
October 2006

CAPITAL FINANCING

Department Management Improvements Could Enhance Education's Loan Program for Historically Black Colleges and Universities





Highlights of GAO-07-64, a report to congressional requesters

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Why GAO Did This Study

Historically Black Colleges and Universities (HBCU), which number around 100, undertake capital projects to provide appropriate settings for learning, but many face challenges in doing so. In 1992, Congress created the HBCU Capital Financing Program to help HBCUs fund capital projects by offering loans with interest rates near the government's cost of borrowing. We reviewed the program by considering (1) HBCU capital project needs and program utilization, (2) program advantages compared to other sources of funds and schools' views on loan terms, (3) the Department of Education's (Education) program management, and (4) certain schools' perspectives on and Education's plan to implement loan provisions specifically authorized by Congress in June 2006 to assist in hurricane recovery efforts. To conduct our work, we reviewed applicable laws and program materials and interviewed officials from federal agencies and 34 HBCUs.

What GAO Recommends

We recommend that Education (1) comply with the law by regularly convening and consulting its Advisory Board, (2) improve school communications, (3) allow semiannual repayments, (4) properly account for costs in conformance with the law, and (5) formally monitor its contractor. Education agreed with our findings and four of the five recommendations made in this report. The department disagreed with our third recommendation. We continue to believe Education should allow semiannual repayments.

www.gao.gov/cgi-bin/getrpt?GAO-07-64.

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What GAO Found

HBCU officials we interviewed reported extensive and diverse capital project needs, yet just over half of available loan capital (\$375 million) has ever been borrowed. About 23 HBCUs have taken steps to participate in the program, and 14 have become borrowers. Education has collected and reported limited data on the program's utilization and has not established performance measures or goals to gauge program effectiveness, though Education officials noted they are developing measures and goals.

The HBCU loan program provides access to low-cost capital financing and flexibilities not always available elsewhere, but some loan terms and conditions discourage participation, though school officials said they remain interested in the program. The low interest rate and 30-year repayment period were regarded favorably by participants and nonparticipants alike, and the program makes funds available for a broader range of needs than some federal grant programs. However, the requirement to place in a pooled escrow 5 percent of loan proceeds—an insurance mechanism that reduces federal program costs due to any program borrower's potential delinquency or default—monthly payments versus semiannual ones traditionally available from private sources of loans, and the extent to which some loans have been collateralized could discourage participation.

While Education has taken steps to improve the program, significant weaknesses in its management control could compromise the program's effectiveness and efficiency. Education has recently provided schools with both fixed and variable interest rate options, allowed for larger loans, and afforded more opportunities to negotiate loan terms. Also, Education has increased its marketing efforts for the program. However, Education has not established effective management control to ensure that it is (1) communicating with schools in a useful and timely manner, (2) complying with statutory requirements to meet twice each year with an advisory board composed of HBCU experts and properly account for the cost of the program, and (3) monitoring the performance of the program's contractor.

Officials from 4 HBCUs in Louisiana and Mississippi told us that in light of the extensive 2005 hurricane damage to their campuses, they were pleased with certain emergency loan provisions but concerned that there would not be sufficient time to take advantage of Education's authority to waive or modify the program provisions. School officials from the 4 schools noted that their institutions had incurred extensive physical damage that was caused by water, wind, and, in one case, fire, and that the full financial impact of the hurricanes may remain unknown for years. Although Education officials told us that they have not yet determined the extent to which the authority under the emergency legislation to waive or modify program provisions for hurricane-affected institutions would be used, the department would be prepared to provide loans to hurricane-affected HBCUs.

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Abbreviations

APPA	Association of Higher Education Facilities Officers
DBA	designated bonding authority
FCRA	Federal Credit Reform Act
FEMA	Federal Emergency Management Agency
FFB	Federal Financing Bank
HBCU	Historically Black Colleges and Universities
HEA	Higher Education Act
NACUBO	National Association of College and University Business Officers
NAFEO	National Association for Equal Opportunity in Higher Education
NASULGC	National Association of State Universities and Land Grant Colleges
OMB	Office of Management and Budget
SACS	Southern Association of Colleges and Schools
SBA	Small Business Administration
UNCF	United Negro College Fund

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**United States Government Accountability Office
Washington, DC 20548**

October 18, 2006

The Honorable Dale E. Kildee
Ranking Minority Member
Subcommittee on 21st Century Competitiveness
Committee on Education and the Workforce
House of Representatives

The Honorable Major R. Owens
House of Representatives

The nation's Historically Black Colleges and Universities (HBCU), like many of the approximately 6,500 other institutions of higher education in the country,¹ undertake capital improvements, including renovating existing or constructing new instructional facilities, to provide their students appropriate settings for learning and social development. Many HBCUs, which number around 100 schools, face numerous challenges in funding capital projects because they have relatively small enrollments, limited endowments, and face other financial constraints. Despite these challenges, HBCUs have distinguished themselves by granting a substantial portion of the degrees earned by African-Americans. For example, in school year 2003-2004, HBCUs granted about 13.5 percent of all degrees earned by African-Americans while constituting only 1.5 percent of the nation's postsecondary institutions.

