways it is
16 the better financially positioned HBCU somewhat
17 supporting it. That's what a pool does by definition.
18 And so there are some added costs, but if we don't,
19 then the 10 or 12 who have it together are going to be
20 fine, but then there are going to be a large group of
21 the HBCUs who might be not able to go the market and

1 satisfy.

2 MR. WATSON: Right. And what we recently
3 discovered is that, you know, I don't sort of gauge
4 HBCUs in being one way or the other, but to me they
5 are all customers and I want all the business from all
6 the HBCUs.

7 So, but what I will say is that if you pick
8 an institution and say they can go into the market,
9 they already have debt. And I guarantee we refinance
10 their debt, they are going to file debt savings. We
11 don't do deals, I don't care who you are, we don't do
12 a deal unless there's going to be some gain to the
13 university and building that capacity, however the
14 university defines billing capacity.

15 And again when you start thinking about the
16 escrow you start thinking about -- and I like to sort
17 of taunt that whether you look at loan volume, the
18 number of borrowers, the dollar amount of portfolio,
19 whoever less than one percent default rate. And no
20 other institution in -- lending institution that I
21 know of could actually taunt the other one percent

1 default rate, less than one percent default rate.

2 So we talk about the pool escrow. You are
3 paying for that insurance, or you are paying for
4 reserve fee but you are not paying for both. And what
5 I was actually doing in making the suggestion
6 initially and having a fee and a add-on was to put
7 your rate where the regular market would be because --
8 and provide the choice.

9 And only when you provide the choice, and I
10 believe when you provide that choice individuals in
11 every school that comes to the program, you have an
12 attorney and you have a financial advisor. When your
13 financial advisor does that analysis, I guarantee they
14 are going to come out and see us being cheaper because
15 again if you add 50 basis points to it, especially
16 refinancing debt, we refinancing your debt, there's
17 going to be some savings there someplace.

18 If we are building something on your
19 campus, we are going to be competitive. And again I
20 like to see, although this is a government program, I
21 like to see us as being a lender and being competitive

1 with the other people out there who are trying to get
2 the business of HBCU. So we have to be competitive
3 but again providing that choice, I think once doing an
4 analysis, I think we'll come out better.

5 DR. FRANCIS: And that's something you ran
6 in the report. Now is there a middle ground where you
7 say I think in here you make the choice.

8 MR. WATSON: Exactly.

9 DR. FRANCIS: The institution makes the
10 choice. And I think that's always important. I mean
11 your point is you want the whole to be helped, but at
12 the same time if there is a way where any one, two or
13 three or four schools say I'm ready to do it this way;
14 I think we need to run the numbers as well on that
15 because I think that's your recommendation.

16 Stay with it as it is, or go to a different
17 percentage of you paying more in order to get out.
18 Because that's --

19 MR. WATSON: Exactly.

20 DR. FRANCIS: And I think that's important.
21 And I don't think anybody, Johnny, would be hurt in

1 the big scene of things if you made and let them make
2 that choice.

3 When I first came into this, there were not
4 institutions making loans to the degree that they are
5 making now. Don has done a good job and we have
6 changed a number of things, but I think a borrower
7 ought to have a choice of what kind of medicine he or
8 she wants to take. And that's -- that's what you
9 thought I said.

10 If you want to have the Secretary being
11 your -- your activate your collateral, here's how it
12 works, and you'll beat the market most of the time.
13 But I don't -- maybe I'm wrong, but as long as things
14 are going now, there are banks are flush with money.
15 I don't know if the rest of you know this, but they
16 look flush with money and they are willing to do big
17 deals, big deals.

18 MR. TAYLOR: I'm echoing Dr. Wilson's
19 comments. That's what we heard. We went out on the
20 Hill as well and had some conversations. They sort of
21 said the same thing. You do have that as an option if

1 you think you can do better, the market is that option
2 for you.

3 So this is an option for the HBCU community
4 that's unique like any other. And if you don't like
5 the pooling factor then go to the market and do it,
6 and then you don't have to participate in it. And
7 they would argue, and this is what we heard on both
8 sides of the table, that there is an option. It's
9 called the market.

10 And go out there, and to Don's point most
11 people go out there and realize notwithstanding all
12 that money out there and all the deals they are
13 willing to do, they come back.

14 DR. FRANCIS: But, Johnny, you let them
15 have the choice.

16 MR. TAYLOR: Oh, no, I agree.

17 DR. FRANCIS: And that's what's important
18 because believe me the pooling side is --

19 MR. TAYLOR: It's down.

20 DR. FRANCIS: -- problems. And I think
21 that, well, let's put it this way. The government in

1 this program is a bank. And they are competing with
2 the outside and they are competing well. And they are
3 not having the, quote, the losses that you have in the
4 big market.

5 But the government's not going to be a
6 billion dollar bank if they continue to do it this way
7 and have losses, but this program does not have
8 losses. And I guess the point I'm making on this is
9 that in order to get more money from the Congress, we
10 have to sell the case that you just made.

11 And this is a good deal for the schools,
12 and the loss percentages is very low. But at the same
13 time, there may be schools that are going out that
14 would come in if you got rid of the pool and they are
15 willing to pay. It's how much are you willing to pay
16 to get out of the pool. I mean that's plain and
17 simple.

18 DR. WILSON: With all due respect, I don't
19 think it's quite that simple. And I think we should
20 just explore this and explore the options and come
21 back.

1 DR. FRANCIS: Well, no, that's what I'm
2 asking. I'm saying I'm going to stay on this as long
3 as I sit on this committee, that if you can get out of
4 the pooling and find a constructive way, but I haven't
5 heard the constructive way yet, but you have got to
6 look at it.

7 MR. WATSON: And again the draft language
8 that was put in the Pell Protection Act, Department of
9 Office of Managing Budget put in the Pell Protection
10 act actually provided the option. You can stay in the
11 pool or you can be part of this non-pool piece.

12 It's not there. It didn't go, didn't make
13 it to the Congress. The department supported it, but
14 when the Pell Protection Act went up to the Congress
15 in that draft language, they take the language from up
16 there, it didn't get pulled until the --

17 DR. WILSON: It's there as a proposal.
18 It's not like we have to come up with something new in
19 that regard, so the option of -- and opt out for a
20 (inaudible) is already in the proposal cycle. And we
21 can keep working on it.

1 DR. FRANCIS: It's got to be making the
2 case that's good for both sides. And the Congress of
3 course wants -- wants cutting right now. It doesn't
4 want to invest in a program that's going to be a loss
5 leader.

6 But mine is simply look at it. Give me the
7 choice. Because I'll go outside if I think I don't
8 want to take the risk of going in with folks who are
9 going to eat my escrow.

10 MR. WATSON: Right. And the other side of
11 that, putting those options on the table that I just
12 spoke about, they have to be cost neutral or they
13 won't go anywhere. So we have to look at the cost.
14 So it can't cost the government anymore than it would
15 cost the government if they stayed -- can't cost any
16 more -- it can cost less, of course, but it can't cost
17 any more. It has to, you know, be less or stay the
18 same.

19 MR. TAYLOR: So can't you just come up with
20 what the number is? I think what's where you are
21 going. What is the number -- what would the cost

1 interest to the government and then come back to the
2 schools and say, Dr. Francis, here's the number. The
3 add-on is X, and then we just know what it is. Will
4 that satisfy it?

5 MR. WATSON: Well, a couple of things with
6 that. I could run the numbers, but I'm not the
7 official estimator of any costs for the federal
8 government. That's going to be. Department's budget
9 service, I can work with them and we can come up with
10 a number, but again one B as has to be the one that
11 says this is cost neutral and this is what the
12 administration is going to put forth because it's cost
13 neutral.

14 So, again, we worked with them before that.
15 And the time frame -- again it's up to the board to
16 continue pushing this thing because I think we have
17 maybe a week or so before the Hill was actually going
18 to take action on the Pell Protection Act. So we
19 worked on B in a speedy fashion to sort of get
20 something in there and provide flexibility for the
21 department to come in and find out what that number

1 would be.

2 DR. FRANCIS: We sitting as a committee to
3 advise the Secretary. So our advice is not mandatory,
4 but we ought to say what it is from our perspective.
5 That's all. And see if we can help both the
6 institutions and the government.

7 MR. WATSON: And note the department as I
8 said again, the department supported this initiative.
9 So it's not something the department didn't support.
10 It just didn't make it all the way through from draft
11 to the Hill.

12 So the proposal is actually there. The
13 language is there. It just didn't move forward and
14 make it up on the Hill.

15 DR. FRANCIS: All right. We still going to
16 stay on pooling and escrow.

17 DR. WILSON: We got it.

18 MR. WATSON: Want to talk about it some
19 more?

20 DR. WILSON: No. No. No. No.

21 DR. FRANCIS: The fact is we are not giving

1 up on it. The more information you have, the better
2 decision you make.

3 MR. WATSON: Exactly. Exactly. The other
4 thing that the board recommended for an increase in
5 subsidy levels from 20.5 million to 30 million
6 dollars. As I mentioned earlier, the administration
7 kept the subsidy at 20.5 million instead of increasing
8 it. Again increasing the subsidy level won't
9 necessarily increase the dollar amount.

10 It depends on the flow of public and
11 private and how long our plan can remain in the fiscal
12 year. We also -- this is the proposal where when you
13 get close to that cap the public-private split really
14 comes into play. And generally it takes a longer
15 period to go through a public closing than a private
16 closing because there are several layers you have to
17 go through.

18 And so what we come to when we get to a
19 fiscal year, comes close to a fiscal year, you have
20 money sitting out there for public HBCUs that can't be
21 used, but you have private sitting on the sidelines.

1 So instead of letting it sit and go to waste, for
2 example, we can just move forward. And that's why
3 it's important to have appropriation bill language
4 that you can use the funds for public or private
5 irregardless of the statute.

6 But again the department supported that in
7 the President's budget. That would support it in FY
8 2012. As I mentioned earlier, the loans can be made
9 with regard to the split so public and privates can
10 receive funding.

11 The other piece, the board recommended that
12 the statutory limit be raised from 1.1 billion to 1.8
13 billion dollars. The actual statutory language did
14 not take place, but in effect we are -- we have the
15 same effect by the President budget allowing us to go
16 above the limit. So we in effect we have the same
17 thing.

18 And again I will mention to this board in
19 FY 13 the same thing needs to happen. The President's
20 budget, there needs to be a subsidy level so that we
21 can move forward. Otherwise there won't be any

1 capacity to make loans.

2 So either you need the subsidy always stay
3 in place with the President's budget, or you need
4 statutory limit raised.

5 MS. BARTLEY: Should the board consider
6 proposing that this be raised even beyond the 1.8
7 because there were conversations that went on with
8 Congressmen Clyburn's office and they were willing to
9 support as high as over two billion limit so that we
10 don't have to keep making that case for the next few
11 years.

12 MR. WATSON: It's the board's decision. If
13 the board wants to put this forth, put forth this
14 recommendation, again it's the board's decision.

15 DR. FRANCIS: Yeah, but we have to continue
16 to make the recommendation to keep our subsidy in. So
17 we ought to affirm that, and the Chair will accept if
18 we want to do these now and it be the time to do it,
19 take the board's recommendation to the Secretary that
20 we continue to support the subsidy side.

21 Now, the raising the limit is another

1 issue, but we asked for one-eighth the last time and
2 didn't get it, but we got the flexibility to go over
3 it in the President's budget, right.

4 MR. WATSON: Right.

5 DR. FRANCIS: Okay. So it's -- what's the
6 advisor's recommendation, number 1, from listening to
7 you, Don, we would recommend that they -- we continue
8 the subsidy level for, well, actually it's going to be
9 2013, right.

10 MR. WATSON: Yes.

11 DR. FRANCIS: 2013. And the question is
12 should we go to two billion dollars. It's sort of
13 tied in one way. You said earlier we didn't get the
14 first but we got it because we were able to go over
15 the limit.

16 MR. WATSON: Right. And just to go a
17 little further on the importance of raising the cap,
18 instead of waiting for the President's budget is that
19 to continue resolution we are waiting for President's
20 budget and say we are going to continue the
21 resolution. And I can't predict when but, for

1 example, for 20 -- this is 2013, we are in a continued
2 resolution state until July.

3 If there's no -- if there's a statutory
4 limit, then we continue to make the loans at the same
5 previous level. If there's no statutory limit, then
6 we are stuck until our actual budget is passed. I
7 think that's what Edith was alluding to in increasing
8 the statute.

9 DR. REAVES: So it makes sense to increase.

10 DR. FRANCIS: In order to protect ourselves
11 right? What's the pleasure of the board?

12 DR. REAVES: I make a motion that we do
13 increase the limit.

14 DR. FRANCIS: Okay.

15 DR. BASKERVILLE: Second.

16 DR. FRANCIS: To two billion? Second?

17 DR. WILSON: Same number though? You
18 should --

19 DR. REAVES: To two billion dollars.

20 DR. FRANCIS: Yeah, two billion. Do you
21 want to add the fact also that we asked that it also

1 include the subsidy.

2 MR. WATSON: Yes. I have that here.

3 DR. FRANCIS: So we make the second except

4 that it will be raise the limit to two billion but

5 continue the subsidy as well as it is.

6 DR. BASKERVILLE: Yes.

7 DR. FRANCIS: Okay. Any questions on that?

8 All those in favor please signify with saying Aye.

9 RESPONSES: Aye.

10 DR. FRANCIS: Opposed?

11 (No Response)

12 DR. FRANCIS: Motion is carried. That was

13 easy. But it's important to have the flexibility

14 because you don't know what the Congress will or will

15 not do. But I think this is a good program. And so

16 if we are in that mode, let's be as reasonable as we

17 can. We are not asking for three billion, we are just

18 asking for two billion. Chump change.

19 MR. WATSON: And again with that two

20 billion there's no actual cost until Congress provide

21 the subsidy.

1 DR. FRANCIS: Absolutely. Exactly.

2 MR. WATSON: So, to give an example, if
3 they were to put 20 trillion in there, it doesn't
4 matter. They control what's going out by the subsidy
5 amount, so.

6 DR. FRANCIS: Okay. What else we can ask
7 for?

8 (Laughter)

9 DR. FRANCIS: I'll keep you going. You
10 tell me the numbers and let's see where we go. And
11 all of this is good when you make the case that it is
12 not going to be a cost. But we are not going to be
13 reckless about it. So we are were we now?

14 We got the subsidy, we got the level
15 increase.

16 MR. WATSON: Now we are at the point of the
17 board's recommendations that were not included in the
18 2012 budget, bottom of page 2.

19 DR. FRANCIS: No, three.

20 MR. WATSON: Bottom of page 2, the creation
21 of a direct grant program. The board recommended that

1 that would be a \$15 million program. The subsidy
2 calls for a grant program is exactly what at the
3 amount of the grant is.

4 So that subsidy would have been \$15 million
5 to create such a demonstration program. And again
6 that grant program was supposed to allow HBCUs to get
7 in a position to be ready to borrow from the program.
8 But again it costs 15 million and the current subsidy
9 is 20 million, so.

10 The other piece that was not in the
11 President's budget was to, as you see here, some
12 people call it a pre-payment penalty. I call it a
13 bond premiums because they can be a bond premium or a
14 discount.

15 DR. REAVES: Some people call it more than
16 that, if you remember.

17 MR. WATSON: I remember.

18 DR. BASKERVILLE: Can I ask a question on
19 the \$15 million direct grant program before we leave
20 that?

21 MR. WATSON: Yes.

1 DR. BASKERVILLE: It would come up with an
2 offset for the 15 million, would the department
3 consider it?

4 MR. WATSON: Yes. But remember to offset
5 that the only subsidy the program gets now is the
6 subsidy to make loans. So if you was to offset, say,
7 let's just say you -- seven-and-a-half million, that
8 means the amount of subsidy made available to make the
9 loans would be decreased by seven-and-a-half million.

10 DR. BASKERVILLE: So the offset would have
11 to come from this program or we can make a
12 recommendation for an offset elsewhere within the
13 department's budget?

14 MR. WATSON: I'm sure you can make the
15 recommendation. I'm not sure how that would work out
16 but --

17 DR. BASKERVILLE: Okay.

18 MR. WATSON: The board can make the
19 recommendation to the Secretary and -- if it likes,
20 but I think that's again it's the board's --

21 DR. FRANCIS: One of the problems with

1 this, we were trying to accommodate needs of schools
2 about -- if I remember seven to ten schools. And as
3 you read this, we knew that it didn't belong in the
4 HBCU capital because it wasn't a loan.

