

HISTORICALLY BLACK COLLEGE AND UNIVERSITY CAPITAL FINANCING ADVISORY BOARD

Executive Director's Report Advisory Board Meeting November 13, 2023

I am pleased to present my report on the Historically Black College and University (HBCU) Capital Financing Program.

IMPROPER PAYMENT RISK ASSESSMENT-CREDIT PROGRAMS

The program has completed its third risk assessment, from fiscal years (FY) 2021 through 2023, under Office of Management and Budget's (OMB) Circular A 123 Appendix C as part of the Payment Integrity Information Act. In all three years, we were low risk in six of the eight areas being reviewed. The six areas of low risk included age of the program, history of audit issues, human capital, eligibility determination, complexity of program, and fraud. The two areas rated high risk were a result of an increase in congressional appropriations for deferments, loan forgiveness, and lending authority. We were flagged high risk because the volume of payments and a change in program funding, authority, and procedures could cause improper payments. I am happy to say that there were no improper payments in any of the years that were flagged. In fact, the pre-risk assessment was recently completed and is expected to have all areas rated as low risk in FY 2024.

GOVERNMENT ACCOUNTABILITY OFFICE

The program continues to provide the Government Accountability Office (GAO) with information and responses to GAO based on its recommendations to the Department regarding barriers that might be facing HBCUs when financing capital projects. GAO made two recommendations to the Department.

The first recommendation, which addressed direct outreach to individual HBCUs and steps to address participation challenges for some public HBCUs in its outreach plan was satisfied and closed. The Outreach Plan is a combination of actions including—

- The designated bonding authority sending semiannual newsletters to the HBCU community;
- As resources permit, the Department will present information about the program at State Bond Commissions and Board of Regents meetings and convenings of State Higher Education Officials and provide technical assistance to States that request it, as they work to make state legislative changes, and visit smaller institutions to walk them through the process qualifications for bond financing; and

- As resources permit, Program staff will continue attending events hosted White House Initiative on HBCUs, Title III Administrators, Thurgood Marshall College Fund, the United Negro College Fund, and the National Association for Equal Opportunity in Higher Education to provide program updates and other information.

However, the second recommendation, which asked the Department to analyze the potential benefits and costs of offering loan modifications in the program is still open. Without performing any analysis, a key component for delinquency or default for an institution participating in the HBCU Capital Financing Program is a drop in revenue. This drop is usually caused by a change in accreditation status, loss or change in financial aid status, or a natural disaster. All these elements impact enrollment. At the time of borrowing none of these factors are in place except for the Katrina affected institutions which had special provisions tied to issuing those loans. I will note that under the Consolidated Appropriations Act, 2021, Congress forgave loans to the institutions that received deferments in fiscal year 2018. Most of the institutions had already made debt service payments through June of 2018, which means the effect of the deferment for FY 2018 was not realized until FY 2019. Then, those institutions as well as the Nation was adjusting operations because of the COVID-19 pandemic for fiscal year 2020. As such, there is not relevant data to formulate a trend or to perform any meaningful analysis that will allow the Department to calculate any concrete benefits or even lose assumptions on the effect of deferments. As the Executive Director of the HBCU Capital Financing Program stated, to GAO during the interview, this is a bond program for which every institution will not receive a loan even with the low interest rates. Obtaining debt through this program is not unlike obtaining debt anywhere else, not everyone is eligible to borrow.

LOAN FORGIVENESS

As previously mentioned, the Consolidated Appropriations Act of 2021 provided for the Department to pay the outstanding balance of principal, interest, and fees for any program borrower with a balance as of December 27, 2020. This action resulted in 45 institutions receiving more than \$1.6 billion in full or partial loan forgiveness of principal, interest, and fees as well as the return of approximately \$182 million in Indentured funds related to loans that received full forgiveness.

PROGRAM ACTIVITIES

Scheduling of loan closings are based on approval of an Administration's budget and apportionment by OMB.

Here are some of the HBCU Capital Financing Program's activities:

	FY2019	FY2020	FY 2021	FY2022	FY2023
Number of Schools	5 (4 private, 1 public)	5 (3 private, 2 public)	5 (2 private, 3 public)	3 (3 private, 0 public)	6 (2 public; 4 private)

Amount Funded	\$94.2MM	\$213.1MM	\$161.6MM	\$68.0MM	\$222.0MM
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Annual loan capacity for FY 2019 was \$212 million. In this regard funds were provided to *Morgan State University, Southern University at Baton Rouge, Florida A and M University, and Alabama A and M University.*

Annual loan capacity for FY 2020 was \$220 million. These funds were provided *Florida Memorial University, University of the Virgin Islands, Johnson C Smith University, Xavier University of New Orleans, and Meharry Medical College.*

Annual loan capacity for FY 2021 was \$270 million. These funds were provided to Morgan State University, Morehouse School of Medicine, West Virginia State University, Bethune Cookman University, and Southern University at Baton Rouge.

Annual loan capacity for FY 2022 was \$274million. These funds have been provided to Miles College, Meharry Medical College, Fisk University.

Annual loan capacity for FY 2023 is \$752 million. The following institutions received loans: Dillard University, Morgan State University, Virginia Union University, Howard University, and Morehouse College, and University of the Virgin Islands.

The Program has 14 active construction projects at the following institutions: Morehouse College, Howard University, Virginia Union University, Morgan State University, Dillard University, Fisk University, Meharry Medical College, Southern University at Baton Rouge, Bethune Cookman University, Xavier University of Louisiana, Alabama A &M University, and University of the Virgin Islands.

For FY 2024, as of the date of this report, nine additional institutions have expressed verbal or written interest in borrowing through the Program. Four are public and five are private institutions. At this date, all institutions appear to have eligible projects. However, a financial analysis has not been performed to see if the institutions can support their requested loan amounts. These HBCUs would be requesting loan amounts that range between \$30 million and \$90 million.

PORTFOLIO

Current—

The current portfolio after loan forgiveness is as follows—

- \$1.0 billion active loans in repayment or construction stage.
- 14 HBCUs (5 public HBCUs and 9 private HBCUs).
- \$13 million to \$227 million is the loan range.
- 17 issuances remaining to be paid.
- 14 active construction projects.