To help these schools fund capital projects, Congress created the HBCU Capital Financing Program in 1992 under the Higher Education Act of 1965 (HEA) to provide eligible HBCUs with access to low-cost financing. The Department of Education (Education) is responsible for overall program management and is expected to regularly consult with the HBCU Capital Financing Advisory Board (Advisory Board). The Advisory Board is composed of the Secretary of Education, or the Secretary's designee, presidents of private and public HBCUs, and other experts on HBCUs. Operation of the program is contracted to a designated bonding authority (DBA) that, among other lending functions, raises funds by issuing bonds for purchase by the Federal Financing Bank (FFB)—a government

¹ These are institutions recognized by the Department of Education as accredited institutions eligible for participation in federal student financial aid programs.

corporation under the supervision and direction of the Department of Treasury (Treasury) that assists federal agencies in financing agency-issued or agency-guaranteed securities. Funds raised are subsequently lent to eligible HBCUs at an interest rate slightly above the government's cost of borrowing to finance qualified capital projects. As part of its responsibilities in managing a federal credit program subject to the Federal Credit Reform Act of 1990 (FCRA), Education is required to determine the net cost to the government of extending credit over the life of a loan—the subsidy cost—in the year the loan is made. Congress must provide Education with budget authority to cover these costs before loans are provided to HBCUs. Since the program was first funded, appropriations legislation has, in general, limited the subsidy costs of the HBCU capital financing to no greater than zero.

In August of 2005, the campuses of some HBCUs in the Gulf Coast were severely damaged by Hurricane Katrina or Rita. To assist these HBCUs in their recovery efforts, in June 2006, Congress, in the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006 (Emergency Act), amended certain statutory provisions for institutions affected by the Gulf Coast hurricane disasters and granted the Secretary of Education the authority to waive or modify any statutory or regulatory provisions of the program in connection with a Gulf Coast hurricane disaster. In addition, the Emergency Act provides that the authority to enter into, waive, or modify the terms of a loan agreement expires 1 year after the legislation's enactment.

In light of the upcoming reauthorization of the Higher Education Act, you had questions about the utilization of the program and Education's management of the program. To address your interests, we reviewed the program by considering (1) the capital project needs of the nation's HBCUs and the extent to which HBCUs have used the program; (2) the relative advantages of the program, if any, compared with other sources of funding, and schools' perspectives on the loan terms and conditions; (3) whether Education's administration and management of the program ensures program effectiveness; and (4) schools' perspectives on the emergency loan provisions of the Emergency Act and Education's plans for implementing them.

To conduct our work, we reviewed and analyzed applicable laws and regulations as well as program data and documents pertaining to program participation, program policies, and agreements among Education, the DBA, the FFB, and participating schools. We also reviewed the methods

and procedures—management controls—Education had in place or was planning to implement to manage the program. To provide some context for understanding HBCUs' capital project needs, we analyzed available national studies concerning such needs of postsecondary institutions and HBCUs in particular. In addition, we reviewed alternative capital funding sources, including private sector financing and federal grants available to HBCUs and asked schools how these sources or funding options compare to the program. We interviewed officials representing Education, its DBA, the Advisory Board, the FFB, the Office of Management and Budget (OMB), the Small Business Administration (SBA), associations knowledgeable about HBCUs, and the Bond Market Association. We conducted semistructured interviews with 34 HBCUs. (See app. I.) We interviewed all 13 program participants that originated loans prior to 2006, and a purposive sample of 21 nonparticipants. We selected nonparticipating schools based on (1) location, (2) type (2-year and 4-year, public and private), and (3) enrollment size. Our selection of nonparticipating schools was made to obtain a variety of institutional perspectives and was not intended to be representative. During the course of our review, we conducted site visits to 5 schools,² 3 of which were institutions affected by the hurricanes in 2005,³ and the other 2 institutions were program participants. Our interviews with program participants also included another institution affected by the 2005 hurricanes. We conducted our work from May 2005 to August 2006 in accordance with generally accepted government auditing standards.

Results in Brief

HBCU officials we interviewed reported extensive and diverse capital project needs, including construction and renovation of facilities and addressing deferred maintenance, yet just over half of the available HBCU Capital Financing Program loan capital has been borrowed. While capital project needs have not been well documented by national studies, the schools have individually identified and documented them. Despite reported needs, only 14 schools became borrowers—borrowing about \$200 million, well below the \$375 million limit Congress established. Education has collected and reported limited information on the program's utilization and has not established performance measures or

² Schools we visited included Barber-Scotia College, Dillard University, Southern University at New Orleans, Tuskegee University, and Xavier University.

³ A total of 8 HBCUs were affected by the 2005 hurricanes.

goals to gauge program effectiveness, though Education officials noted that they are currently working on developing such measures and goals.