5 MR. WATSON: Right.

6 DR. FRANCIS: It was outside the arena.

7 And as my memory serves me, we were asked to look at
8 that. By Representative Clyburn. And we put it in,
9 and he would try to do what he could. And he couldn't
10 get it done because, well, he had to -- it had to
11 stand on its own bucket. It couldn't be in the
12 capital program because it wasn't a loan program.

13 We could put it back in again, but again
14 we'll be told the same thing. You can recommend it,
15 but it's none of your business in a way because it's
16 outside of your scope. And, again, it's very
17 important monies that the schools who wish to
18 participate do need. But it's going to have to be
19 carried by somebody like the representative because
20 it's going to be kicked -- the Secretary would just on
21 its face would say, well, it's not in the loan Capital

1 Finance program.

2 And I remember that very well. That was
3 two years ago at least, at least two years ago. We
4 had a long discussion about that too.

5 So if indeed there -- how best to say this,
6 if there are and if the Representative Clyburn wants
7 to do this again, I'm not sure we've heard from him,
8 because he was very helpful to us in the program
9 itself and said we would support that but, he needed
10 to have some recommendation of how he could help the
11 schools that needed to get in the program but needed
12 money that they couldn't take out of the operation. I
13 mean as simple as that.

14 And we put it in, but it was not accepted.
15 So do you do it again. The likelihood of getting it
16 done is going to rely not on our case for the loan
17 capital program because it isn't in there. It's going
18 to have to be outside of it which somebody in the
19 Congress will take it up.

20 So I'm not so sure this is the same kind of
21 let's do it again as we are doing the rest of those.

1 This doesn't look like it's one that's like, well, I'm
2 not going to give any examples because I might not be
3 fair to the people, but it's asking for something that
4 doesn't belong in this program. And if Representative
5 Clyburn asked us to do it, or anybody else asked us to
6 do it, we'd be happy to consider it. But we've done
7 it before. And I'm just saying this even as an
8 administrator, that's not under our authority.

9 It's like we say let's increase Pell
10 grants. Yeah. That's fine. But that's in another
11 ballpark. Okay.

12 DR. LOSTON: I have a question. If an
13 institution is needing a grant to qualify to be able
14 to participate in this capital financing opportunity,
15 is that viewed favorably when you are looking at their
16 financials?

17 MR. WATSON: Actually it's not -- if a
18 school was to get this grant just like anyone, else it
19 doesn't mean that they are going to get a cap
20 financing loan. This grant was to put them in a case
21 in a situation to help them prepare themselves. So if

1 they needed --

2 DR. WILSON: There's no guarantees.

3 MR. WATSON: Right.

4 DR. LOSTON: But then when you began to

5 look at their financial capabilities and their

6 stability, if they need a grant to even strategically

7 position themselves to apply?

8 MR. WATSON: Just --

9 DR. LOSTON: See if you can just say more

10 about that so I can understand.

11 MR. WATSON: Without getting into so much

12 detail --

13 DR. FRANCIS: It's all the questions we

14 asked in Atlanta three years ago.

15 MR. WATSON: Without getting into much

16 detail about it, it's like getting a one-time infusion

17 at your school of five million dollars. This is not a

18 one-year program. This is a loan. So you need to be

19 able to sustain that debt sort of not just pay it in

20 one year but pay it potentially.

21 So wouldn't look at this as being sort of a

1 substantial piece. If you get a one-time infusion of
2 cash, that doesn't mean that one-time infusion is
3 going to allow you to survive forever. So this is
4 something that will help you get there.

5 But we are actually looking to long-term
6 finance. We don't look at your finances for today,
7 yesterday, next year. We have to look at your finance
8 over the long term because, again, the loan period is
9 extended beyond a year. So we have to look at this so
10 it wouldn't -- if you get this grant you mean to help
11 you out?

12 DR. WILSON: No. I think she -- what does
13 that say about your loan readiness that you need that
14 kind of help.

15 DR. SUBER: Is it like borrowing the down
16 payment to buy a house?

17 MR. WATSON: No. No.

18 (Unintelligible, too many speakers).

19 DR. BASKERVILLE: There's no direct nexus
20 between the two. It was to enable institutions that
21 needed to try and strengthen their infrastructure,

1 strengthen their business, but it's not directly

2 linked to the loan.

3 DR. BARTLEY: Right.

4 DR. BASKERVILLE: So they would do that and

5 hopefully put themselves in a stronger position.

6 Maybe with this program --

7 MS. BARTLEY: For a larger project.

8 DR. BASKERVILLE: -- but for some other

9 programs, but it was a strengthening and readiness,

10 not directly linked at all to this.

11 DR. LOSTON: I hear the response I still

12 just ask --

13 DR. WILSON: The question is very logical.

14 DR. REAVES: But it's a fine line.

15 DR. LOSTON: Fine line.

16 DR. REAVES: It's a fine line in some

17 instances.

18 DR. BASKERVILLE: It's not really a fine

19 line. It would look on the books like any other grant

20 that you would get. So if your institution had a

21 grant for technology, if you had a tops grant in that

1 year and do got another ten grants, there's no direct
2 relationship between those grants and this loan pool
3 grant.

4 MR. WATSON: And just -- I don't look at
5 your Title 3 grant because you can't pay me debt
6 service with your Title 3 grant. I look at this the
7 same way. You can't pay your debt service with that.
8 So just Title 3 I guess you sort of, you know, because
9 better understanding how Title 3 works, but you know
10 if you got \$20 million from Title 3 every year, it
11 doesn't make a difference to me because you can't pay
12 me your debt service out of that \$20 million.

13 MR. TAYLOR: It just -- and maybe I'm
14 understanding her question differently, but I think
15 her question is very simple, not at all about the
16 amount of money that you will get from this program.
17 If you got a million dollar grant, she's not asking
18 you is that million dollars, if it's five million does
19 that make a difference.

20 She's saying as the person who runs this
21 program, do you look at them and say, My gosh, if you

1 need a million dollars, do you have the ability and is
2 this a negative indicator as you are looking at
3 whether or not to grant them the money from this fund.
4 That -- is that the question?

5 DR. LOSTON: That's it.

6 MR. TAYLOR: The amount doesn't matter.
7 It's a balance sheet.

8 MR. WATSON: Right. And I guess I'm in a
9 catch-22. And I'm in a catch-22 because we have
10 schools who have similar situations, and without sort
11 of naming schools and putting them in a situation, if
12 you don't qualify for loan on the ability to repay
13 that loan, then you can't get a loan. It's a loan.
14 It's not a grant.

15 So if you can't -- I'm trying to find a way
16 to say this.

17 DR. SUBER: Just say it.

18 DR. FRANCIS: The worthiness of the
19 institution to get a loan is dependent upon their
20 ability to pay it back. And when the -- this was
21 presented in Atlanta, what, four years ago, Don, we

1 were in Atlanta.

2 MR. WATSON: Four years ago.

3 DR. FRANCIS: Four years ago. And it came
4 back again in 2010 because we had another meeting, but
5 it came back. And the argument from the board as well
6 was we are a loan committee. And we are not a
7 operational committee. We don't -- we don't make
8 loans for operations.

9 So you can't get it as a loan. But you can
10 get it as a grant, but you have got to go over here
11 across the street and get it. And somebody's got to
12 champion it across the street as something as a
13 special service, so --

14 DR. SUBER: Well, why would we put it in as
15 recommendation from the capital financing board? That
16 -- I wasn't here when the decision was made, but why
17 would -- why would we do that?

18 DR. FRANCIS: Well, we didn't. That -- and
19 I'll answer that because I was there. You get old
20 enough, it all comes back again.

21 Representative Clyburn, we went to him to

1 support the loan program. And he said, Look, I've got
2 institutions in my district and I want to help. And
3 we said, well, what can we do.

4 And we kid about it and said, well, we
5 can't make it as a loan, but we will do it as a
6 courtesy and a respect for the representative and make
7 it as a grant. And we did.

8 DR. SUBER: So is there a criteria for the
9 expectation because the bullet points address
10 financial well-being or financial status of an
11 institution.

12 MR. WATSON: That --

13 DR. FRANCIS: Yes.

14 DR. SUBER: So if it's not tied to the
15 financial process?

16 DR. FRANCIS: It wouldn't fly even in here
17 if you were coming with that kind of a portfolio, you
18 know. I say this all the time in the SBA, the SBA
19 would ask you so much that if you could answer those
20 questions, you didn't need a loan.

21 DR. SUBER: So this was just an appropriate

1 political thing to do, but there is no real
2 positioning of advocacy from this board.

3 DR. WILSON: And is the short answer, Don,
4 the short answer to your question is no. It does not,
5 okay, can we just say that the answer is no. It does
6 not regard negatively an institution that has gotten a
7 grant in order to leverage to get a loan.

8 It does not factor that in. That's the
9 answer to the question.

10 DR. WHITE: Can I also say on the Title 3
11 side do we have this capability. And Don is
12 absolutely correct. His decisions in terms of credit
13 worthiness and what we are able to do on the loan
14 side, I would like to tell you that both sides of the
15 house are talking to each other, but they are not.
16 They are treated -- and he has to remind me often that
17 I have a loan portfolio as well as a grant portfolio,
18 but they are maintained very separately.

19 DR. FRANCIS: This was a little conundrum.
20 Didn't belong here, but we were helping out in case of
21 a fly on the wings of --

1 DR. LOSTON: I'm good.

2 DR. FRANCIS: Mr. Clyburn.

3 DR. SUBER: I have the letter of reality.

4 DR. FRANCIS: So that one I don't think

5 deserves us to go back again because it was so clear,

6 and we don't have a -- anybody asking us to carry that

7 on. That was all. Okay.

8 You have got 15 million dollars back in

9 your loan program.

10 MR. WATSON: The next representation that

11 wasn't in the President's budget was the exemption to

12 exempt HBCUs from a bond premium or discount. All the

13 discount is here, support in mind folks there's a

14 discount feature to this as well.

15 One, this isn't privy to other Department

16 of Education. This is a Treasury issue. It's no

17 matter if it's Capital Finance or some other entity

18 that's not HBCU. If you have taxable bonds, doesn't

19 make a whole provision.

20 And doesn't make a whole provision applies

21 not to just HBCUs but anyone in the market. There's

1 examples where you have schools who had to pay to make
2 whole provisions but there are also examples of
3 schools who actually received a discount. So the
4 Treasury of course wasn't willing to support this.

5 From a department standpoint, to get past
6 this, every school has the ability to buy a call
7 option. That call option would allow that school to
8 call their loan in to be paid at any point in time
9 between the period of the call.

10 Again, schools have that option. This
11 option schools don't choose because it's more
12 expensive than running the risk of going with the
13 market when you want to refinance. And you are paying
14 something up front, it's like insurance. You are
15 paying something up front in case you need it, but
16 it's expensive.

17 The other option, just like the escrow, the
18 other option they don't utilize this option; they go
19 with the option of taking to prepay at the market.
20 And so when you take that option, there's a penalty
21 attached to it if the interest rates in the market are

1 lower than the interest rates on your loan. And it's
2 the opposite, it's the opposite with the discount, so.

3 DR. REAVES: So the answer is no.

4 MR. WATSON: Yes.

5 DR. REAVES: Right.

6 MR. WATSON: Yes. Everything I'm talking
7 about now was not supported in the budget, but I am
8 just going through them if you have questions if you
9 want to talk about them in more detail, we can. The
10 other options were to reduce interest rates in two
11 areas: One, for stem-related buildings.

12 When you are financing and refinancing
13 stem-related buildings for new construction, and the
14 other piece was reduce interest rates for periods of
15 construction or renovation. And the concept of time,
16 reducing interest rates during construction and
17 renovation because most of the time those facilities
18 aren't earning any money when they are dormitories and
19 student unions and things of that nature. And the
20 ability to pay back the debt service is based upon
21 those fees as to the tax of those.

1 The stem piece was a good idea because the
2 we are trying to encourage individuals to go into the
3 stem field so they have up-to-date facilities and
4 things of that nature. You are sort of encouraging
5 individuals to go into the stem field, encouraging
6 institutions to build their stem portfolios on their
7 campuses. But that too have costs attached to it.

8 Look on page 4 you'll see the cost of that.
9 The interest rate was at one percent, capital one
10 percent. We are near \$167 million a year in subsidy.
11 If it's capped at 2 percent, it's \$110 million in
12 subsidy, at 4 percent, it's \$30 million in subsidy.
13 So you have those sort of things in play.

14 And you as you see we talk about subsidy
15 rate for the program, again I want to remind you we
16 only get 20 million. So these things cost several
17 time more than what we actually get in actual subsidy.

18 MR. TAYLOR: So these things are the ones
19 you are going over now didn't even make it too, they
20 just -- the Secretary couldn't support them; is that
21 the point?

1 MR. WATSON: Right.

2 DR. FRANCIS: It was scored to show that
3 they wouldn't make sense.

4 MR. WATSON: And again as I noted, these
5 things were not scored by the official scoring for the
6 administration comes from the Office of Management and
7 Budget. This was done with office of Post-Secondary
8 Education and the Department of Education Budget
9 Service Office.

10 MR. TAYLOR: Got it.

11 DR. FRANCIS: So, the question is do we put
12 this back in again or do we have some other more
13 pressing priorities that we put in rather than this.
14 Because we'd be taking -- we'd be taking money out of
15 the subsidy if we pass, so, you know.

16 MR. WATSON: These dollar amounts exceed
17 the subsidy by 50 percent in one case and --

18 DR. FRANCIS: Right.

19 MR. WATSON: -- 300 percent in another
20 case.

21 DR. SUBER: Is there an argument to be made

1 by separating them out by just, I mean, just in terms
2 of moving them forward again and just addressing the
3 renovation and construction of stem buildings as
4 opposed the request for lower interest rate during the
5 period of construction of new construction?

6 MR. WATSON: The cost would be the same
7 regardless. So whether we looked at them separately,
8 we looked at them on their own merit, they were
9 submitted as two. I have them here as one because the
10 cost is the same for both of them, but they were
11 actually looked at on the separate merit, on each
12 merit of each recommendations.

13 DR. SUBER: Did they go in as reduced
14 interest rates in two specific instances and then --

15 MR. WATSON: No. They went in as reduced
16 interest --

17 DR. SUBER: -- different recommendations.

18 MR. WATSON: -- rates for stem-related
19 buildings and reduced interest rates for --

20 DR. SUBER: And neither one of them were --
21 okay.

1 MR. WATSON: No.

2 DR. REAVES: I have a question. And kind
3 of in response to the chairman's question whether we
4 put anything else in. Is it the case that anything
5 that we put in will be netted against the subsidy
6 question is number is 1. And the follow-up question
7 is is there anything more important than the subsidy?

8 MR. WATSON: Well, I have to answer that
9 question to Deb. I mean that's more of a political
10 thing, what's more important to the Administration
11 from that standpoint. But from the --

12 DR. REAVES: From our perspective.

13 MR. WATSON: Oh, from the board, well, you
14 are on the campuses every day. And I tell presidents
15 this every day. I may do cap finance, but I never ran
16 an institution. And so it's your decision as to what
17 is more important and how you frame that important
18 argument because it's on your campus.

19 If you are actually, you know, we were as
20 FISK a few years back and they were a FISK had talked
21 about how many of their physicists went on to get

1 master's -- master's and doctorate degrees at other
2 places, and how they accounted for a certain number of
3 physicists, half the American physicists in the
4 nation.

5 So the concept behind the stem piece was if
6 you can do this in your current facilities that
7 haven't been updated in X amount of years, then what
8 could you produce in modern-day facilities. So that
9 was the sort of concept behind it, but again --

10 DR. REAVES: There's a trade-off.

11 MR. WATSON: You have the programs there on
12 your campuses and there's a cost trade-off. And not
13 to say -- and I say that we have \$20 million in
14 subsidy because once you to compare to what we get
15 today to what we need to continue to make loans and to
16 provide these new provisions.

17 And so if we look at capital interest rate
18 at two percent for stem-related buildings, for
19 example, in FY 2013 instead of asking for 20 million
20 we need to ask for 330 million of subsidy; 20 million
21 to sustain the same loans and another \$110 million for

1 -- and you know it's because of the economy, so.

