

Responses to the HBCU Capital Financing Advisory Board's September 24, 2012 Recommendations

1. Eliminate Pooling

Recommendation:

The Board understood that the Department had worked with the Office of Management and Budget to put a provision in the Pell Protection Act that would provide borrowers with the option of choosing the current escrow program or a new escrow program. The new escrow program will have a percentage add-on. The percentage add-on would be in addition to the current interest rate that borrowers receive. However, the actual add-on amount had not been determined. In addition, the escrow provision did not make it in the final bill. The Board wants to continue pursuing this option.

Response:

The Department continues to look at this recommendation and will revisit this with its Budget office for the 2016 and 2017 budget requests. In addition, the Department has been exploring whether this change can be done through a legislative vehicle.

2. Lower Interest Rates

Recommendation:

Initially, the Board recommended that interest rates were reduced in two specific instances—temporarily lowering the interest rate for a defined time period for renovation and construction and lowering the interest rate for academic structures related to science, technology, and engineering, and health-related fields of study (medicine, nursing, dentistry, allied health).

The Board wants to continue pursuing lower the interest rate for STEM related academic facilities would further assist HBCUs in assisting our nation in providing well-qualified diverse STEM professionals. HBCUs prepare students in every field of science, engineering, technology, health, and at every level of mathematics in current facilities. HBCUs are graduating upwards of 40% of African Americans in these growth and high need disciplines. Even more students would be expected to enroll, persist, and graduate in these disciplines if more are able to have state of the art facilities as HBCUs move America to becoming number one in the world.

The Board also understands the cost associated with providing lower the interest rate for STEM related academic facilities and wanted subsidy that in addition to the subsidy provided for making loans. The Congress would need to provide the following amounts of loan subsidy:

- at 1% interest rate cap \$146 million above current subsidy amount is needed, and
- at 2% interest rate cap: \$146 million above current subsidy amount is needed

Response:

The Department continues to look at this recommendation and will revisit this with its Budget office for the 2013 and 2014 budget requests.

3. New Market Tax Credits

Recommendation:

The Board recommended that the Department explore the feasibility of utilizing New Market Tax Credits in relation the HBCU Capital Finance Program.

Response:

The Program met with staff of the Department of Treasury's Community Development Financial Institutions Fund to discuss possible ways to make new Market Tax Credits work with the HBCU Capital Financing Program. We both came to the conclusion that the two programs will only work if Capital Financing Program statute changed to allow leverage borrowing for New Market Tax Credits as an eligible capital project.

4. Disaster Relief Grant Program

Recommendation:

The Board recommended that a Disaster Relief Grant Program be made available to HBCU Capital Finance participants forced to close its doors due to a certified natural disaster. However, more detail was needed before the Board could take a vote on this recommendation. The Board asked the Program to provide greater details of how this grant program would work.

Response:

In section 824 of the Higher Education Act, as amended, there is a Disaster relief loan program. That program would permit loans to be made, subject to appropriations, to institutions of higher education after the declaration of a major disaster or emergency by the President. The loans could be used for construction, replacement, renovation, and operating costs resulting from a major disaster or emergency. The statute requires the Secretary to prescribe regulations that establish the program including the terms of the loan program, the procedures for applying for a loan, minimum requirements for receiving a loan. However, The Capital Finance Program used the contents of this legislation to develop the framework for a Disaster Relief Grant Program. I have attached a copy of that framework.

5. Economic Impact Study

Recommendation:

The Board recommended that the Department provide funding through federal sources to perform economic impact studies to show how useful Capital Finance is.

Response:

The cost projections for this studying are still being reviewed. However, if such a study is done, it would require an increase in the Capital Financing Program's administration cost.