The program provides access to low-cost capital financing and flexibilities not always available elsewhere, but some loan terms and conditions could discourage participation, though school officials said they remain interested in the program. Participants and nonparticipants alike looked favorably on low interest rates and long repayment periods (up to 30 years) offered by the program and noted that these may not be available in the private market for some borrowers. Further, while HBCUs may qualify for a variety of federal grants for capital projects, school officials said that the program makes funds available for a broader range of needs. However, school officials found that certain provisions of the program have discouraged participation. In particular, many officials remarked that the requirement that they place in a pooled escrow account 5 percent of loan proceeds was a disincentive to participate in the program. The escrow funds, which reduce the federal budget cost of the program by offsetting the estimated costs of any program borrower's loan delinquency or default, are returned to program participants if no such losses occur. The recent default of one borrower, however, has heightened awareness among participants of the financial risk for them inherent in the pooled escrow arrangement. Though not as prevalent a concern, Education's requirement for monthly loan repayments was viewed by some as an undue burden, given that the DBA remits these payments to the FFB semiannually. Although the range of capital projects permissible under the program is wider than that offered through some federal grant programs we reviewed, many school officials would like to see additional projects funded, such as multipurpose community centers and campus beautification projects. While concerns were noted, many schools expressed an interest in participating again or for the first time, provided that certain program improvements were made.

While Education has taken some steps to improve the program, we found significant weaknesses in its management controls that compromise the extent to which Education can ensure program objectives are being achieved effectively and efficiently. Specifically, with respect to program improvements, Education has recently provided schools the choice of fixed or variable interest rates, allowed for larger loan amounts, and afforded more opportunity for schools to negotiate loan terms that appealed to schools. In addition, Education has increased marketing of the program. However, Education has not established effective management control in several areas, including

-
- *Communication with HBCUs:* Several HBCU officials reported that they lacked clear, timely, and useful information from Education and the DBA. For example, several officials said they did not receive updates about the status of their loans. For some schools, the process of getting the loan took more than a year. As a result of the lengthy process, capital project costs for some schools increased. School officials told us that the process could have been expedited had Education and the DBA made use of previous borrowers' experiences to apprise them of problems that could affect their own applications.
 - *Compliance with laws and regulations:* Despite a statutory requirement that the Advisory Board meet with and advise the Secretary of Education at least twice each year, the Advisory Board has met only three times in the last 12 years. In addition, Education has not complied with requirements of the Federal Credit Reform Act of 1990. In particular, Education has not properly accounted for the costs of the program because it has excluded certain fees paid by borrowers to the government from its cost estimates, thereby overestimating program costs. Moreover, Education has allowed the DBA to collect and hold in trust fees paid, but has not established policies or procedures for the DBA concerning how it is to remit these funds to the government.
 - *Monitoring the program contractor:* Although the DBA has been under contract with Education for over 5 years, it has not been formally assessed for performance. Also, Education has not monitored the marketing activities of its DBA to ensure that loans are being fairly allocated among as many eligible institutions as possible. Because the DBA's compensation is determined as a percentage of the amount borrowed, and the costs it incurs may not vary significantly from loan to loan, it is important to monitor its activities to ensure it is not making loans exclusively to schools that are likely to borrow larger amounts and for which its potential for profit is highest. Additionally, we found several instances of poor record keeping by the DBA, including missing key loan documentation, and until our review, Education was unaware that such documents were missing.

HBCU officials whose campuses were affected by the hurricanes expressed satisfaction with the special loan provisions but had concerns about the time allowed to take advantage of them, while Education officials told us they are taking steps to evaluate the department's loan processes. School officials from the 4 schools we spoke with noted that their institutions had incurred extensive physical damages caused by water, wind, and, for one school, fire. Many of these officials said that they have not been able to fully assess all hurricane-related costs, such as

replacing property, repairing plumbing systems, landscaping, and replacing sidewalks, and that the assessment process was lengthy because of the time required to prioritize campus restoration needs, undertake complex assessments of historic properties, follow state assessment processes, and other factors. They noted that the difficulties they face in making their assessments may make it challenging for them to apply prior to the expiration of the specially authorized provisions. School officials appreciated the reduced interest rate and cost of issuance (both set at 1 percent or less) and that the Secretary of Education was provided authority to waive or modify statutory or regulatory provisions for affected institutions to better assist them with their recovery. Although Education officials told us that they have not yet determined the extent to which the department would make use of its authority to waive or modify program provisions, including statutory loan limits, the department would be prepared to provide loans to hurricane-affected HBCUs. They noted that the department has already notified eligible institutions of the availability of funds and would hold additional meetings with schools to gain an understanding of their capital improvement and restoration needs.

In this report we are making several recommendations to the Secretary of Education to ensure that the department is complying with provisions of the Higher Education Act of 1965 and the Federal Credit Reform Act of 1990. Furthermore, Education should also implement a number of program improvements, such as revising the repayment frequency for HBCUs and increasing monitoring of the DBA to ensure program effectiveness and efficiency.

In written comments on a draft of this report, Education agreed with our findings and all but one of our recommendations. Education's written comments appear in appendix IV. Education also provided technical comments, which we incorporated where appropriate.

Background

Congress established the HBCU Capital Financing Program in 1992 under Title III, Part D, of the Higher Education Act of 1965, as amended, to provide HBCUs⁴ with access to low-cost capital to help them to continue

⁴ For purposes of this program, the Higher Education Act of 1965, as amended, generally defines an HBCU as a college or university that was established before 1964, whose principal mission was and is the education of Black Americans, and is accredited or making reasonable progress toward accreditation by an accrediting agency or association recognized by Education.

and expand upon their educational missions. (See app. II for locations of HBCUs eligible to participate in the program.) Program funds, raised through bonds issued by the DBA and purchased by the FFB, are lent to eligible schools with qualified capital projects.⁵ Loan proceeds may be used for—among other things—repairing, renovating, or in exceptional circumstances, constructing and acquiring new instructional or residential facilities, equipment, or research instrumentation. Additionally, schools are able to refinance prior capital loans. Education guarantees loan repayment.