2 DR. REAVES: Right. Right.

3 DR. FRANCIS: And the question is -- a

4 germane question is, you know, is there something more

5 that we would get if we were fighting for than this

6 which will be reducing the whole pot. And I want to

7 spend a few minutes once he finishes to see if there

8 are other things that we know about in the program

9 that will enhance the program for HBCU, because that's

10 our bottom line is what can we do to enhance the

11 programs that we haven't put in the pot yet.

12 We've got run-in, but I think we need to

13 spend some time on that with the board. But I

14 don't -- I don't think from what you have just

15 reported if we put that back in it will not be --

16 calculus isn't going to work because it's going to

17 take money away from something that want to hold as an

18 escrow.

19 MR. WATSON: Yeah.

20 DR. FRANCIS: Something that, you know, we

21 have as subsidies.

1 MR. WATSON: It could. I mean when a new
2 policy comes in place whether -- and I want you to
3 sort of understand this. This is not just in the
4 concept of cap finance. And I try to think globally
5 about all of our education funding.

6 So when you think of the funding, if you
7 think about what Title 3 gets and what cap finance is
8 getting, for example, you look at that and you start
9 to compare those dollars. Now where is the extra \$110
10 million coming from. So you add the, you know, 85 to
11 20. That's 105. If we ask for 5 million more for a
12 program that doesn't even include Title 3 dollars, so.

13 DR. WILSON: But let me just comment that I
14 think it is probably smart to think outside the box on
15 this one. I understand the numbers, but stem is such
16 a priority with this department and this
17 administration generally that it could conceivably be
18 received as a supplemental initiative rather than
19 substitutional.

20 So I would reconsider at least the stem
21 piece and perhaps send that forward with some

1 out-of-the-box thinking, not thinking that it would be
2 substitutional for the pool.

3 DR. SUBER: That was the basis of why -- or
4 what I was wondering is that if you can make the
5 argument, because it's consistent with the agenda of
6 not only this administration, but many of our state
7 legislators, and stem is the direction now, that it's
8 a different entity than asking for reduced interest
9 rate for any construction on your campus, that's
10 student affairs or dormitories.

11 It really does have a different sense. And
12 coupled with the capital financing program, an
13 institution that takes out a loan for the purpose of
14 building a stem facility increases its capacity to --
15 to raise the standard of the structure, Number 1, and
16 to be a part of the agenda.

17 And Donald didn't finish his thought, and I
18 wouldn't presume to move it forward where I thought he
19 was going was --

20 DR. WILSON: He thought he finished it.

21 DR. SUBER: Well, where I thought he was

1 going was is there any reason to persist if in fact
2 there's a priority here for the board. And what I
3 would argue is that maybe it's advantageous to give
4 people options to cut I guess is what I'm saying, that
5 if you advance two very definitively noteworthy and
6 significant agendas that are consistent with the
7 overall agenda, it makes it more difficult to cut them
8 simply because it doesn't seem to fit.

9 But if you are, then you don't hurt
10 yourself in the process because it gives people the
11 satisfaction of saying, yeah, well, we are not going
12 to give you that interest on that stem but we are
13 going to leave your subsidy in place.

14 DR. REAVES: That's kind of where I was
15 going, but John's comments kind of make that point
16 moot if you send this stuff up as add-ons, not
17 substitutional but incremental funding, then the
18 question I had is moot because what I asked is does
19 everything that you submit get netted against the
20 subsidy.

21 DR. SUBER: Right.

1 DR. WILSON: And that's why I trumped it.

2 DR. REAVES: Right.

3 DR. WILSON: Not necessarily is it.

4 DR. REAVES: Not necessarily.

5 DR. WILSON: Depends on what it is.

6 DR. SUBER: Right.

7 DR. FRANCIS: But in the global sense what
8 we try to avoid is not do anything that's not hitting
9 at our major priorities like Pell grants and Title 3,
10 meaning that if you are going to move into that arena
11 where they say, well, we'll give you that but we can
12 take it off of -- don't want to go that way.

13 DR. WILSON: No.

14 SPEAKER: We want to be very careful,
15 Mr. Chairman. You are absolutely right.

16 DR. FRANCIS: I mean if these come back to
17 the problems you asked in the first question, and
18 those are our priorities, and we did very well by this
19 past month or whatever right before Christmas. It's a
20 Christmas present and the like. But it -- I must
21 confess that how I feel and Thurgood Marshall and UNCF

1 managed a very fine educational canvassing to say to
2 the Congress that these are our priorities and we'd
3 like you to maintain them. And that worked.

4 And we will continue to do that because I
5 think that's where you -- that's where we help each
6 other in a sense.

7 DR. REAVES: Right.

8 DR. FRANCIS: Help where we shouldn't be
9 burdening over here, where there is a program here
10 that's a priority that can't be funded. That's the
11 best of all the worlds. And we made that choice
12 because I think if we'd have put too much in that
13 wagon, we might not have gotten to priorities.

14 Okay, Don?

15 DR. BASKERVILLE: So would a motion be in
16 order to take -- lift from this the stem piece and
17 repackage it and resubmit it as a supplemental?

18 DR. FRANCIS: What would it be like? How
19 would you phrase it?

20 DR. BASKERVILLE: Would it be appropriate
21 to do that, to try and put it back in, lift the stem

1 component from it.

2 DR. FRANCIS: Oh, well, he -- I think maybe
3 I got it wrong. It's going to come out the same way
4 from the calculations, right?

5 MR. WATSON: The calculations are the same
6 way, but I think what I understood the board is saying
7 that stem is a priority for the board. And as a
8 priority for the board, it should go back in no matter
9 how it comes out as one percent interest rate, how it
10 comes out, but something reduced for stem cell
11 building should be there.

12 DR. FRANCIS: Specific.

13 DR. WHITE: But it should be an additive
14 type of initiative as opposed to being funded at the
15 expense of.

16 DR. BASKERVILLE: Right.

17 DR. WHITE: The current programs. I want
18 to be very clear because John and I have perspective
19 of the conversations that are in play here, that I
20 want to be clear in terms of what the board is
21 recommending.

1 DR. WILSON: That language has to be clear.

2 It's supplemental versus substitution has to be clear.

3 DR. WHITE: Correct.

4 DR. FRANCIS: Exactly. Well, I'd

5 certainly entertain for this board the motion that you

6 would -- the board would be recommending to the

7 Secretary to use as a supplemental part of funding the

8 stem side, which is a part of the, quote,

9 administration's, one of the administration's major

10 priorities in other program.

11 So that certainly doesn't hurt as a

12 recommendation as long as it's not bleeding off of

13 something else.

14 Do you want to make that a motion, Lezli?

15 DR. BASKERVILLE: Yes, sir. So moved to

16 the Chairman.

17 DR. FRANCIS: Don got it. So in order for

18 somebody to make a second to it, it really is bringing

19 it back in, separating it out and saying it's

20 supplemental as again it's a part of the whole.

21 That's basically what I heard. Is that right?

1 DR. BASKERVILLE: Correct.

2 MR. WATSON: Yes, sir. I'll agree with
3 that piece over there to make sure I get the whole
4 gist of all the conversations.

5 DR. BASKERVILLE: Can I have a second?

6 DR. FRANCIS: And we'll put all the
7 language that's supposed to be put in there right so
8 that there's no misunderstanding. I don't want there
9 to be any miscommunications.

10 DR. REAVES: I second the motion.

11 DR. FRANCIS: I thought you would. All
12 right. No further discussions? All those in favor
13 please signify by saying Aye.

14 RESPONSES: Aye.

15 DR. FRANCIS: Opposed?

16 (No Response)

17 DR. FRANCIS: Motion is carried. All
18 right, Don, where are we? We at the end of everything
19 we got turned down on.

20 MS. BARTLEY: No, with staff.

21 DR. FRANCIS: One more? Oh, Don can't talk

1 about that one, but staff, oh, that's part of the --

2 oh, welcome. You are part of what we asked for. But

3 we are happy you are helping my one long paper hanger.

4 And we will come back later on and see if we can get

5 another.

6 As this program goes, you know, we are in a

7 big investment banking business. And we've got to

8 make these loans. You have got to have people working

9 them. And I'm happy to hear that that is a response

10 to what our recommendation was, right, Don?

11 MS. BARTLEY: Well, the recommendation

12 actually was turned down for a full-time health. It

13 was not accepted.

14 DR. FRANCIS: It was the last page.

15 MS. BARTLEY: Yeah. Our recommendation for

16 some type of full-time health was not.

17 MR. WATSON: I think they want to clarify.

18 DR. WHITE: Let me clarify. Your

19 recommendation was made to the Secretary. And while

20 the Secretary has -- the Office of Higher Education

21 Program has the authority to make this decision.

1 So what we were able to do was reassign a
2 permanent staff member to help Don. So your
3 recommendation was 50 percent realized in terms of one
4 full-time person coming over to help Don. So that was
5 a permanent assignment made at the Deputy Assistant
6 Secretary level.

7 MS. BARTLEY: So was it that this
8 individual is coming full-time to help on this program
9 or is it that a part of this program is added to that
10 individual's larger portfolio?

11 DR. WHITE: This is his full-time, no, it
12 is not additive. We reassigned and understood the
13 spirit in which the recommendation was made,
14 understood what Don's workload was and acknowledged
15 that some assistance was absolutely needed. So we
16 made the assignment.

17 So while the Secretary -- the Secretary
18 delegates that authority at -- to the deputy level, we
19 were able to accommodate that at the deputy level.

20 MR. WATSON: And just to clarify, these
21 responsibility made prior to their coming on board.

1 DR. WHITE: Right.

2 MR. WATSON: And again, budget service
3 looks at this, they score it, and that's how it works
4 out.

5 DR. WHITE: So there were not any
6 additional dollars added to the budget to accommodate
7 the request, which is what the budget service analyzes
8 it for. We just determined that the requirements
9 within this program necessitated additional resources,
10 and we were able to make that assignment given the
11 budget that we currently have.

12 DR. FRANCIS: Go ahead.

13 MR. TAYLOR: So, just one person. What
14 about the request for two?

15 DR. WHITE: I've only been here six months,
16 Johnny, so give me a chance to get my feet firmly on
17 the ground.

18 MR. TAYLOR: It says the dock, you know,
19 you all are working to facilitate it. Are we?

20 DR. WHITE: We are evaluating it.
21 Absolutely. But you -- and really what we are really

1 looking for is you asked for two personnel. And the
2 what we have is the technical expertise on the
3 analytical side to help in the management and
4 development of the loan portfolio. But Don has no
5 support staff.

6 And so the help to facilitate is also
7 bringing an additional person on to help on the
8 administrative side. And that is our plan. That's
9 what we have on the table. Again, those are delegated
10 authorities at the deputy level. It's just the
11 execution of that.

12 I will just share you we had a thousand
13 applicants for that job. So we are just working
14 through those details as we speak, but that is our
15 plan.

16 MS. BARTLEY: Okay.

17 MR. WATSON: Not a thousand applications
18 for my job.

19 (Laughter)

20 DR. WHITE: For the support job. So that's
21 how we've isolated your request: One for an analyst

1 and one for administrative support. So I will
2 hopefully be able to report -- or Don will be able to
3 report at the December meeting that this request was
4 fully realized.

5 DR. FRANCIS: So we would not be out of
6 line sending a message being grateful for the support
7 in response to our proposal, leaving open the fact
8 that as he makes more money we may have to add more
9 people. We'll make that evaluation when it comes.

10 All right. That's unanimous.

11 All right. Because we can't run this
12 program, and I'm saying with great -- you can't nickel
13 and dime this kind of a program, you know. You'll
14 collapse on your face and then you say, ah, look at
15 what you did. You didn't do it right.

16 Okay. Any other comment? Go ahead,
17 Johnny.

18 MR. TAYLOR: I just think it's important to
19 say this though, and that is that we are asking him to
20 triple the number of participants in this program.
21 And so six months to get administrative help and, you

1 know, it's just a bit much. I'm taking the fact that
2 you all had six months, but I think it needs to be
3 said that that needs to be fulfilled.

4 He can't be as effective as he can be if we
5 don't just get that filled. It cannot take that long.
6 I assure you having run HR functions with support
7 staff, even with --

8 MS. BARTLEY: We are talking about a year.

9 MR. TAYLOR: But I'm just saying, so, for
10 the record, if he has to give away \$387 million by
11 September, then he cannot be as effective as he can be
12 if he's doing administrative work. So while we thank
13 them for that support, the record needs to be clear
14 that we need to move quickly.

15 So I don't want to just walk away and say
16 thank you.

17 DR. FRANCIS: No. No. I understand that.
18 And I think the message is that I think what the
19 assistant is saying is that we've made one move. And
20 we are saying that we know that we'll need to continue
21 to make these moves if we are going to run the

1 program.

2 We keep asking for money, and you keep
3 making loans, you know, you are going to have to
4 evaluate your staffing.

5 DR. WILSON: And she said that Don will be
6 able to report in December that someone's on. That
7 person may come on in March, you know. The person may
8 come on in February.

9 DR. WHITE: Oh, I'm hopeful that we can
10 close this within the next 30 to 45 days. I'm very
11 hopeful about this. And Don's absolutely correct.
12 We've done the evaluation. We know what we need.

13 The hardest hire, quite frankly, was
14 someone with the analytical skills that could
15 complement Don. So that was the most difficult hire.
16 And I'm not trying to make excuses when I say that
17 it's indeed a challenge.

18 I want you to be very much aware that it is
19 indeed a priority. We understand the value of this
20 program and will allocate the necessary resources.
21 Embedded in all of this is we've changed our

1 facilities, we've got Don some more space. I mean
2 there are some things that were not in your request
3 that in our evaluation of the program we know -- we
4 knew we needed to make a stronger investment not just
5 in the human capital but also in facilities and other
6 support mechanisms which we have completed.

7 But I hear you. It is with all deliberate
8 speed.

9 MR. TAYLOR: Thank you.

10 DR. FRANCIS: I think in the spirit that
11 this has happened, we are grateful for it. I don't
12 think you should leave without that. At the same
13 time, as an advisory board you always have that
14 fiduciary responsibility to say to the Secretary this
15 is what we think ought to happen.

16 Would it happen or not? That's not our
17 call. We hope it will. And we've made some progress.
18 And that's all we do.

19 Okay, Don, what was next.

20 MR. WATSON: I'm going to talk about the
21 new recommendations for the board.

1 DR. FRANCIS: Tax credits.

2 MR. WATSON: Okay.

3 DR. FRANCIS: The first one is new market
4 tax credits you are going to talk about?

5 MR. WATSON: The first one is new market
6 tax credits. In the last two years or so there are
7 several institutions that had loans with the program
8 whereas they can use new market tax credits to
9 actually leverage cap finance dollars.

10 And the short answer to that, and I've been
11 trying to think strategically over time without
12 actually having Congress make any legislative changes,
13 but our statute acts prohibits any HBCU from lending
14 money to anything -- anyone and in a concept of, well,
15 let me ask this question.

16 Should I go in a little more detail on new
17 market tax credits?

18 DR. FRANCIS: Why don't you lay the
19 foundation for the new market because you have got to
20 be able to explain how it may not work.

21 MR. WATSON: Okay. New market tax credits

1 is a program that is run by Department of Treasury,
2 and it was established to allow investment in
3 low-income communities. The way they do that
4 investment, you have investors who give money to a
5 CDE, a community development entity. That entity then
6 in turn lends the money to an institution to build in
7 that low-income community.

8 And that's sort of the high-level short
9 piece of it. And that's really where the angst of the
10 program comes in because with the Capital Finance
11 program, the borrower has to be the HBCU. It can't be
12 any other entity but the HBCU.

13 The other piece of this is that the HBCU
14 cannot lend its money to an entity for anything. So
15 those are two of our issues. Those are two basic
16 issues there. The other issue is that during the new
17 market tax credit have what they call a 7-year --
18 7-year period on which the investor can claim 39 tax
19 credits.

20 The rules for that also stipulate that the
21 project that is being billed cannot be encumbered. So

1 you can't use that as collateral. So the cap finance
2 program, if we build it, we want to use that as
3 collateral. So what I'm actually looking for the
4 board here to do is to sort of ask the Department to
5 explore the feasibility of us doing this a little --
6 little more, because new market tax credit isn't
7 something that everybody has expertise in.

8 So I think we need to explore it more. Our
9 general counsel needs to explore it more, and then
10 come back to the board with a more definitive
11 recommendation as to how we should proceed forward.

12 I can tell you from this standpoint the
13 obstacles are going to be the HBCU can only be the
14 borrower. And the HBCU cannot lend the money to CDE
15 or invest the money that we give them to a CDE,
16 community development entity.