Program Description

Although Education administers the program, the DBA is responsible for many of the program's operations and is subject to departmental oversight.⁶ Specifically, the DBA works with prospective borrowers to develop loan applications and monitors and enforces loan agreements. The loan process consists of multiple steps. HBCUs interested in obtaining funds through the program must first complete a preliminary application that includes information such as enrollment, some financial data—including a description of existing debt—and proposed capital projects. On the basis of this information, the DBA determines whether the school should formally complete an application, which includes more detailed financial information, such as audited financial statements and various campus plans and assessments. To be approved for the loan, an HBCU must satisfy certain credit criteria and have qualified projects. Once the DBA determines a school's eligibility status, a memorandum is sent to Education for final approval. When approved, the loan goes through a closing process during which certain terms and conditions may be negotiated. Table 1 describes key loan terms and conditions to which schools are subject.

⁵ Funds can also be raised through the private market. However, to date, Education has used only the FFB to finance the loans.

⁶ Education has had two DBAs. The current DBA, Commerce Capital Access Program Corporation, was selected by Education in 2001. The first DBA, selected in 1994 and terminated in 2000, was Educational Direct Loan Mortgage Company and Pryor, McClendon, Counts and Company.

Table 1: Key Terms and Conditions for HBCU Capital Financing Loans

Loan term	Description
Life of loan	Loan maturity can be for 30 years or less.
Interest rates	Schools may choose either variable or fixed interest rates for loans. Interest rates are generally based on the government's cost of borrowing. The FFB adds a surcharge of 1/8 th of 1 percent per year to cover federal administrative expenses. While the FFB levies the surcharge, Education is responsible for collecting it.
Escrow	By law, schools are required to place 5 percent of the outstanding loan balance in an escrow account to cover risks against delinquency and default. Funds held in escrow are pooled and available to cover the costs of any program borrower's delinquent or defaulted loan.
Other fees	By law, the cost of bond issuance is limited to no more than 2 percent of the loan (including the DBA's origination fee—currently set at 1.25 percent).
Collateral	Schools must provide collateral to obtain loan funds.
Disbursement	Loan disbursements are made incrementally as projects progress.
Repayment	Borrowers repay their loans monthly to the DBA, which in turn remits loan repayments to the FFB semiannually. The law requires that borrowers make payments to the DBA at least 60 days prior to the date for which payment on the bonds is expected to be needed.
Other	Each year, schools are required to submit financial statements for the DBA's review.

Source: GAO analysis.

Federal Credit Reform Act of 1990

The Federal Credit Reform Act of 1990, along with guidance issued by OMB and accounting standards, provides the framework agencies are to use in calculating the federal budget costs of federal credit programs, such as the HBCU Capital Financing Program. The two principles of credit reform are defining subsidy cost and requiring that budget authority to cover these costs be provided in advance before new loan obligations are incurred. OMB is responsible for coordinating the estimation of subsidy costs. Subsidy costs are determined by calculating the net present value⁷ of estimated cash flows to and from the government that result from providing loans and loan guarantees to borrowers. (Guaranteed loans that are financed by the FFB are treated as direct loans for budgetary purposes, in accordance with FCRA.) Cash flows for direct loans include, for example, loan disbursements to borrowers and borrower repayments of principal and payments of interest to the government. Estimated cash flows are adjusted to reflect the risks associated with potential borrower

⁷ "Present value" is the worth of future streams of returns or costs for a program in terms of money paid immediately. In calculating present value, future amounts are converted into their "money now" equivalents using a discount rate. The discount rate is determined by OMB and is generally the average annual interest rate for marketable zero-coupon U.S. Treasury securities with the same maturity from the date of disbursement as the cash flow being discounted.

delinquencies and defaults, and estimates of amounts collected on defaulted loans. Subsidy costs can be positive or negative. If the net present value of cash outflows exceeds the net present value of cash inflows, the government incurs a positive subsidy cost. On the other hand, the government realizes a gain in revenue if there is a negative subsidy. Since the program was established, appropriations legislation has, in general, limited the subsidy costs of the program to be no greater than zero. In addition, the legislation authorizing the program established a credit authority limit of \$375 million; of this amount, private HBCUs are collectively limited to borrowing \$250 million, and public HBCUs are collectively limited to borrowing \$125 million.

2005 Gulf Coast Hurricanes and Disaster Assistance

Over a period of 2 months in 2005, three hurricanes struck the Gulf Coast region of the United States, resulting in more than \$118 billion in estimated property damages.⁸ Two of these hurricanes, Katrina and Rita, struck New Orleans and surrounding areas within a month of each other, resulting in significant damages to several institutions of higher education in the region and including the campuses of several HBCUs,⁹ including Dillard University, Southern University at New Orleans, and Xavier University, in Louisiana, and Tougaloo College, in Mississippi. (See app. III for locations of the 8 hurricane affected HBCUs.)

In June 2006, Congress passed the Emergency Act which, among other things, amends the HBCU Capital Financing Program to assist hurricane-affected HBCUs in their recovery efforts. To be eligible, a school must be located in an area affected by a Gulf Coast hurricane disaster and demonstrate that it (1) incurred physical damage resulting from Hurricane Katrina or Rita; (2) has pursued other sources of compensation from insurance, Federal Emergency Management Agency (FEMA), or the Small Business Administration, as appropriate; and (3) has not been able to fully reopen in existing facilities or to the levels that existed before the hurricanes because of physical damage to the institution. Key provisions include a lowered interest rate and cost of issuance (both set at 1 percent or less), elimination of the escrow, and deferment of principal and interest

⁸ That is, Hurricanes Katrina, Rita, and Wilma, which have been collectively referred to as the Gulf Coast hurricanes.

⁹ Four HBCUs in Mississippi and Alabama (Jackson State University, Alcorn State University, Bishop State Community College, and Hinds Community College-Utica Campus) also reported damages to property totaling \$4.5 million.

payments from program participants for a 3-year period. The Emergency Act also provides the Secretary of Education with authority to waive or modify any statutory or regulatory provisions related to the program in connection with a Gulf Coast hurricane disaster.

Disaster Assistance Agencies

FEMA assists states and local governments with the costs associated with disaster response and recovery efforts that exceed a state or locale's capabilities. Grants are also provided to eligible postsecondary educational institutions to help them recover from the disaster. Some institutions of higher education are subsequently provided with referrals to SBA when seeking assistance from FEMA. For private, nonprofit institutions, SBA's disaster loans are designed to be a primary form of federal assistance. Unlike their public counterparts, private colleges must apply for low-interest, long-term disaster loans prior to seeking assistance from FEMA. Schools may apply for SBA loans, and the aggregate loan amount cannot exceed \$1.5 million. In general, the loan terms for each loan include a maximum of 30 years for repayment with interest rates of at least 4 percent.

HBCUs Reported Substantial Capital Project Needs, but Only About Half of Available Program Funds Have Been Borrowed

HBCU officials we interviewed reported extensive and diverse capital project needs, including construction and renovation of facilities and addressing deferred maintenance, yet just over half of the available program loan capital has been borrowed. While HBCU capital project needs are not well documented by national studies, the schools themselves have individually identified and documented them. Despite reported needs, only about a quarter of HBCUs have taken steps to participate in the program, and about half of these HBCUs became borrowers. Education has collected and reported limited information on the program's utilization and has not established performance measures or goals to gauge program effectiveness, though Education officials noted that they are currently working on developing such measures and goals.

HBCUs Reported Having Substantial Capital Project Needs, although Such Needs Are Not Well Documented in National Studies

There are few national studies that document the capital project needs of HBCUs, and they do not provide a current and comprehensive national picture. The four that we identified and reviewed are more than several years old, narrowly scoped, or had limited participation.¹⁰ Specifically, the studies are between 6 and 17 years old, and two studies focused only on specific types of need—renovation of historic properties and campus wiring for computer networks.¹¹ One study that addressed a broader range of needs and was among the most recent had a low response rate—37 percent.

Despite the lack of national studies, schools that we interviewed reported extensive, diverse, and ongoing capital project needs. School officials reported that they routinely conduct facility assessments¹² as part of their ongoing strategic planning and that these assessments help determine the institutions' short- and long-term capital needs. They said that capital projects, including the construction of new dormitories, renovation of aging or historic facilities, repair of infrastructure, and addressing long-standing deferred maintenance are needed for a variety of reasons. New facilities such as dormitories and student centers are often needed as a result of enrollment growth, for example, while modernization of existing facilities is needed to accommodate technological advances. For example, Tuskegee University renovated an existing facility to house its hospitality management program, creating modern meeting facilities along with a full-service hotel, which provides students with a real-world laboratory in which they gain immediate hands-on experiences (see fig. 1). In addition, many of the school officials who we interviewed reported that their schools had particularly old facilities, many of which are listed in the

¹⁰ (1) The Association of Higher Education Facilities Officers (APPA)/National Association of College and University Business Officers (NACUBO), *The Decaying American Campus: A Ticking Time Bomb* 1989, (2) APPA/NACUBO and Sallie Mae, *A Foundation to Uphold*, 1996, (3) U.S. Department of Commerce/National Association For Equal Opportunity In Higher Education (NAFEO), *Historically Black Colleges and Universities: An Assessment of Networking and Connectivity*, 2000, and (4) GAO, *Historic Preservation: Cost to Restore Historic Properties at Historically Black Colleges and Universities*, [GAO/RCED-98-51](#), (Washington, D.C.: Feb. 6, 1998).

¹¹ In 1998, HBCUs reported that an estimated \$755 million was needed to restore 712 historic properties. See [GAO/RCED-98-51](#).

¹² About 29 percent of HBCUs we contacted reported that their own staff conducted their needs assessment, and the remaining schools reported that they relied on either an architectural or an engineering firm to perform such assessments.