17 DR. FRANCIS: So what you are saying is
18 that what needs to go further is the evaluation and
19 all the discussions about new market tax credits as it
20 relates to the HBCU Capital Finance program. Is there
21 a question of two government agencies trying to not do

1 the same thing, but to leverage the capital it has,
2 and can you leverage one with federal money on the
3 other side under the rules of each passed by the
4 Congress.

5 And it seems like -- certainly I don't know
6 as you are talking about this what are the, quote,
7 limitations of the HBCU capital programs to be
8 leveraging another government program like new market.

9 MR. WATSON: Well, it's done today. It's
10 done today and -- it's done today.

11 DR. FRANCIS: In other institutions.

12 MR. WATSON: Well, and just to use Capital
13 Finance in other federal dollars, Title 3 for example
14 you have some schools that take Title 3 and they may
15 want to update their campuses with wireless
16 technology. Well it may be a building that we are
17 going to do renovations in. So it's not that we are
18 not necessarily going to pay for that piece but we'll
19 pay for the hardware.

20 You have some examples of campuses that use
21 some of that Title 3 money to do renovations, but we

1 didn't do renovations in that building. We did work
2 in other buildings on campus. So there's a concept we
3 sort of use the monies simultaneously, but it's
4 actually -- and to give an example, a school may to
5 want for example build a \$10 million building.

6 Say, okay, Don we want to borrow five
7 million from you and take five million under new
8 market tax credits.

9 Well, the school can do this one of two
10 ways. They can actually say, okay, we don't want to
11 use Capital Finance. We are going to take our own
12 money and invest it in a CDE, which of course cap
13 finance has no issue with. But if you want to use cap
14 finance money, you can't put our money into community
15 development entity because that's not a eligible
16 project. It's not a eligible use of the capital
17 financing funds.

18 So that's the big piece of this. That's
19 the big piece of it. Our statute prohibits the
20 borrower of the HBCU capital financing from being any
21 other entity except the HBCU. I mean explicitly

1 states define who the eligible borrower is, and the
2 eligible borrower is the HBCU.

3 So that's the big -- that's probably the
4 biggest issue. And the other issue -- and we went
5 through some of this with our general counsel as if
6 the HBCU was to say, okay, create its own CDE and be
7 the solely owner of that CDE. And it still wasn't
8 eligible because that money has to flow through the
9 CDE. And you can't take the federal to dollar and put
10 it and leverage it and make more money or create more
11 dollars, if you will.

12 DR. FRANCIS: But the bottom line is that
13 in any of these circumstances the HBCU has to be the
14 entity that borrows the money.

15 MR. WATSON: Right. Under the current law.

16 DR. FRANCIS: Right. And so if the board
17 accepts this recommendation, what you are saying is
18 you'd like to explore with the Secretary whether we
19 can allow the financing of eligible projects from
20 eligible HBCUs with funds from new tax credits and
21 HBCU finance programs.

1 MR. WATSON: Yes. And what I want to do is
2 have deeper conversation with the Office of General
3 Counsel and Budget Service to come up with distinct
4 recommendations or -- because again you can't get
5 around it without a statutory change, but we need to
6 be more --

7 DR. FRANCIS: To be clear about what it is
8 your asking for.

9 MR. WATSON: Be clear to what we are asking
10 and how we are going to proceed with and if there are
11 any issues we will have with collateral, us not being
12 able to incur collateral which we are taking part of
13 the finance.

14 DR. FRANCIS: So what I'm summarizing --
15 you can feel it for myself and maybe the board, the
16 thread that runs through this entire regulation and
17 the current Congressional legislation is it has to be
18 the HBCU that's the common thread. It can't have
19 another entity borrowing under this program. It has
20 to be the HBCU to borrow it. Period.

21 MR. WATSON: Right. On this

1 recommendation, if you look at the first set of
2 bullets, those are the issues that we have to get
3 through in order to allow this to happen.

4 DR. WILSON: So basically what you are
5 asking for, Don, is more time to explore it, right?

6 MR. WATSON: More time to --

7 DR. FRANCIS: Yeah.

8 MR. WATSON: More time to explore it or the
9 board can make a recommendation to actually try to
10 modify or change these.

11 DR. WILSON: How can we do that before you
12 explore -- before the term of the details?

13 MR. WATSON: These are the issues. I think
14 our general counsel may need more time to be help with
15 it. We are going to do a loan closing based on new
16 market tax credits and cap financing, these are the
17 issues.

18 So even if we say we are going to have this
19 -- the board recommends this, there's going to be --
20 you are not going to get a response in December
21 because our general counsel has to sort of become

1 familiar with how the new market tax credits work.

2 It's a specialized thing and not something the

3 Department of Education deals with.

4 So our general counsel will have to get up

5 to speed on new market tax credit.

6 DR. WILSON: Yeah, but we could recommend

7 it pending your exploration or investigation of

8 further details and you would amend it, send it to us

9 and then we -- I mean it just strikes me that we can't

10 make an informed recommendation until you find out

11 what you need to find out in those conversations you

12 just referenced.

13 MR. WATSON: Not me.

14 DR. REAVES: And tell us.

15 DR. WILSON: Yeah, and tell so that --

16 MR. WATSON: I can't work in a vacuum. As

17 you know, John, I mean, if a recommendation is sent to

18 the Secretary it's going to go to general counsel.

19 DR. WILSON: Right.

20 MR. WATSON: My understanding and general

21 counsel's understanding of how this works is totally

1 different. I've been trying to figure this out for
2 two years. So I've been looking at it, reading the
3 IRS, reading their statutes, you know.

4 I've been reading the Treasury statutes so
5 I am more familiar with it, but from a legal -- I'm
6 not the Department of Education legal entity so I
7 can't say -- I'm telling you it's not eligible because
8 of the definition of the statute.

9 To get around this and say, okay, if the
10 board -- the board can make a recommendation now and
11 say we want to recommend that there be a legislative
12 change to make HBCUs eligible to participate in new
13 market tax credits, fine. Dandy. We can move forward
14 with that. But in order for general counsel to be
15 helpful and come back with a "yay" or "nay", I think
16 they may need a little more time.

17 DR. SUBER: Do you need a recommendation to
18 explore or do you need -- do you need a recommendation
19 to explore it or can you take a direction from the
20 board to explore it and then come back with a
21 recommendation?

1 MR. WATSON: The board can simply recommend

2 that the HBCU --

3 DR. SUBER: Let's presume that we are not

4 at a level of readiness to make a recommendation to

5 change the policy or the criteria. Do you have to

6 have a recommendation to move the discussion forward

7 in terms of your ability or your staff or whatever

8 entity up there on the Hill on Washington?

9 DR. FRANCIS: Yes. And I would assume

10 he --

11 DR. WILSON: To engage --

12 DR. FRANCIS: -- we should give that.

13 DR. SUBER: So the recommendation that you

14 have put down here to explore possibilities is the

15 recommendation that would move forward?

16 DR. FRANCIS: Right.

17 MR. WATSON: Exactly.

18 DR. SUBER: And I second it.

19 (Laughter.)

20 DR. FRANCIS: All right. We -- the board

21 will -- this has moved, and you can pick any one of

1 them you want who moved and who seconded.

2 MR. WATSON: Right.

3 DR. FRANCIS: That we explore this because

4 we have to know more about what the legislation

5 currently is and more about new market tax credits.

6 And you have been looking at it for two years. And

7 God knows there's some lawyers sitting around this

8 table. You get one lawyer in the department --

9 MR. WATSON: We have tons of them in the

10 audience. I am sure they want to jump on this.

11 DR. FRANCIS: They are going to ask a lot

12 of questions to say show cause why we should do this.

13 DR. WILSON: Dr. Chair, it matters who

14 wrote it and seconded it. I think the two presidents

15 did, so Suber and --

16 DR. FRANCIS: All right. Well, I got --

17 DR. WILSON: -- and we seconded it.

18 DR. FRANCIS: -- a motion on the floor.

19 Any questions on it? All we are doing is exploring

20 this. Always safe.

21 MR. WATSON: And I sort of extended that to

1 page 2, and think I thought maybe you all had seen
2 that. But top of page 2 actually goes to the second
3 point at which the board recommends it.

4 DR. FRANCIS: Yes. Yes. I think that's
5 appropriate. It really is. You get the information
6 first, and as a good advisory board we say, well, it
7 makes sense given everything else we are doing because
8 we don't want to be taking something away from
9 something else by doing something we don't know
10 anything about.

11 MR. WATSON: Right. The biggest
12 exploration I think will probably be, you know, as I
13 mentioned if you don't have is to borrow \$10 dollars,
14 you only have to borrow five, it's a great savings.

15 DR. FRANCIS: We will get the information
16 and then get a recommendation that will take action.

17 DR. WILSON: Chairman recommended that we
18 watch our time here.

19 DR. FRANCIS: I'm sorry?

20 DR. WILSON: We just voted on that, right?

21 MR. TAYLOR: No. We seconded.

1 DR. FRANCIS: I didn't hear the question.

2 All those in favor of the question please signify by
3 saying Aye.

4 RESPONSES: Aye.

5 DR. FRANCIS: Opposed? Motion is carried,
6 and now you can start exploring with the lawyers happy
7 times, all the lawyers sitting back there.

8 MR. WATSON: The next recommendation is for
9 a disaster relief grant program. And I think this is
10 a little different from the last grant program we
11 talked about, it's different in the way that every
12 year there's natural disasters around the nation.
13 Last year we had several HBCUs who were current
14 borrowers in the program.

15 And if they were actually affected by one
16 of those natural disasters, we could have potentially
17 had to close in the middle of -- for a semester or so.
18 They could have been in a default situation. So the
19 default rate I just ranted about earlier could have
20 actually went up a lot.

21 The subsidies, the escrow, all those things

1 would have been affected. So I think this is
2 something that is very limited. It's not open to
3 anyone. It's not open to everyone. It's open to --
4 it has to be declared -- the school has to be in a
5 place declared by a -- hit by a natural disaster.

6 The school has to have been closed. And it
7 sort of follows some of the same language that the
8 Katrina schools followed. It also follows some of the
9 same language that this current statute is unfunded
10 but it's a current loan program for all schools that
11 would allow those schools hit by disasters in the
12 country to receive some kind of benefit.

13 So I pulled some of those pieces from there
14 to get sort of this same sort of concept, but again
15 this is important because cap finance, it's a program
16 where it doesn't matter why you can't pay the debt
17 service. You can't pay it, you are going to be in
18 default.

19 So that's -- so it makes it a little
20 different.

21 DR. FRANCIS: And the difference is that

1 that school is in the HBCU cap financing program.

2 MR. WATSON: Exactly.

3 DR. FRANCIS: They are in the program under
4 the umbrella. And if they didn't get this emergency
5 help, they would not be able to meet their
6 obligations.

7 MR. WATSON: Obligations.

8 DR. FRANCIS: Exactly. That's, I mean,
9 that's --

10 MR. TAYLOR: So moved.

11 DR. SUBER: I've got some discussion.

12 DR. FRANCIS: Well, I've got a motion. Let
13 me get a second.

14 DR. BASKERVILLE: Second.

15 DR. FRANCIS: It's on the table now,
16 Dianne.

17 DR. SUBER: I'm sure this is going to be
18 taken the wrong way. I do have some concerns about
19 this, because I don't think that the criteria is
20 tightly articulated enough. And I am concerned that
21 in some situations this process is being perceived as

1 a way to address debt that existed prior to the
2 disaster.

3 And that in doing so it is unfair to
4 institutions who might benefit but who have been
5 fiscally responsible prior to the disaster. And I
6 think it invites some institutions to declare that
7 they must close and that they cannot make their
8 financial responsibilities because of the disaster.

9 And that is a concern I have about a
10 blanket policy going through that allocates money
11 based on this very loose criteria of a school
12 determining by itself that it is incapable of
13 servicing its debt.

14 DR. FRANCIS: John.

15 MR. TAYLOR: That's why the recommendation
16 is purely for your -- I would presume that you would
17 come back with the details. I assume this wasn't all
18 of the --

19 MR. OCHOA: Right.

20 MR. TAYLOR: You know this is recommended
21 in the creation of a program. Of course the details

1 to your point would absolutely have to be worked out.

2 But I don't think we are going to solve that.

3 MR. WATSON: Right. We went through the
4 same process. Just to give you an example, where it
5 says school demonstrating that they incurred physical
6 damage resulting from the impact of natural disaster,
7 Dr. Loston left -- Dr. Francis can tell you, and if
8 you come to the program you'll find out.

9 You are not going to say, Don, I need this
10 building. I'm going to put it here. When I get
11 there, I am going to meet with you, and I am going to
12 walk into every building in your campus. You are
13 going to walk with me, see students, however you want,
14 but I want to see every facility. You are going to
15 show me where you are going to actually put that
16 building.

17 And I'll do that, and we'll have a
18 discussion, and not just you but anyone who comes to
19 the program, we'll have a discussion. There have been
20 times where someone offers up the ladder and I go to
21 campus and they say well, this, building is worth \$20

1 million. And I will remind them that that first floor

2 is full of water.

3 And so we get those kind of examples. It's

4 not that the school has sort of determined themselves.

5 When you send an application for cap finance, it's

6 just not your application and we are going to say,

7 okay, these numbers fit. There's a whole

8 conversation. I'm on campus for a while. And most

9 times people fit me with students that they think are

10 going to give me a good conversation, but I'll be in

11 the cafeteria because I want to hear everything I want

12 to know.

13 So you sort of get that feel. And the

14 damage isn't a window broken, that sort of thing. I

15 should have brought pictures of what I consider damage

16 or what's considered damage. It's sort of, you know,

17 they have to sort of go through FEMA first. So FEMA

18 is not rejecting them because they didn't -- they

19 don't need it. You know there's a process in which

20 the library is -- the stacks are all gone, filled with

21 water.

1 So it's sort of -- if you start to go
2 through the list of things you are going to look for,
3 like the stacks are full of water and mold and mildew
4 is coming up, then I started creating a list and add
5 to that list. And at some point, no school -- if I'm
6 looking for mildew, mold, wetness, broken window, roof
7 been torn off, you know, the ground's been ripped to
8 shreds, then I only have that criteria. But if
9 something else comes in, the foundation's been
10 cracked, then that school's not eligible but they have
11 this from the earthquake or whatever sustained damage.

12 So to have a list exhaustive like that
13 comes to a point where the school is really eligible.

14 DR. SUBER: I understand your integrity and
15 the character of how you do would do it. And I expect
16 we will move this forward. But for the record, I
17 don't think that a program of this nature should be
18 predicated on your or whoever is at the director's
19 head at the time, because the next person coming in
20 may not have the same sense of standards or integrity.

21 What I would like -- and this may not be

1 the method. Maybe once the recommendation is passed,
2 another group comes in and looks at the criteria but
3 there should be a set of criteria that includes that
4 institution's amount of insurance that they have
5 already purchased. It should be a set of criteria
6 that evaluates to what degree that institution used
7 the areas around them to be able to continue classes.

8 There should be a set of criteria, an
9 expansion of these that are here that ensures that
10 those institutions who continue to hold fiscal
11 solvency as part of their priority are not
12 discriminated against in a situation where another
13 institution gets lucky because a hurricane hits them
14 or a tornado comes through.

15 MR. WATSON: Sure.

16 DR. SUBER: And that's my concern
17 legitimately for reasons.

18 MR. TAYLOR: Yeah, right.

19 DR. SUBER: But I do think that as this
20 process moves on, and I won't vote against it because
21 I do think there should be some support, but I do not

1 want this program to be generated by heartfelt
2 sympathy and disastrous photos on You Tube.

3 MR. WATSON: Right.

4 DR. SUBER: Because I think there is a
5 much, much more significant and substantive issue in
6 terms of being able to provide support for these
7 institutions.

8 DR. FRANCIS: All right. That's well
9 taken. And just let me say having gone through it,
10 there are checks and balances which demand that the
11 due diligence that you are talking about. FEMA does.
12 I mean if FEMA -- if FEMA writes a PW on what you are
13 asking for, I think you might consider making a grant
14 because it's going to affirm that that is a byproduct
15 of what the disaster was. But I think that's very
16 important.

17 MR. WATSON: And I would spend the fourth
18 bullet, that's where I was getting at. If you don't
19 get FEMA help or assistance from FEMA, you can't get
20 any of this. So that's what I'm alluding to SBA, your
21 insurance, those sort of things because again you

1 can't just come in and get assistance just because.