National Register of Historic Places.¹³ Some school officials cited their need to repair or replace campus infrastructure. For example, some schools reported needing to replace leaking underground water pipes, while others reported the need to replace 100-year-old water and gas pipes. Many of the school officials we interviewed reported having deferred maintenance projects, some for over 15 years, and officials from 3 schools estimated their schools' deferred maintenance to be over \$50 million. For some schools, the deferred maintenance is substantial in light of existing resources, according to HBCU officials. These types of capital projects are essential to ensuring student safety and preserving assets that directly affect their ability to attract, educate, and retain students.

¹³ Authorized under the National Historic Preservation Act of 1966, the National Register is part of a national program to coordinate and support public and private efforts to identify, evaluate, and protect our historic and archeological resources. Properties listed in the register are significant to American history, architecture, archeology, engineering, and culture.

Figure 1: The Renovated Kellogg Conference Center at Tuskegee University



Source: Tuskegee University.

Note: The University relied in part on the HBCU Capital Financing Program to renovate and expand this facility. In particular, a program loan was used to finance the upgrades of the heating and ventilation system.

Approximately 14 Percent of HBCUs Have Borrowed Just Over Half of the Available Program Funds

Over the life of the program, approximately 14 percent of HBCUs have borrowed just over half of the available funds despite the substantial needs reported by schools. Specifically, 23 HBCUs, according to Education, have taken steps to participate in the program, and 14 became borrowers, with loans totaling just over \$200 million—below the program’s \$375 million total limit. About 20 percent of the eligible private institutions have borrowed a little more than half of the \$250 million allotted for private schools, and less than 8 percent of public institutions have borrowed less than two-thirds of the \$125 million allotted for public schools. To date, loan participants have all been 4-year institutions. Taking into account loan repayments, the total amount of outstanding loans was about \$168 million as of August 2006, leaving about \$207 million available for loans (about \$66 million for public schools and about \$141 million for private schools). Table 2 shows the participants and the amounts of their loans. Regarding other schools that took steps to participate in the

program but did not become borrowers, 6 schools were reported to have withdrawn their applications, and 6 others had applications pending. To date, only one school has been denied a loan.

Table 2: History of Loan Activity of the HBCU Capital Financing Program

Institution	Institution type	Amount borrowed
Barber-Scotia College	Private, 4-year	\$7,000,000
Miles College	Private, 4-year	\$7,835,000
Tougaloo College	Private, 4-year	\$8,200,000
Virginia Union University	Private, 4-year	\$8,218,000
Bennett College	Private, 4-year	\$8,700,000
Livingstone College	Private, 4-year	\$13,000,000
Shaw University	Private, 4-year	\$10,015,000
Bethune-Cookman College	Private, 4-year	\$20,295,000
Clark Atlanta University	Private, 4-year	\$23,905,000
Tuskegee University	Private, 4-year	\$35,931,000
Subtotal for private institutions		\$143,099,000
West Virginia State University	Public, 4-year	\$3,500,000
Lincoln University	Public, 4-year	\$13,850,000
Harris Stowe State University	Public, 4-year	\$15,264,000
South Carolina State University	Public, 4-year	\$42,000,000
Subtotal for public institutions		\$74,614,000
Total		\$217,713,000

Source: GAO analysis of Education data.

Note: Some schools have more than one loan; amount borrowed reflects total for all loans.

Education Has Taken Limited Steps to Determine Schools' Financing Needs and Collect Information and Report on Program Utilization and Effectiveness

Education has collected and reported limited information concerning HBCUs' capital financing needs and the schools' utilization of the program. Education officials said that, beginning in 2005, to understand schools' financing needs and whether the program could assist schools, the DBA engaged in an outreach effort through which it identified 15 schools that might be candidates for the program. Over the history of the program, Education has collected some information to track program utilization, including the number of inquiries and applications received and the loan volume requested, approved, and awarded. However, Education has not widely reported such data. Education has provided certain elements of its program utilization data to Congress' appropriations committees via its

annual justifications of budget estimates documents. Table 3 shows the data collected by Education to track program utilization.

Table 3: Education's Indicators Measuring Program Utilization

Dollars in millions	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
Inquiries	—	—	25	30	—	—	11	22	36	23	8	155
Pre-applications received	—	—	—	—	1	2	2	8	7	5	1	26
Applications received	4	4	3	3	1	2	2	3	2	1	1	26
Loan volume requested	\$20.5	\$21.8	\$12.3	\$37.6	\$100	\$20.7	\$32.1	\$34.9	\$29.5	\$57.5	\$18	\$384.90
Loans approved	4	1	2	3	1	2	2	3	4	1	1	24
Loan volume approved	\$20.5	—	\$8.3	\$37.6	\$13.85	\$20.7	\$32.1	\$24.9	\$51.8	\$42	\$15.5	\$267.25
Loans awarded	1	1	0	3	1	2	2	2	3	1	1	17
Volume awarded	\$3.5	\$4.8	\$0	\$37.6	\$7	\$20.7	\$32.1	\$24.9	\$29.8	\$42	\$15.3	\$217.70

Source: Education and GAO analysis of budget justification documents.

Note: (—) indicates that Education was unable to provide information for the indicator in that particular year.