2 DR. FRANCIS: As an example of what you are
3 saying, and I learned we in the private school sector
4 after Katrina wanted to get into the disaster aid
5 under the Homeland Security. We had to first apply to
6 SBA first. And I said, well, how come the state
7 school across the street doesn't have to do that.

8 Well, we haven't answered that yet, so we
9 have to go to the Congress. But they made all private
10 schools borrow money or seek money from SBA, go
11 through that system to answer the kinds of questions
12 you are talking about.

13 I'm still paying on that SBA loan. I was
14 hoping they would turn me down. Because as long as
15 you went there, fine. But if you got turned down,
16 then you could go get evaluated. But, Dianne, your
17 point is correct. Your insurance company does the
18 same thing.

19 I had a team of 20 people come, they came
20 after we had repaired everything and tried to find
21 out, well, was that before or after. I want to

1 federal court. My point is you should have come

2 before, not after.

3 MR. WATSON: Right.

4 DR. FRANCIS: But that's a response to your

5 question, I mean your point, that it has to be a part

6 of the disaster and it has to be documented.

7 MR. WATSON: Right.

8 DR. FRANCIS: Okay. Now, if the motion and

9 the second are still ready to go, all those in favor

10 of that motion please signify by saying Aye.

11 RESPONSE: Aye.

12 DR. FRANCIS: Opposed?

13 (No Response)

14 DR. FRANCIS: Motion is carried. Okay,

15 Don.

16 DR. REAVES: Mr. Chairman, I have to leave

17 to catch an airplane.

18 DR. FRANCIS: You want to take me with you?

19 DR. REAVES: I'm going to North Carolina.

20 It's only slightly warmer.

21 - - -

1 (Discussion off the Record)

2 - - -

3 DR. FRANCIS: Let me raise something before
4 I ask for the general public. Are there -- are there
5 things that would be appropriate for this board to
6 consider that would enhance the loan capital program
7 and/or any other things that would enhance HBCUs, even
8 though we couldn't vote on them and the like?

9 Are there any things that are out there?
10 The precedence -- did the Secretary's budget has to be
11 in or is now for 2013? What's the deadline?

12 DR. WHITE: If we are -- we are at work, so
13 this is a very timely meeting. We have a lot of
14 things to do to get some of these things considered.

15 MS. BARTLEY: So given that, Mr. Chairman,
16 if it would be appropriate if everybody might consider
17 that we make a formal recommendation that we put our
18 recommendations forward, the key recommendations for
19 the FY 13 budget next week to not only the Secretary
20 but to O&B because the President's proposed budget for
21 FY 13 is expected to be released early February.

1 And so if we can get a message following
2 this board meeting the top, you know, our top
3 priorities for FY 13, have them put forward, that's
4 important.

5 DR. FRANCIS: Any of the things that we did
6 here would be if we could do it in a timely matter as
7 recommendation to the Secretary because you are
8 working now on the short straight, right?

9 DR. WHITE: Yes. Yes.

10 MS. BARTLEY: And of course to me the top
11 two, and we can put whatever you want, but for sure
12 you want to get in in time next week the
13 recommendation on the -- the subsidy and the
14 increasing the -- the loan limit.

15 DR. FRANCIS: Yeah, the motion that we
16 passed.

17 MS. BARTLEY: The cap.

18 DR. FRANCIS: Which would --

19 MS. BARTLEY: Because when the President's
20 budget goes up to Congress, for all of us who are here
21 as advocates and work the Hill, if that budget for

1 HBCU programs doesn't reflect closely to where we as a
2 community want to be, it makes it harder for us to
3 make the case on the Hill because offices that don't
4 have us as a priority or don't represent us look and
5 say, well, you know. And we want to be able to
6 communicate. We don't want the administration to say
7 you didn't communicate with us as we were preparing
8 the budget. We have to do our due diligence on that.

9 DR. FRANCIS: So what we are saying is the
10 things that we passed today that was, quote, a part of
11 our recommendation to the Secretary, we could get that
12 in as the Secretary prepares his budget. I think he
13 should know what his advisors are saying on this one.

14 MS. BARTLEY: And to O&B to Jack Lu.

15 DR. FRANCIS: Oh, it goes out to O&B or
16 just the Secretary?

17 DR. WHITE: I think Edith is correct.

18 MS. BARTLEY: What I'm recommending is that
19 our people here agree that we put forth our
20 recommendations for the President's proposed FY 13
21 budget to the Secretary and to the head of O&B because

1 that's being written now.

2 DR. FRANCIS: Okay. That -- that --
3 Congress does it. It doesn't make sense not to do it
4 because we'd have to wait another year to do it. If
5 we can get it in, we are asking that the board advises
6 meeting on this day which recommendations it's making
7 to the Secretary be done now with the hope that it
8 would become a part of the budget preparation for
9 2013.

10 DR. WHITE: And is it the pleasure of this
11 board that because we are -- 13 is imminent, so --

12 MS. BARTLEY: Right. At least we are on
13 record.

14 DR. WHITE: -- next week is not as timely
15 either, so is it acceptable for this board to take --
16 to get -- take that recommendation back immediately.

17 MS. BARTLEY: Yes.

18 DR. FRANCIS: Yes. That's the way. I
19 agree. If that window is still there, let's use it.
20 If it's not there --

21 MS. BARTLEY: It's there. It's there.

1 DR. FRANCIS: But that's midnight oil

2 working.

3 DR. WHITE: Yes, it is. Yes, it is.

4 DR. FRANCIS: Okay.

5 DR. WILSON: Don, were you finished? You

6 had the impact studies and --

7 MR. WATSON: Impact studies.

8 DR. WILSON: Pooled escrow.

9 MR. WATSON: Yeah. Pooled escrow, we

10 talked about that. And the board voted on that

11 already, so.

12 DR. FRANCIS: We voted that, but there is

13 no objections to the recommendation that whatever

14 we've done today be sent to the Secretary, and that of

15 course it's his judgment as to how fast he can work

16 and get it in but we'd recommend that it be done. Any

17 objections to that?

18 MS. BARTLEY: Answer to O&B.

19 DR. FRANCIS: So, we don't have to do the

20 work but we advise us. Madame here has to do the

21 work.

1 DR. WHITE: Yes, I do.

2 DR. FRANCIS: Okay. No objections? So
3 all. All right. I don't want to lose too many of
4 these other folks with these planes.

5 Dianne has her own plane parked out there.

6 DR. SUBER: Yeah, Right.

7 DR. FRANCIS: She can stay here a little
8 longer. See, Don Reaves didn't want to take me.

9 DR. SUBER: You have me mixed up with the
10 President Obama.

11 MR. WATSON: The next recommendation for
12 the board is impact -- economic impact studies.
13 Dr. Haynes after a Reilly loan for \$24 million, he
14 asked that we have to look at impact, economic impact
15 studies.

16 These studies have been done for HBCUs over
17 -- there's been several studies done. These studies,
18 past studies sort of lump all HBCUs together and talk
19 about how Capital Finance is great for them from a
20 market standpoint, but these economic impact studies
21 do something a little different.

1 It will show as I spoke about earlier, it
2 will show things like how an infusion of Capital
3 Finance dollars will benefit the local community, the
4 university, the visitors to the area, that sort of
5 thing. And it sort of helps to fight the -- or make
6 the case of how capital financing, the return Capital
7 Finance is not just doing for the school itself but
8 for the local economy, the state, the nation and that
9 sort of thing.

10 It also -- this kind of study doesn't have
11 to be committed just to capital financing program. It
12 could be open up to anything, any kind of revenue
13 services that come into the university. So it expands
14 why the university is such a great economic asset in
15 and of itself, so.

16 MR. TAYLOR: So moved.

17 DR. WILSON: Here.

18 MR. WATSON: The other part of this --

19 DR. FRANCIS: We had --

20 DR. WILSON: Don't over sell it.

21 MR. WATSON: No. Can't oversell it because

1 the point of this, I could do this on my own, the
2 HBCUs, the funds to do this come from HBCUs or an
3 increased funding on the technical assistance side so
4 that 20 -- so there's money in the budget. There's
5 about 20 million to make loans. There's also some
6 money set aside for technical assistance.

7 So I'm asking that we sort of programs that
8 come through the capital financing program we have
9 some mechanism to provide funding to do economic
10 impact studies to show how useful Capital Finance is.
11 And again this won't apply to capital financing, but
12 it applies to any kind of revenue source coming into
13 the university whether it's, you know, the net for
14 tuition and fees, whether it's, you know, doesn't
15 matter what the income sources are. But you see the
16 overall economic impact of the institution.

17 DR. BASKERVILLE: This would be invaluable
18 as we are making our case to members of the Congress
19 and others.

20 MR. WATSON: Yes. And again it's not just
21 Capital Finance, for any kind of case you want to make

1 for HBCUs.

2 MR. TAYLOR: How much do you think this
3 would cost?

4 MR. WATSON: Without having a definite
5 quote, when I was actually looking through this and
6 looking to some sources, the study in and of itself
7 will cost anywhere from 35,000 to 50,000 dollars.
8 It's a very intensive study because they are not just
9 looking at, like I said, you got a loan today compared
10 to the loan you would have gotten at XYZ Bank.

11 It's going in, looking at the market
12 conditions, looking at your local businesses, local
13 community, how things are improving that sort of
14 thing.

15 MR TAYLOR: So \$50,000.

16 DR. Haynes: It could be less than that.
17 We looked at what the NCIS did for all of the
18 institutions as a sort of models, so now we are trying
19 to figure out how can we do it by individual. And
20 this is a point, the reason I told Don he had to do
21 this is because --

1 MR. WATSON: You have got to tell your name
2 and who you are, for the record.

3 DR. HAYNES: Oh, I'm sorry. Leonard
4 Haynes, Director of Institutional Services.

5 The reason this economic impact study idea
6 came up was he closed the loan at Wiley College in
7 Marshall, Texas last year. And Dr. Strickland who is
8 the president there said to me the \$28 million which
9 was the size of the loan, Dr. Francis, was the most --
10 the greatest amount of federal funds that had ever
11 come to Marshall, Texas.

12 And all of a sudden he was the friend of
13 every banker in Marshall and the like. And I said,
14 well, you know, those loans have impact beyond the
15 institutions.

16 DR. FRANCIS: Oh, absolutely.

17 DR. HAYNES: In a jobless economy they are
18 calling for jobs, this, that and the other. And I
19 said we need to do this for everything because it
20 helps make the case why this program is very
21 important.

1 DR. WILSON: It's a no-brainer. I think it
2 won't sell without a number in there, so if we can get
3 a number in there.

4 MR. TAYLOR: \$50,000.

5 DR. WHITE: But may I interject. My
6 colleagues are being most ambitious with a \$50,000
7 price tag. I tell you I think having seen these
8 studies in the past, you know, what you want is a
9 quality document and quality cost.

10 And I would suggest that we probably need
11 to do a little better research on what that number is,
12 but I will tell you that preliminarily what I have
13 seen us produce, it's usually in about a million
14 dollar, million-and-a-half price tag to get a
15 comprehensive study done that stands up. Now, that's
16 a far cry from 50. I'm not saying that it's a
17 million, but I just think that we need to come back
18 and give you a better analysis of what those actual
19 costs will indeed be so that you can have a dynamic
20 document.

21 DR. LOSTON: I would agree with

1 Dr. Saunders-White. I don't remember the exact
2 figure, but I know we had a study done and it was
3 above 50,000. I'm certain of that.

4 DR. WILSON: It depends on the scale of
5 this. I didn't perceive you doing a comprehensive
6 Capital Finance exhaustive analysis.

7 MR. WATSON: No. It's for each school and
8 program, and this one here casts -- was estimated
9 \$50,000.

10 DR. WILSON: And that's on how many
11 institutions?

12 MR. WATSON: Just based on a single
13 institution, so.

14 DR. WILSON: And how many are you proposing
15 for an impact study?

16 MR. WATSON: For each institution that has
17 a loan in the program, so 24 plus any schools that
18 come through the program.

19 MR. TAYLOR: So estimated 50,000 times 20
20 is a million dollars.

21 DR. WILSON: Is a millions dollars.

1 MR. WATSON: Right.

2 MR. TAYLOR: Then that does impact the
3 presence because you said from some source, so it may
4 impact the presidents directive.

5 DR. WILSON: I can tell you it's going to
6 be a hard sell to go for a million dollars from this
7 department in these circumstances. I would -- okay.
8 Deb, you are on.

9 DR. WHITE: I think that any time we are
10 talking about evaluation and accountability and impact
11 information, that is the rhetoric of the day. And I
12 think that for the board to want to proactively do
13 that, because let me tell you the department is going
14 to want to do that. Okay.

15 And so for this board to come forward and
16 take that initiative to champion that I think is the
17 right way to go, and I think it will be well received.

18 DR. WILSON: I reiterate my point about
19 supplemental versus substitution, that this not be --

20 MR. WATSON: And I want to sort of
21 reiterate my point is that although this is coming up

1 to the Capital Finance board meeting, the department
2 sends the money out on many different levels. So it
3 includes Title 4, Title 3, Title 5 whatever monies you
4 have from department. So the department -- and
5 doesn't have to be cap finance, it can be the
6 department's impact, the money you get from the
7 Department of Education, its impact on --

8 DR. WHITE: As you are being zealous on
9 that, that still comes back and hits my budget. So
10 just be careful with that but, yes, there are many
11 sources of funding to help fund these type of
12 activities.

13 So I don't -- I would not advocate it to
14 come from the subsidy, but there are some resources
15 available if this board says that it is indeed a
16 priority for us to consider. So there are some
17 dollars available for evaluation that we -- that we
18 don't need secretarial --

19 DR. FRANCIS: Understand.

20 DR. WHITE: We don't need the Secretary's
21 authority to use, but certainly with this board's

1 recommendation that's a directive that helps us.

2 DR. FRANCIS: I got that. Do you have a --
3 go ahead, Dianne.

4 DR. SUBER: Another board I serve on, we
5 talk about capacity and we talk about the institutions
6 not being monolithic institutions. And I'm wondering
7 if it would be advantageous to look at clustered
8 institutions so that you get a broad perspective
9 because economic impact in one institution's community
10 could be very, very different in another community and
11 may be positively or negatively skewed depending on
12 which institutions you select to do the research, on
13 which you select to do the research.

14 So that may be one of the things you may
15 want to consider in structuring that kind of an
16 economic impact study.

17 DR. WHITE: That's why it gets -- quickly
18 it becomes a complicated dynamic. And again you want
19 to have the methodologies in place that anyone
20 scrutinizing any report or reading that report has
21 confidence in the data submitted. So

1 MR. TAYLOR: So my initial -- withdraw
2 that. Because the recommendation language reads
3 through some source. And I think someone here
4 appropriately said that might affect the schools
5 directly. And so if we could pull out the language
6 that would directly -- because I don't think we are in
7 a position, Madame President, you know as both of you
8 to commit to the schools, right.

9 So I think if we can say if Dr. Saunders
10 Write is white -- is right, White is right, if you are
11 right, then we can do this as long as the funding can
12 come from somewhere else. But you all are not I think
13 I'm hearing you say committing the schools to get what
14 could be --

15 MR. WATSON: Right.

16 DR. TAYLOR: -- a million dollars, out of
17 control.

18 DR. FRANCIS: If, as I read the
19 recommendation here, it says the board recommends that
20 the department -- that those through some source or
21 through the Administration's fiscal year 2013 budget

1 project -- process provide for economic impact studies
2 perspectives including business, social, student,
3 taxpayer. Each review includes a local and state
4 component as well as a national component.

5 MR. TAYLOR: And I am just clarifying that
6 through some source does not obligate in any way the
7 presidents or the schools directly, because that seems
8 to be the issues that were raised.

9 DR. FRANCIS: Right. It wouldn't come out
10 of there. It would be whatever resources there might
11 be outside of it. That's what this is saying.

12 DR. TAYLOR: Okay. So a federal source.

13 DR. FRANCIS: Oh, yeah.

14 DR. SUBER: It's a good idea as long as you
15 all pay for it.

16 MR. TAYLOR: Right.

17 DR. FRANCIS: Don't tax me. Don't tax him.
18 Tax the man behind the tree. That's what you want.

19 DR. SUBER: Right.

20 DR. FRANCIS: All right. All those in
21 favor, well, let's put it on the table because we'd be

1 making a recommendation, which of course --

2 DR. SUBER: So moved.

3 DR. FRANCIS: -- The department itself

4 feels it needs to do if it has the funds. And if it

5 doesn't have the funds, it won't be done. But that's

6 a part of the negotiations, what you have just

7 described, Dianne, who is and how much and where and

8 it takes it from there.

9 But I think we ought to make this as a

10 recommendation from this board.

11 DR. SUBER: So moved.

12 DR. FRANCIS: Got a second?

13 DR. LOSTON: Second.

14 DR. FRANCIS: All those in favor please

15 signify by saying Aye.

16 RESPONSES: Aye.

17 DR. FRANCIS: Opposed?

18 (No Responses)

19 DR. FRANCIS: Motion is carried. Johnny,

20 you still got a problem. You are not paying for this.

21 MR. TAYLOR: Are you voting on this

1 language through some source?

2 DR. FRANCIS: Yes.

3 MR. TAYLOR: Or did you modify it to say

4 "not the schools."

5 DR. FRANCIS: I read it as it was written

6 here, but I've got to put a T-H-R.

7 DR. WILSON: Through some federal source.

8 MR. TAYLOR: Some federal source.

9 MS. BARTLEY: Should we say from funds --

10 from funds that are used for some other -- for

11 economic impact projects? This is not the first that

12 would have been done.

13 DR. FRANCIS: Go ahead.

14 DR. WHITE: I think the language is clear

15 enough. I think it's clear enough.

16 DR. FRANCIS: Add -- make the word "though"

17 "through," and add "federal" before "source." It's

18 been passed. Chairman just amended it and the people

19 who made the motion didn't object to it. Right,

20 Dianne?

21 DR. SUBER: You are right. You are

1 absolutely right.

2 DR. FRANCIS: All right. Okay. We have
3 public comments now?

4 MR. WATSON: There's actually --

5 DR. FRANCIS: Oh, you have got that Future
6 Perfect one. Did I miss that?

7 MR. WATSON: No. Future Perfect. That's
8 going to be a presentations. Future Perfect is a
9 financial software package that account finance has
10 been using to sort of help HBCUs use with some
11 financial planning.

12 DR. FRANCIS: All right.

13 - - -

14 (Recessed at 1:11 p.m.)

15 (Reconvened at 1:21 p.m. for overhead presentation)

16 - - -

17 DR. FRANCIS: We are reconvening. We are
18 back in session, and I'm going to ask a good friend
19 of -- you are going to do the presentation.

20 MR. EVANS: I'm going to kick it off.

21 DR. FRANCIS: Okay. They are looking at --

1 they can see over there too? Okay.

2 - - -

3 (Discussion off the Record)

4 - - -

5 DR. FRANCIS: May I please have your

6 attention please? All right. We are ready to go.

7 MR. EVANS: Okay. Well, good afternoon to

8 everyone. I know everyone is munching on their lunch,

9 but I want to say a special good afternoon to

10 Mr. Chairman, Dr. Francis, who I've known for quite

11 some time.

12 And, Dr. Francis, you asked a question to

13 the board about ten minutes ago: What could this

14 board do to help HBCUs? And we think we have the

15 answer to that. And I'm just going to go through a

16 quick introduction.

17 My name is Sidney H. Evans, Junior. I'm

18 the president of Madisan Mackenzie, LLC, a management

19 consulting firm. And prior to starting my firm, I

20 spent 14 years as a chief financial officer of several

21 historic black colleges and most recently at Howard

1 University.

2 Through my consultant business, I have the
3 distinct pleasure of having public financial
4 management as a client. And I'm going to introduce
5 two managing directors from PFM in just a moment. But
6 during my tenure as a CFO, one of my challenges was
7 how to provide the most comprehensive financial
8 management support to the President, to the board of
9 trustees and other key constituents. I wanted and I
10 strongly believed that I needed a specific tool and/or
11 model to accomplish this.

12 After extensive research and reviewing a
13 number of products, I found the Future Perfect
14 strategic planning platform which I believe is the
15 panacea for what CFOs and colleges and universities
16 need.

17 At the most recent NACUBO conference,
18 NACUBO is the professional organization for chief
19 financial officers, there were two presentations on
20 college and university financial sustainability. Both
21 of these sessions focused on each -- a university

1 having a management tool or a strategic model for
2 forecasting.
3 Additionally, all the leading bond rating
4 agencies are giving kudos and high reviews to those
5 universities that are using some sort of strategic
6 planning model. To this end, our PFM team would like
7 to introduce to this board a unique and comprehensive
8 tool for strategic forecasting services.

9 At this time I would like to turn it over
10 to Mr. Jim Haddon who is the managing director and
11 national marketing account manager for public
12 financial management, and Brett Matea who's also a
13 managing director. And he is the guru for Future
14 Perfect. So, gentlemen, it's all yours.

15 MR. WATSON: Jim, before you start I just
16 want to, for the record, I just want to say that the
17 account finance program is already using Future
18 Perfect. So that -- but the Board I don't think has
19 seen what Future Perfect is doing. So when I am
20 asking you for money for technical assistance, I want
21 you to see the kinds of things you are providing for

1 schools in this program.

2 MR. HADDON: Thank you, Don. Thank you
3 everyone again for giving us the time. As you see, we
4 have multimedia screens here. We would love to be
5 able to turn that screen off so it's not shining in
6 Don's face, but I can't figure out how to do that, so
7 bear with us.

8 But we do have a hard copy of the
9 presentations. And if you can't see what's on the
10 screen, please open up your presentation book and
11 follow with us. We are going to make this an
12 interactive discussion today. We are actually going
13 to show you how this model works on the screen because
14 we really think it is a dynamic financial planning,
15 strategic planning model that can be very helpful for
16 you.

17 And one of the benefits of it is when Brett
18 takes you through it is you can change variables right
19 in a real-time situation, and it can interactively
20 spit out all of the results. So, again, this is a
21 very effective planning tool.

1 And we like to stress when we get into
2 this, this is not just a piece of software. This is a
3 tool that can help you effectively plan into the
4 future.

5 We'll give you the 30-second promo on the
6 firm. We are a public financial management, we are in
7 the financial advisor and the asset management
8 business. We have two companies PFM and PFM Asset
9 Management.

10 We are an independent, SEC-registered
11 investment and financial advisory firm. We work 100
12 percent in the public sector. We work for
13 not-for-profit colleges and public institutions and
14 state and local government. We've been around roughly
15 30 years, we are in 33 offices, and we have over 400
16 employees.

17 The next slide just shows you -- we believe
18 that when you are talking to an institution and you
19 are giving them advice, you need to have a whole array
20 of services that you can provide for them. And so we
21 do have that array, and we just list some of these

1 here.

2 We are the number 1 financial advisor in
3 the country, and we are the number 1 financial advisor
4 to higher education institutions. And we have a
5 significant track record in working with historically
6 black colleges and universities. I personally worked
7 on the Howard University financing this past year in
8 the spring of 2011 where Howard did a \$200 million
9 financing which is going to do some great capital
10 programs for them.

11 We are currently now working for Central
12 State which is looking at borrowing within this
13 capital financing program, so we have a bucket of
14 services that we can offer you. If Future Perfect is
15 something that you get, you also get with that the
16 attachment of PFM and all the services that we had on
17 the prior slide.

18 We just have a couple of graphs here that
19 we like to show that we are at the top of graph, so
20 here in Higher Ed as well as in public and just
21 general financial advisory. But enough with the

1 advertisement. Let's now get into the bulk of this
2 and talk about Future Perfect because I think you are
3 going to see this as an amazing planning tool.

4 My partner here, Brett Matea, who heads up
5 our Future Perfect team; Brett was part of the
6 development team that created Future Perfect. The
7 Future Perfect is a dynamic piece of software. It's
8 always growing. In fact there's special things that
9 we can build into it and this program, when you
10 contract with us and get Future Perfect, you get all
11 that development. So, Brett, I will let you start
12 off.

13 MR. MATEA: I'm going to apologize to the
14 folks in the corners. Hopefully, you can hear me. I
15 have to sit down to do this.

16 Here's the problem that we've seen with
17 colleges, pretty much all colleges and universities
18 across the country. And when I say that, I have a
19 data set of about 600 schools at this point. We've
20 talked to all manner of colleges, everything from the
21 smallest community college to the largest private and

1 public universities in the country, and all of them
2 have essentially the same problem which is they don't
3 have a view of the financial future.

4 Everybody has a budget. Everybody has a
5 one-year budget, this incredibly detailed, politically
6 oriented, 5,000-line-deep budget where we are lying
7 out how many pencils and pens we need to buy and what
8 the insurance is going to cost and all that. But what
9 people can't see is what's going to happen next year.
10 And I'm talking about University of Pennsylvania and
11 Cornell. And I'm talking about little Bryn Mawr
12 College. And I'm talking about UVA. These are all
13 clients of ours.

14 All of them have the same problem, which is
15 they basically see to the end of their nose. And
16 obviously you are running a 200-year university here,
17 maybe it's a good idea to kind of look a little
18 farther.

19 The reason nobody does, in our experience,
20 is because it's a really hard problem to solve, if you
21 are going to do it right. If you simply want to take

1 last year's number, last year's tuition revenue and
2 grow it year over year at one-and-a-half percent or
3 whatever, I mean, that's a spreadsheet we all could
4 write in about two seconds. And, frankly, PFM, we'll
5 give you that, if that's what you want.

6 We don't think it's what you need, however.
7 We don't think a typical HBCU or any college needs
8 just last year's number growing year over year.
9 Colleges are about FTEs of students coming in the
10 door, times the rate, minus some amount of discount if
11 the schools can afford it.

12 There are teachers and staff that have to
13 support that effort. There is space needs related to
14 that. There's backlogs of maintenance that have to be
15 addressed. There are a lot of things that go into
16 this. So if you are going to do it right, you need a
17 big, integrated approach to this projection.

18 The problem with that is nobody's been able
19 to work out all those relationships. It's like a
20 spaghetti of relationships. If you are going to do it
21 right, you need a balance sheet projected. And,

1 frankly, nobody can project their balance sheet.

2 Everybody is all about last year's financial

3 statements.

4 Well, that doesn't help you with next year

5 or five years from now or ten years from now when you

6 might have to build that dorm. This is about taking a

7 look out to the horizon, over the horizon, if you

8 will. We are going to identify variables so we can

9 project the balance sheet. So we project operations.

10 So it all ties back to your historical financials and

11 creates pro forma financial statements going forward.

12 And I've got to tell you, that is a

13 different thing. We are producing pro forma

14 financials that tie together, and an accountant would

15 agree this is pretty good stuff.

16 At the same time, there are third parties

17 involved. You happen to be one of them where you are

18 going to care about things that frankly the typical

19 budget director at a college doesn't care about. You

20 are going to care about the restricted piece of

21 things, all those grants that come in the door.

1 Somebody has to track them.

2 You are going to care about safety. You
3 are going to care about the debt and how much
4 expendable resources there are versus that debt or
5 operations.

6 To do that, you need a balance sheet. And
7 nobody has that. And it's a little bit troubling,
8 frankly. In the waning years of my career, this is my
9 new mission in life. I'm going to try to fix this
10 around the country.

11 We think that what you need is a projection
12 model that allows you to provide real-time feedback to
13 the stakeholders. What we've been talking about in
14 kind of really broad turns -- I speak at ACUBO all the
15 time. We are trying to define best practices.

16 A typical college, and I mean all of them,
17 I don't care how rich they are, has the same problem.
18 A board like this, or a finance committee, or a
19 president asks a question. There's a big data
20 wrangling exercise that goes on back at staff level
21 where they wrestle some sort of data to the ground out

1 of the budget system, or out of an ERP system, or out
2 of an accounting system.

3 They wrestle all this data to the ground.

4 They piece together some sort of spreadsheet. They

5 plop it into a PowerPoint presentation, and they get

6 back to the -- ask them the question. By then they

7 usually forgot the question. It's that long a

8 process.

9 What should be a two-minute answer turns

10 into a two-day or a two-week or a two-month answer.

11 And that's not a way to kind of run these big

12 institutions.

13 And I recognize academics kind of moves at

14 a slower pace than the corporate world but: One,

15 should it; and, Two, even if it does, it shouldn't be

16 that slow. So we think that what you need is a more

17 interactive, organic, accurate, bigger picture way of

18 doing everything.

19 Now, the answer to this problem is we think

20 an integrated point of view where you get a strategic

21 plan. And that strategic plan has a business plan

1 against it. I mean most strategic plans at most
2 colleges are dusty white papers where everybody sat in
3 a room and created a bunch of bullet points about
4 student-faculty ratios and better facilities.

5 Well, somebody ought to suss it out whether
6 or not you can afford that. That's what this is
7 about. You've got to fold it into in your budget,
8 obviously, and down into the extent there is some,
9 debt is obviously important to this board, capital
10 projects facilities, but the point being it all should
11 look forward, not backward.

12 Last year's financials are already done.
13 You don't need another set. We need something looking
14 forward. So what we've done is we've created this
15 fully integrated model. Now, here's the good news.
16 It's not another software. PFM is not in the software
17 business. I wouldn't know how to do that.

18 I've been a consultant for the last 25
19 years. And what we are offering here is PFM, the
20 nation's leading financial advisor firm blah, blah,
21 blah. We are basically going to become financial

1 analysts on behalf of the schools or the program.
2 However you want to structure it, we become your
3 financial staff in the sense that we are talking about
4 the strategic forecasting. We could do a lot of
5 things, but now we are talking about strategic
6 forecasting. We add some value.

7 If you want to know what's going to happen
8 in Year 5 at XYZ College, we could give you a fair
9 approximation of what that looks like. We are not in
10 the business of all the detailed data wrangling. We
11 work with the school to do that support analysis part
12 of this.

13 So we are providing the model. We are
14 providing the support of the model. And we are
15 interacting with staff to create some sort of
16 going-forward set of projections with sensitive
17 analysis. That's the idea.

18 So we have a very involved process to make
19 this happen. We identify what's particular -- what
20 are the particular needs of that school. Some are big
21 and relatively rich, Howard's; and some are smaller

1 and have fewer resources. Some are public and some
2 are private. If you have a big mix of schools out
3 there, well, they are all going to be different. And
4 we need to customize this to their particular needs.
5 And it should reflect their respective business
6 models.

7 And we should get a fully projected set of
8 budget and financial statements. And here's a really
9 nice thing I think you'll like as a board trying to
10 evaluate whether a given institution should or can
11 afford getting where we are going to tie that all back
12 to the rating agency metrics. You know these are
13 pretty good set of criteria by which you could manage
14 this process.

15 148 metrics out there called a score card
16 that we could provide you and provide all the
17 comparable data on, and then at the same time to the
18 extent you're interested, we could customize any other
19 set of metrics we talked about, for example, something
20 called a report card which might be crafted
21 specifically to the HBCUs.

1 How does a given school rank relative to
2 its peer, relative to its rated peers, et cetera,
3 maybe its academic peer group, however you want to
4 think about it. But where you are going to be able to
5 do side-by-side comparisons, then this is the nice
6 thing. It's not an analysis going on in Philadelphia.
7 After we build it, we deliver it to the school and
8 they use it going forward.

9 I want to be in the business of helping
10 these schools and improve what they are doing going
11 forward. So there's training involved, support
12 involved. We want to get them kind of doing best
13 practices at their respective school. They should be
14 doing their own planning, frankly.

15 And I would love to -- sounds ridiculous,
16 but it would be nice if in three years you fired us.
17 I'll charge something, don't get me wrong, but we want
18 to be in the business where everybody becomes
19 self-sufficient after a few years. That happens at
20 different paces at different schools, but that's
21 perfectly within the realm of possibility.

1 So we want to partner with the institutions
2 or with this board or with the program to -- there's a
3 bunch of ideas on a given campus. Everybody's in the
4 idea business. Well, somebody has to cross it against
5 the financial human and space constraints to find out
6 what's possible and affordable. That's what this is
7 about.

8 It's a consulting relationship, not
9 software. We partner with the school and the
10 institutions and the program to figure that out.

11 So that was the log cabin story. I'm now
12 actually going to show you a prototype of what we are
13 talking about delivering to a given school. And we've
14 done this for a couple of institutions already in the
15 program.

16 First off, I want you to notice we've kept
17 it in Excel. It's an Excel model. It's maybe the
18 most complicated Excel model, but it is Excel. Why?
19 Because we have worked our entire professional careers
20 in Excel. You can open up a form of it and understand
21 it.