Education officials noted that while the data they collect are useful to indicate the extent to which the schools have used or accessed the program, they are inadequate to address questions concerning whether the program is under- or overutilized or to demonstrate program effectiveness. These officials noted that they believe program performance measures would be useful but that developing such measures is particularly challenging for a credit program like the HBCU Capital Financing Program. This is so in part because participation in a loan program is dependent on complex factors, such as schools' funding needs, the availability of other sources of financing, and schools' desire and capacity to assume debt. Program officials cautioned against setting firm program participation goals, for example, because they would not want Education to be perceived as "pushing" debt onto schools that either do not want to, or should not, assume loan obligations before their circumstances warrant doing so. Another complicating factor program officials cited was the small number of potential program beneficiaries. One Education official noted that Education has established performance goals and measures for its student grant and loan aid programs, which are based on sophisticated survey mechanisms designed to measure customer (students, parents, and schools) satisfaction with the department's aid application, receipt, and accounting processes. Because the scope of the student aid programs is large, encompassing millions of students and parents and thousands of

schools, it is reasonable to develop and use such measures, the official noted. In contrast, such measures may not be meaningful given the small number of HBCUs and the frequency with which loans are made under the Capital Financing Program. Nevertheless, these officials told us that they believe program performance measures would be useful to gauge program effectiveness. They have established a working group to develop performance measures for the program and were consulting with OMB and other federal officials with expertise on federal credit programs to guide their efforts. The officials noted that they do not have any firm schedule with respect to completing their development of program performance measures.

The Program Provides Needed Access to Low-Cost Capital Financing, but Certain Loan Terms and Conditions Discourage Participation

The HBCU loan program provides access to low-cost capital financing and flexibilities not always available elsewhere, but some loan terms and conditions discourage participation, though school officials said they remain interested in the program. The low interest rate and long repayment period were regarded favorably by participants and nonparticipants alike, and the program makes funds available for a broader range of needs than some federal grant programs. However, the pooled escrow arrangement, monthly repayment terms, and the extent to which some loans have been collateralized could discourage participation.

The Program Provides Low-Cost Financing and Certain Flexibilities in Comparison to Other Capital Funding Sources

The HBCU Capital Financing Program provides lower-cost financing and longer loan maturities and may be used for a broader range of capital projects by a greater number of schools than other funding sources, according to HBCU officials. Some officials noted that the program offers loans with lower interest rates than traditional bank loans. Moreover, the program's interest rates are typically less than the interest rates schools would be required to pay investors if they issued their own bonds to raise funds. According to school officials and bond industry experts, some HBCUs could obtain, and some have obtained, lower interest rates than

those offered under the program by issuing their own tax-exempt bonds.¹⁴ However, this is predicated on a school's ability to obtain a strong credit rating from a credit rating agency.¹⁵ Schools with weaker or noninvestment grade credit ratings would likely have to pay investors higher interest rates. In addition, schools issuing taxable bonds would likely pay higher interest rates to investors, compared to the program's interest rates, regardless of the schools' credit ratings. While schools can lower interest rates paid to bond investors by purchasing bond insurance, the cost to do so may be prohibitive.¹⁶ For these reasons, officials at Education and HBCUs, as well as bond industry experts, told us that the HBCU Capital Financing Program may be ideally suited for schools that have or would receive a noninvestment grade rating. Participation in the program may also benefit schools by enhancing their ability to issue their own bonds in the future. An official at one HBCU, for example, told us that obtaining and repaying a loan under the program had allowed the school to demonstrate its fiscal stability and to subsequently issue its own bond with a lower interest rate than was then being offered under the program.

In addition to citing lower interest rates, a large majority of the HBCU officials we spoke to said that the program's 30-year loan repayment period was attractive, and some noted that private funding sources would likely offer 20 years or less. Some school officials noted that the longer repayment period allowed schools to borrow more or reduce the amount of monthly payments. Borrowing larger amounts, officials reported, allowed them to finance larger or more capital projects. Another school we spoke with that once considered using the program said that even

¹⁴ Under the Internal Revenue Code, qualified education facilities, such as HBCUs, are permitted to issue tax-exempt bonds. In contrast to taxable bonds, tax-exempt bonds produce interest income that is exempt from federal taxation and may also be exempt from state and local taxation, especially if the owners live in the state in which the bond is issued. Because these investors do not pay taxes on their interest earnings, they are willing to accept a lower pretax rate of return on their investment, which lowers the financing costs for schools that issue such bonds.

¹⁵ Schools that issue bonds pay credit agencies, such as Standard & Poor's, or Moody's Investors' Service, to assess their potential risk of default. Credit agencies assign ratings for bonds reflecting a spectrum of highest to lowest credit quality to help investors determine the risk associated with investments. Ratings can generally be grouped into two larger categories—investment and noninvestment grades.

¹⁶ Bond insurance guarantees the payment of principal and interest on a bond issue if the issuer defaults. Credit rating agencies assign a bond rating based on the insurer's ability to pay claims against defaults, rather than on the underlying credit of the issuer.

though it was able to issue a tax-exempt bond and obtain a more favorable interest rate, it could only obtain a 20-year maturity period for the bond.