1 The data is available in Excel. I'm not
2 going to bore you with the bells and whistles, but
3 just suffice it to say it's a little bit more than the
4 typical year-over-year spreadsheet. Most of the work
5 is driven -- a picture a financial staff working in
6 this model now.

7 What you are looking at, I just want to
8 orient you, you are looking at the dashboard. And the
9 dashboard is this bifurcated screen. The left side is
10 a series of outputs and the right side is a series of
11 drives.

12 And just to orient you, there's five years
13 of history. Current year shows up with this lavender
14 bar down here.

15 MR. WATSON: I just want to point out to
16 the board you are looking at the Excel system. It's
17 the plan, et cetera, so just point it out so it's not
18 part of the --

19 MR. MATEA: We are not in the PowerPoint
20 presentation anymore. This is the actual model. That
21 PowerPoint presentation, I can't do justice to that.

1 What I'm about to show now is a bunch of static
2 slides. It's the antithesis of what this is all
3 about. That is a dynamic program.

4 So you are looking at five years of
5 history. This lavender is the current year. Here's
6 the point: Ten years of projections. And I'll, you
7 know, there's a pretty short list of schools, and I
8 think they are all my clients, that can give you a
9 ten-year look. University of Richmond, one school
10 that doesn't have this that can also do it. That's
11 the only one I've found.

12 So, again, five years of history. Current
13 year. Just as an example, I start increasing
14 enrollment in the future. We can do sensitivity
15 analysis, but you do financial staff for them to pull
16 this together for you, what happens if enrollment were
17 to grow up one type or another in one program or
18 another. If I drew up enrollment that quickly, that
19 fast on the left side, notice the blue bars are
20 different than where we started; the yellow bar, the
21 burgundy is different than the yellow, the green is

1 different.

2 What that is is the current case increased
3 to 270 million versus where we started at 226, a
4 differential of 30 million dollars we have forward in
5 additional enrollment that quickly.

6 Now you guys are in the higher-end base now
7 asking does that account for retention. I mean what
8 kind of student group was that. All of this is
9 focused, if you want to do code-word-based retention
10 model and see the fall freshmen come in and track
11 them, that's what we do. If you want to think about
12 it as a grad program, that's what we do.

13 We customize the students the way it works
14 at that particular school. And obviously in a private
15 where they think about things on an FTE basis by
16 semester or trimester is way different than a credit
17 hour basis. All of that is customized.

18 The point is you can drive the independent
19 variable called fall FTEs and immediately know the
20 impact beyond. You may say, well, a heck of a good
21 CFO can do that on the back of an envelope. And I

1 agree with you. If that's all it was, I wouldn't be
2 here. But what a good CFO cannot do is, for example,
3 as I'm increasing the enrollment, I'm also folding in
4 additional faculty and staff.

5 Enrollment is driving my faculty. And
6 here's additional FTEs coming and going o faculty. In
7 fact what we have, just because I'm going to go into a
8 little bit of detail here, as enrollment's increasing,
9 it's driving up FTEs perhaps of adjunct faculty, 3.8,
10 1.4.9 additional adjuncts. And we are going into a
11 little bit of detail but I know you are following, so
12 stay with me.

13 Here's additional FTEs of adjunct comes in,
14 and so the salaries are calculated and the benefits,
15 but think about that. That's a second order
16 assumption. Enrollments which drives in the revenue
17 also drives salary and benefits for that faculty. But
18 then just to show you how rich this can be, as faculty
19 goes up, and as my faculty FFE goes up, I might need
20 additional staff. So now the salaries of staff and
21 benefits of staff have gone up.

1 In Number 3, 2 million dollars net impact
2 because of enrollment change is not some more sort of
3 simple-minded year-over-year integrated growth numbers
4 of people times their rates to create the net revenue.

5 How about this. Again, CFO can do a lot of
6 things but not in their head. And how about space.
7 So as I'm increasing enrollment, I'm keeping track of
8 my space needs. How much academic space do I need.

9 DR. WILSON: Yes. What about the other
10 revenue streams? Is this entirely tuition driven.

11 MR. MATEA: No, not at all. Let's go to,
12 for example, auxiliaries. So again just like with --
13 if you'll bear with me for one second, just like on
14 the student side, it was FTEs discount to create net
15 revenue, it's numbers of employees times their
16 salaries to create available and benefit dollars, so
17 it's at the bottom.

18 Same thing on the auxiliary side. So we
19 are not going to make -- what we are going to do is
20 keep track of the design capacity of your business,
21 how many students went into those beds, fall and

1 spring, times the rates for those revenue. My design
2 capacity, I have a compression problem. So I actually
3 oversell the beds and take doubles and turn them into
4 triples and closets into singles.

5 And then some students are studying abroad
6 and off-campus apartments. We track them out, net
7 demand, fall and spring into beds, create a revenue.
8 If you have dining plans seven days, five days,
9 however you think about it, we are keeping track of
10 that in terms of the growth of the population.

11 So when I changed enrollment and I
12 calculated the additional faculty and staff, I was
13 also capturing the impact in a very bottom-up way on
14 housing revenue, for example. And then how about, you
15 know, every school is different, obviously, but how
16 about parking. So we will be driving any set of
17 variables in that matter. So I'm going to just now
18 real quickly.

19 UNIDENTIFIED SPEAKER: You can put any
20 revenue screen.

21 DR. WILSON: Tuition and fees are kind of

1 related, so endowment, fund raising --

2 MR. EVANS: That's a whole lot of
3 endowments, capital campaign.

4 MR. MATEA: Let's do that, your asset
5 allocation. So again this is both sides. This is a
6 balance sheet. We are modeling everything you can
7 think of related. So here's your historical and your
8 prospective asset allocation.

9 Now, you might or might not -- I don't know
10 your background, but if you are sitting on an
11 investment committee, you know, people think any about
12 this long and hard, making a ten-year projection is a
13 little bit of a fool's mission. But I contend I'm
14 fighting the good fight on this. You ought to at
15 least do some sensitivity, double dip crease, can't
16 get its act together. Don't you want to know what
17 happens.

18 You can change your asset allocation very,
19 very quickly. We can create a prospective return
20 assumption based on the weighted average returns of
21 your assets and then sensitivity analysis around that.

1 Let's drive down the S&P 500 four standard deviations
2 and see what the impact is on our return, on our draw
3 and all of our financial statements prospectivity.

4 So it's very interactive on the endowment.

5 It's a really effective tool. We can build that into
6 the model. We've given you the traditional ones.

7 DR. WILSON: Research grants.

8 MR. EVANS: Yeah.

9 DR. WILSON: You are saying Howard has this
10 in right now?

11 MR. EVANS: No. When I was the CFO, we
12 used it at Howard. Then there was a change in
13 administration. I'm not sure what they are using now,
14 but it was very helpful to our board and to President
15 Swygert and to the provost and everyone else.

16 DR. SUBER: What is it that we are doing
17 with this?

18 MR. WATSON: Well, there's two things:

19 One --

20 DR. SUBER: Is there going to be some
21 criteria --

1 MR. WATSON: Well, actually, it's currently
2 being used in capital financing programs, so that
3 projects what I'm actually seeing. Just like everyone
4 else, I want you to see what schools are actually
5 getting to provide with the second assistance.

6 DR. SUBER: Is there a cohort of our
7 institutions?

8 MR. WATSON: In the capital financing
9 program, yes.

10 DR. SUBER: Are the names of those schools
11 available to us?

12 MR. WATSON: I can get them to you. I
13 don't have them with me.

14 DR. WILSON: I'm sorry. Those schools are
15 using it comprehensively or only vis a vis the Capital
16 Finance?

17 MR. WATSON: No. It's not for Capital
18 Finance. It's just what he's explaining, something
19 Capital Finance is offering because you are part of
20 the program. He wants you, and as I said earlier --

21 DR. SUBER: When you say offering?

1 MR. WATSON: We are already paying for the
2 service.

3 DR. WILSON: Who's paying for it?

4 MR. WATSON: Capital finance through the
5 Department.

6 DR. WILSON: Is that right?

7 MR. WATSON: The money is actually being
8 used for good things. Dr. Francis is going to get --.

9 DR. SUBER: Capital finance is paying for
10 this service for the schools who are using the service
11 of Capital Finance?

12 MR. WATSON: No. Once you get a loan
13 through the capital financing program, what we are
14 actually offering you is strategic to the school
15 because although we look at the analysis for
16 long-term, while we are looking at the analysis, if
17 something changes in Year 2 based on our assumptions,
18 you are able to go in and say this to change in Year
19 2.

20 Now, how are we going to plan that to keep
21 having available --

1 DR. SUBER: I don't --

2 MR. EVANS: Can I share some insight and I
3 think I can answer your question?

4 DR. SUBER: Well, before you -- I'm not
5 sure, because I'm not looking for insight. What I'm
6 really looking for is how this fits into the capital
7 financing program for the institutions that use the
8 capital financing service.

9 DR. WHITE: They get this tool.

10 MR. WATSON: They get this tool.

11 DR. SUBER: They are given it.

12 DR. WHITE: Yes.

13 MR. WATSON: Right.

14 DR. SUBER: Are you required to use it if
15 you -- as a part of the criteria for the loan?

16 MR. WATSON: No. It's not part of the
17 criteria for the loan. One of the big issues was that
18 as Brett was talking about how the model was built,
19 they can't build a model by themselves. They are not
20 internal to your schools, so we need input from the
21 schools, so we ask from data. We don't get the data,

1 they can't build the model to that school for that
2 school.

3 So we offer the service. If you don't want
4 to take advantage of it, then we can't make you take
5 advantage of it. It's not required for capital
6 funding. That's a added piece of service.

7 DR. WILSON: Who pays for it?

8 MR. WATSON: It comes to us -- we have a
9 technical systems budget, so I would have 20.5. They
10 say part of that would be my salary, but the first
11 thought is I would have to reimburse it, but a lot of
12 it goes toward technical assistance, so.

13 DR. SUBER: So you are -- I've got to get a
14 clear understanding here. So the \$90,000, \$30,000
15 over a 3-year period is -- which is what I see in here
16 is the cost of this, is paid for?

17 DR. WILSON: Is that right?

18 MR. WATSON: No, it's not 90,000. We have
19 a special -- we have something special with them.

20 DR. SUBER: Okay. It says offered at the
21 three-year agreement in advance, \$30,000 per

1 institution.

2 MR. WATSON: Well, they have done this.

3 UNIDENTIFIED SPEAKER: That's going
4 forward.

5 MR. EVANS: The six -- if I may, Don,

6 MR. WATSON: Yes. Tell them your name, for
7 the record.

8 MR. EVANS: Sydney Evans. There have been
9 six models built. Those -- Brett built, Brett has
10 built six models for six schools that have
11 participated in the program. The price was different
12 than the 30,000 he's proposing now. There was a
13 different pricing structure at the time and --

14 DR. SUBER: Let me take the pricing
15 structure off the table because I still haven't gotten
16 to it. The six schools that you developed the program
17 for were historically black colleges and universities?

18 MR. EVANS: Correct.

19 DR. SUBER: And the names of those
20 institutions are available to us?

21 MR. EVANS: Yes. Florida Memorial, yeah.

1 DR. SUBER: Okay. They received loans from
2 Capital Finance?

3 MR. WATSON: Right.

4 DR. SUBER: Whatever the pay fee structure
5 was, who paid the fee?

6 MR. WATSON: We have a contract through the
7 DRBA, our designated bond authority. That's how we
8 acted to get this. So in the statute itself, statutes
9 -- a part of the statute is we provide technical
10 assistance. And part of that technical assistance, so
11 when you see that 20, and I always use 20 million
12 because the piece of the decimal becomes part of
13 technical assistance, travel, borrower features,
14 things like that for administration of the program,
15 but the technical assistance piece is an annual piece
16 that comes out every year.

17 DR. SUBER: And it helps the borrower to
18 predict their potential success in the borrowing
19 process and that's why it's advocated.

20 DR. FRANCIS: Correct

21 DR. SUBER: Theoretically, if an

1 institution wanted to borrow money and had a similar
2 program or a similar consultant that offered similar
3 support, would the -- would capital financing pay that
4 consultant the consultant of choice of that
5 institution's fee?

6 MR. WATSON: No. This is the program's --
7 this is the program's technical assistance. And I'll
8 tell you why. The way this works is that we already
9 have a designated bond authority. So the designated
10 bonding authority actually has this as part of the
11 technical assistance package. Like we have a
12 marketing package, this is part of the package. So
13 that's why we are using the PFM model.

14 The other piece of it is this is literally
15 -- it's Excel based, so there's no additional cost to
16 an institution to implement this. There are other
17 models for which you have to sort of have mainframe,
18 build a mainframe and things like that. You have some
19 universities that have the same thing but they
20 actually build these on mainframes or other systems.

21 DR. WILSON. Don, did you compete that?

1 MR. WATSON: No. It didn't have to be
2 competed because it's through a designated bond
3 authority.

4 DR. WILSON: I think that was your next
5 question.

6 DR. SUBER: That was my question.

7 DR. WILSON: I just want to cut to the
8 chase. Okay.

9 DR. SUBER: I just asked if this -- because
10 I couldn't tell whether or not if this is a marketing
11 pitch to institutions to consider this, then it's
12 probably not enough representation in this meeting for
13 it to be a marketing pitch for a presidential use.

14 MR. WATSON: No.

15 DR. SUBER: If it is a component of the
16 Capital Finance piece, then it's good if I know what
17 services are available if in fact we are -- take
18 advantage of the capital financing piece. If this is
19 -- if it is a service that is available to
20 institutions with consultants of their choice, that
21 makes it even greater. So that was -- that was the

1 reason for my question.

2 DR. WILSON: I need to also make a comment,
3 and we probably need time for a public comment, but
4 this tool, I mean I saw in two slides, you referenced
5 the strategic plan. This tool is only as good as the
6 power and wisdom of a strategic plan and the value of
7 the presidential and board leadership.

8 MR. MATEA: Agreed.

9 DR. WILSON: You are not going to find a
10 school that's better than its board.

11 MR. MATEA: I agree with that.

12 DR. WILSON: So if you don't have good
13 drivers and worthwhile strategic plan, this could be
14 flat paint here right.

15 MR. MATEA: I --

16 MR. EVANS: But this -- you have to look at
17 this as a building block. This is a planning tool.
18 So if you want to drop a strategic plan, you have to
19 have a tool here that can help you think about
20 scenarios of that strategic plan. You can filter it
21 down a strategizer, well, that's a worthwhile.

1 MR. MATEA: We were trying to say -- and
2 there are whole bunch of plans out here so we can
3 evaluate whose plan is better. We are just trying to
4 say this plan, it's very predictive for the future,
5 and it has a ton of interactiveness. So there are all
6 these variables that have been baked into it. So it's
7 not just a debt model.

8 DR. SUBER: That's fine. I'm just trying
9 to figure out how it fit.

10 MR. EVANS: No

11 MR. HADDON: I understand and, Dr. Suber,
12 your questions were right on as far as where it goes
13 in the program and all that. And maybe we didn't
14 introduce it well enough in that way, but think of
15 this as my staff that I can use to help plan here,
16 that might have taken them a longer time to do it. It
17 was just efficiencies here that a lot of this stuff
18 can be created in a real-time situation.

19 MR. WATSON: And I apologize to the board,
20 when they were getting ready I was trying to say that
21 representing this, because this is what we offer

1 technical assistance, as for technical assistance, you
2 can see what's being offered. So not just technical
3 assistance is being put someplace, and nothing's being
4 done with it. So you can see that's being done with
5 technical assistance and how it's useful.

6 MR. HADDON: And we can use historical
7 data. So I don't mean you have to have all this
8 fantastic future data. It's history that is built on
9 assumptions.

10 MR. MATEA: And I think that goes to your
11 point. I agree this projection is as good as the
12 inputs, obviously any model but, for example, this is
13 the reason it's different than what most schools were
14 doing. Everybody -- you were talking about
15 development. So imagine being able to track gifts on
16 type-restricted versions versus endowment gifts and
17 being tracked by not just the corpus but how can the
18 income being used, aid, et cetera. Imagine being able
19 to fold it in, see what the answer is and take it out
20 and do a side-by-side with a different version where
21 you fold it in or take it out, sort of that quickly.

1 Imagine being able to put that development
2 campaign in place, see what the impact is, not just,
3 you know, in aggregate but across your financial
4 statements, and then at the same time fold in a new
5 dormitory project with debt and see whether or not you
6 can afford it now. And then you step down and say,
7 What was my debt capacity. Can I afford the new debt
8 relative to my peer group. Can I afford it on a
9 comparable basis. And if I can't, again, imagine
10 trying to get this out of a typical staff working a
11 full-time job. I push it out a year or two and out
12 goes the dorm project, and now can I afford it.

13 Those are the kinds of things that I think
14 if I were on this board I would want to be able to get
15 those answers, be able to do sensitive analysis. You
16 said you are going to make 50 million on your capital
17 campaign. What if it's 20. Now what happens. That's
18 a two-minute answer or a ten-second answer as opposed
19 to, you know, two months or --

20 DR. WILSON: At the six institutions, did
21 each of the six overhaul staff or were current staff

1 able to use this system?

2 MR. WATSON: Current staff.

3 DR. WILSON: In every case?

4 MR. WATSON: Yeah. There's no increase in
5 staff. That's why --

6 DR. WILSON: I'm not saying increase. I'm
7 talking about replacement.

8 MR. WATSON: Oh, no.

9 DR. SUBER: Would you send us the names of
10 the schools?

11 MR. EVANS: We are still working with each
12 one of those six schools to get the model in place
13 with their CFOs. I mean it's just -- as you know, in
14 a lot of schools the cell phones, times he or she has
15 a board meeting, I don't have enough staff. So we are
16 still working with all six schools. And Rice is
17 helping us through that process. So it's not -- Rice
18 financial, the DBA loss.

19 DR. LOSTON: I would like to say that given
20 the dialogue that we had this morning when we were
21 talking about the grant program, even though we said

1 we are going to set it aside, it's not for us I -- and
2 I am not -- this is my first time seeing your product,
3 but I would think that some form of technical
4 assistance, that would be my preference, some form of
5 technical assistance above a direct grant program if
6 we are looking at how we are going to support
7 institutions in terms of capital financing.

8 And I'm not saying that this is it, but I
9 think a model for technical assistance will be
10 preferable over championing the direct grant program
11 to prepare people to apply for a capital financing
12 scenario.

13 DR. WILSON: You are talking about putting
14 this in at that time.

15 DR. LOSTON: I didn't say this is the one,
16 but I said technical assistance to these institutions
17 that were receiving it.

18 DR. WILSON: Got you.

19 MR. WATSON: And to that level, each
20 school's level -- capital financing, and I'll just
21 give you a couple of examples, capital financing each

1 school's level of understanding of a bond process, the
2 schools who actually go on through bonds, but when you
3 sit down and have a conversation, the understanding
4 isn't there. You have some schools who understand a
5 lot.

6 We've worked with some of the top bond
7 attorney -- bond counsel firms in the country. And
8 Capital Finance is different. Although it's a bond
9 program, it's different than the other bond programs
10 you deal with. So it's technical assistance, it's
11 different for each institution. So, you know, when we
12 go down to the institution, that's why we go through
13 how the program works and that sort of thing because
14 otherwise you are trying to make something blanket for
15 everyone. It's not going to work.

16 And, see, this tool -- comment on the front
17 to see whether you need to borrow money or can borrow
18 money is a great tool for once you apply the program
19 and get accepted, one of the criteria to being -- to
20 issuing the debt you need a five-year forecast. The
21 model can be used for that. And then the model will

1 be great to ensure that you can repay this going
2 forward as you go through different scenarios of your
3 financial plan or different events come up.

4 So this model is great at any point for
5 colleges, universities.

6 MR. MATEA: And we've developed some
7 criteria along with Don to, you know, provide score
8 cards to the school, for example, on key ratios. Is
9 that expendible financial resources or operations, et
10 cetera. How are they doing and how are they doing
11 relative to their peer group or investment grade over
12 private institutions. How are they doing relative to
13 all rated HBCUs.

14 DR. WILSON: All what?

15 MR. MATEA: Rated by rating agencies in New
16 York.

17 DR. WILSON: And you exhausted financial
18 data on one --

19 MR. MATEA: The ones that are rated.

20 DR. WILSON: How many of the 105 are rated?

21 MR. EVANS: I think three, maybe five. No

1 five.

2 DR. WILSON: Okay. Oh, my.

3 MR. WATSON: No. When they say "rate" they
4 mean --

5 MR. EVANS: By Moody's, Standard and
6 Poor's. Bond rating. I think it's five. I wouldn't
7 want to -- Howard --

8 MR. TAYLOR: Do they rate public schools?

9 MR. EVANS: Yes, they do.

10 DR. SUBER: So you already have in your
11 data file all HBCUs? You have data on all 105 of
12 them?

13 MR. MATEA: No.

14 DR. WILSON: No, five.

15 MR. MATEA: No, ma'am. This is a -- this
16 is obviously a demonstration. All HBCUs -- we put
17 that in there to have this discussion. What I would
18 love to do is be able to develop a database and be
19 able to for all the HBCUs -- obviously we don't have
20 enough data right now, but as soon as we start -- I
21 mean we can collect it easy enough.

1 DR. SUBER: Ha ha. Excuse my --

2 DR. WILSON: You think --

3 - - -

4 (Unintelligible, too many speakers)

5 - - -

6 MR. EVANS: You know we talked to Dr. Lomax
7 about trying to get the data for 38 schools.

8 DR. SUBER: Good luck with that.

9 MR. EVANS: Yeah, it didn't happen.

10 DR. WILSON: You talked to him.

11 MR. MATEA: All right. Maybe that's in a
12 perfect world.

13 DR. WILSON: Data is hard to come by.

14 MR. MATEA: I agree. And that's a process
15 in making this happen, obviously, and we are in the
16 middle of the process. And I think to the extent we
17 have more and more schools doing this, and it's
18 clearly best practices, and I'll spare you any more
19 buttons and arrows at this point.

20 What we are talking about is for any given
21 school we design their model for them, come up with a

1 way to produce exactly the model they particularly
2 need, it's going to be different from school to school
3 to school, build it for them, train them how to use it
4 and move the needle in terms of how to the manage
5 their own financial affairs. That's part of the
6 process and we support the ongoing effort.

7 That's what we are talking about. And, you
8 know, we've talked about the pricing, and for what
9 it's worth, here's the client list. We actually have
10 another 25 as well, but these are the ones we are
11 active with.

12 DR. WILSON: Is that Xavier and --

13 MR. MATEA: That's in Cincinnati.

14 DR. FRANCIS: That's a small one.

15 DR. WILSON: Okay.

16 DR. FRANCIS: What claims are academic
17 people, we should -- how much more time do you need,
18 because I've got to go to allow for public comments.

19 MR. HADDON: We are -- I think we are done.
20 We wanted to show the board, we think this is a
21 powerful tool. We think even smaller schools can

1 really benefit from this type of software.

2 DR. FRANCIS: No, there's no question about
3 that. And learning the fact that you have some of the
4 schools who have capital financing now gives a degree
5 of confidence to the government about whether or not
6 they will grow, become stronger, or be able to pay
7 their loans back. And that's a great incentive. If I
8 was owing that mortgage, I would want them to do that.

9 But the other is that you can encourage
10 other people who may wish to become a part of the
11 capital financing program because this effort, this is
12 a resource for them, but they could get into the door
13 because they have got the numbers that we require.
14 They stay in the business of education by this because
15 there's no question, I think the post-secondary
16 education said we are going to be looking for schools
17 to become effective and efficient. This is the answer
18 for effectiveness and efficiency.

19 As John Wilson said, of course, you have to
20 start somewhere. And most schools would throw their
21 hands up. But if you help them develop the model,

1 then you know starting to get it together, all of this
2 is really strategic planning in its highest sense
3 where most of us don't do it at that level. But you
4 would help start this strategic planning and then show
5 how much, quote, you could get out of your money by
6 doing and knowing this.

7 And most of what we do, say, what was the
8 past; add two or three percent. Look at this and that
9 and the rest. But this -- I think John's question, I
10 knew where he was leading. What about fundraising.
11 How much money -- you can't plug this hole and say,
12 well, it's going to be five million dollars when you
13 haven't raised more than two million dollars and you
14 are going to go out on plan.

15 DR. WILSON: Or just add 50 students.

16 MR. MATEA: One of our colleges said
17 fundraising was coming in low. They said we'll add 50
18 students. They ran the model and found out they would
19 lose money adding students.

20 DR. WILSON: I got it. Yeah.

21 DR. FRANCIS: A school would be developing

1 so much information that it could answer any question
2 coming up in the future that right now we can't do.
3 Take a shot at it. But you take a shot, and hope it
4 hits, but this is much more.

5 MR. MATEA: Dr. Francis, you said exactly
6 what I would like to close with. We see this as not
7 just delivering a CD ROM and training manual. We want
8 to go on line, the offensive line for the schools.

9 And I've got to tell you, to be truthful,
10 it's a little bit of pulling teeth at times. But
11 that's what we do for a living. We are professional
12 bird doggers and try to make it happen.

13 MR. EVANS: And, Dr. Francis, we have
14 already talked to a number of schools: Alabama,
15 Tuskegee, University of Maryland Eastern shore, Morgan
16 State; we've been consistently over the last year
17 meeting with presidents and CFOs to try to share this
18 model with them. But we just thought this would be a
19 good place to get some support.

20 DR. FRANCIS: But Dr. Loston just said part
21 of what we had on our agenda, which I think we just

1 buried, is the grant program. But this is the
2 technical assistance while you are in the program
3 itself. And it's a good use of your money whether
4 it's federal, whether it's monies that come from
5 private sources and the like. But more than that,
6 more and more boards, no matter where you are, Yale,
7 Harvard, boards are going to be asking this very
8 question.

9 When you come to me with this, how can you
10 tell me more about what impact it's going to have on
11 the school.

12 MR. MATEA: Exactly.

13 DR. FRANCIS: I mean it's plain and simple.

14 All right. Now --

15 DR. TAYLOR: I was just going to say thank
16 you all, because it was actually very, very good
17 information. And kudos to you, Don, for offering it
18 as a part of the technical assistance or whatever the
19 label is for it because it's another tool. The more
20 information we can have for our schools to use, the
21 ones that participate in this program, the better off

1 all of us can be. So I hope -- I know it's pulling
2 teeth, that's why she said the best of luck on
3 getting -- but this is really viable information, so I
4 for one am going to follow up and see how we can help.
5 Because the more data, the better.

6 MR. MATEA: Absolutely. Thank you.

7 DR. FRANCIS: Thank you very much. That's
8 fine.

9 All right. Public comments?

10 MR. WATSON: If you have public comments,
11 state your name and, anybody, public comments? Just
12 one.

13 MS. HARRIS: I'm from the south so, you
14 know, I want to talk the most. And I simply wanted to
15 thank you for your diligence with regard to keeping
16 this program afloat, and also say thank you to -- for
17 the leadership that Don has provided to HBCUs.

18 Just in one case in North Carolina, I've
19 wanted to say that this program more than doubled the
20 value of the campus. It created more than 400 jobs,
21 full and part-time paying, and it also through this

1 program we were able to achieve more than 46 percent
2 minority women's business participation during that
3 construction period.

4 We had also had the opportunity to in the
5 past to do business with the same consultant used by
6 the Department of Education's Institute for
7 Educational Statistics to look at the economic impact
8 that can be seen in North Carolina and to have them
9 desegregate that for us.

10 We are in the process now of having them to
11 update that and add construction data to that. And I
12 can say that will cost you far more than \$50,000. But
13 I wanted to thank you for putting that on the agenda
14 and looking at doing that. And I also want to say
15 that when we worked a few years ago to try to get some
16 changes made in this program congressionally, what
17 made the difference for us was the fact that we had
18 done that report on the economic impact of HBCU's just
19 in North Carolina.

20 And when we went to the Congress, what the
21 Congress said to us then was simply that this was the

1 first time that an economic case had been made in
2 support of HBCUs. And if we had that type of data in
3 the past, it could have made more of a difference.

4 The other thing that they said to me during
5 that time, and I would ask that you really hear this
6 point, was that sometimes we did not get any more for
7 our communities than we did because we did not ask.
8 We were sometimes often our own greatest limiter, for
9 lack of a better way of saying it.

10 And the last thing that I remember that
11 Senator Kennedy said to us was nobody put these
12 limitations on you and told you you had to pick and
13 choose. But within the HBCU community, we did that.
14 So I would ask that we look at what we really do need
15 and what would really make the difference for the
16 program, and you put all of that on the table and not
17 limit yourselves in doing so.

18 I would secondly like to recommend that
19 when it comes to conversations about the pooled
20 escrow, about the pre-payment penalty and new markets
21 tax credits, I'd like to recommend that you call

1 together a work group that at least will consist of
2 the leadership of the coalition, of HBCU community
3 development corporations, the Center for Responsible
4 Lending, and the National Community to Reinvestment
5 Coalition, that you bring those three groups to the
6 table who are accustomed to dealing with new market
7 credits and also have been the leaders in making and
8 assuring there was effective changes in Treasury
9 programs and statutes.

10 They have had tremendous success. And as
11 you know some of -- one or two of those individuals
12 are members of our board, my board of directors. And
13 so we've been able to encourage you to your research
14 on responsible lending, NCRSC, and also invite the CDC
15 coalition HBCUs to the table.

16 My last two recommendations in that five
17 minutes that Don gave me was that I would like to ask
18 you to put the public comment period on the front end
19 of the agenda and not the back end because each time,
20 I think this is my fourth time, most people are
21 already gone. And if they are not gone, you surely

1 don't have their full attention.

2 DR. FRANCIS: We'll put it in the middle.

3 MS. HARRIS: Okay. And you can limit that
4 time, do whatever that is, but I would ask that you do
5 that.

6 And then my last comment is with regard to
7 the last presentation that you just had. I would
8 encourage that you give consideration, that the
9 Department of Education give consideration to
10 transparency, and to clear -- to assure that there are
11 no conflicts of interest so that when we talk about
12 designated bond authority, you bid out that; but also
13 when it comes to the technical assistance, I think
14 there should be different entities doing that.

15 Someone could look at this as a conflict of
16 interest. So I would ask that you give consideration
17 to disinterested third parties providing technical
18 assistance. I have no interest in this work. I am
19 not looking for a contract.

20 My only interest is that I can look at my
21 community, particularly in the south, and I realized

1 that we have some tremendous challenges in terms of
2 economic health. HBCUs are critical, and I think more
3 important today than they have been in any time in the
4 last 30 years. And they are tremendous economic
5 engines.

6 And I do think that for this program, if we
7 look at making sure that we had contracts for -- we
8 bid it out to technical assistance contracts, but that
9 there was a clear language so that there was no
10 conflict of interest in the work that's done between a
11 bond authority and the TA provider. And I thank you
12 for the two minutes.

13 DR. FRANCIS: Thank you. Very helpful.

14 MR. WATSON: Any more public comments?

15 DR. FRANCIS: And we are going to put it in
16 the middle, not at the end, but not at the beginning.

17 MS. HARRIS: Yes. All right.

18 MR. WATSON: Doesn't look like we have any
19 more comments. Shall we turn to adjournment, if you
20 wish?

21 DR. FRANCIS: We will declare that the

1 meeting has been adjourned at 2:15. And we thank
2 everybody for coming and for a good meeting, full
3 meeting. And hopefully it will move us further and
4 further up the ladder, not down. Thank you very much.

5 - - -

6 (The proceedings are adjourned at 2:15 p.m.)

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1 CERTIFICATE

2

3 I, ELIZABETH MINGIONE, NOTARY PUBLIC,

4 HEREBY CERTIFY THAT THE FOREGOING TRANSCRIPT IS A TRUE

5 AND CORRECT RECORD OF THE TESTIMONY OF THE WITNESSES

6 AND STATEMENTS OF THE ARBITRATORS, COUNSEL AND THE

7 PARTIES TO SAID PROCEEDING. THAT I AM NEITHER COUNSEL

8 FOR, RELATED TO, NOR EMPLOYED BY ANY OF THE PARTIES TO

9 THE ACTION; AND, FURTHER, THAT I AM NOT A RELATIVE OR

10 EMPLOYEE OF ANY ATTORNEY OR COUNSEL EMPLOYED BY THE

11 PARTIES HERETO, NOR FINANCIALLY OR OTHERWISE

12 INTERESTED IN THE OUTCOME OF THE ACTION.

13 IN WITNESS WHEREOF, I have hereunto set my

14 hand this _____ day of _____, 20____.

15

16

17 _____

18 NOTARY PUBLIC IN AND FOR THE

19 DISTRICT OF COLUMBIA

20 My Commission Expires:

21 May 14, 2015