Some HBCU officials told us they preferred grants to loans but noted that, in general, compared to other federal grant programs, more HBCUs are eligible for the HBCU loan program, and that it also funds a wider variety of projects. Grants are available for most HBCUs under the Higher Education Act's strengthening institutions programs, also administered by Education, which fund capital projects as well as other activities, such as faculty and academic program development. However, fewer HBCUs are eligible for other federal grant programs that provide funding for capital projects. For example, the Department of Agriculture's 1890 Facilities Grant Program is only for those 18 HBCUs that are land grant institutions. Similarly, the Department of Health and Human Services' facilities improvement program provides only for those HBCUs with a biomedical and behavioral research program. While there are a variety of other assistance programs offered by charitable foundations, and state and local governments, available funding is limited.

The Escrow Arrangement, among Other Terms and Conditions, Was Cited as a Disincentive to Participating in the Program

HBCU officials we spoke with—participants and nonparticipants alike—reported that a disincentive to participation in the program was the pooled escrow; additionally, other terms and conditions, such as the monthly repayment schedule and the extent to which loans are collateralized, were also viewed by some as deterrents. Over half of HBCU respondents we spoke with—both participants and nonparticipants—agreed that the pooled escrow was a drawback, and over one-fifth said that it actually deters participation. The escrow funds, which reduce the federal budget cost of the program by offsetting the estimated costs associated with delinquent loan repayments and borrower defaults, net of collections, are returned to program participants if no such losses occur. However, a recent default by one borrower—the first to occur in the program's history—has heightened awareness among program participants of the financial risk for them inherent in the pooled escrow arrangement.¹⁷ Since

¹⁷ Barber-Scotia College defaulted on its loan payments in September 2005. The outstanding balance of the defaulted loan is about \$7 million. Funds to cover the school's delinquent payments were withdrawn from the school's escrow account. When the school's escrow account was depleted, the funds required to cover the school's subsequent payments were drawn upon a pro rata basis from each program participant's escrow account—schools with larger outstanding loan balances will have more money withdrawn from their escrow accounts than schools with smaller outstanding loan balances.

the default, Education has withdrawn funds from participating schools' escrow accounts twice and will continue doing so until the default is resolved, leaving other schools uncertain as to how much of their own escrow accounts will remain or be replenished.¹⁸ The pooled escrow feature also presents a problem for state institutions because they are prohibited from assuming the liability of another institution. One program official said that this issue was common for state schools because state law prohibits the lending of public funds to nonstate entities—considered to be the case when state funds in escrow are used to hedge against the delinquency of another institution. One participating public HBCU reported that it had to resolve this problem by accounting for its escrow payments as a fee that would not be returned to the school rather than a sum that could be recovered, as the program intends. Because the escrow feature is mandated by law, any changes to this arrangement would require congressional authorization. Additionally, in order to maintain the federal subsidy cost of the program at or below zero, other alternatives—such as assessing additional fees on borrowers, or requiring contributions to an alternative form of a contingency reserve—would be necessary in the absence of the pooled escrow arrangement.

While frequency of payments is not as prevalent a concern as the pooled escrow, some schools objected to the program's requirement that repayments be made monthly as opposed to semiannually, as is common in the private market. Schools participating in the HBCU Program have been required by the DBA to make payments monthly, although FFB lending policy is to require repayments only on a semiannual basis. Despite the fact that participants have met the terms of an extensive credit evaluation process, DBA officials expressed the view that the monthly repayment requirement promotes good financial stewardship on the part of the schools. However, some HBCU officials said that they incur opportunity costs in making payments on a monthly versus a semiannual basis. They also noted that it would be more practical if payments were to coincide with the beginning of their semesters, when their cash flows are typically more robust.

¹⁸ According to Education, escrow account funds are sufficient to make loan repayments on behalf of the defaulted borrower for up to 12 years, provided no additional borrowers default on their loans. Education officials said they are attempting to maintain close contact with the defaulting school and offering to work with it to resolve the default. Since the school pledged its entire campus as collateral for the loan, Education could ultimately foreclose and sell it to recover loan proceeds.

Additionally, almost half of the participating schools expressed concern about the amount of collateral they had to pledge in order to obtain a loan. In most cases, program participants have pledged certain real property as collateral, though endowment funds and anticipated tuition revenue are also allowed as collateral. Some HBCU officials said their loans were overcollateralized in that the value of the real estate pledged as security exceeded the value of the loan. They noted that such circumstances can present a problem for those schools trying to obtain additional capital financing without sufficient assets remaining available as collateral. One nonparticipant cited the collateral required of other institutions as a reason for its decision not to participate. When asked about the amount of collateral required, Education and DBA officials reported that the extent and amount of collateral required to obtain a loan under the program varies depending on the individual circumstances of an institution. The amount of collateral required may be less for institutions that have maintained relatively large endowments and stable tuition revenue and more for institutions that have few or no physical properties to use as collateral, for example. Education officials further noted that requiring the value of collateral to be greater than the value of the loan was not an uncommon business practice.

Overall, more than two-thirds of the participant schools and more than a third of the nonparticipants said they are interested in using the program but some said that their continued or future interest in the program would depend on its being modified. Several schools suggested the types of projects eligible for funding could be broadened, which might allow them to undertake capital projects that would, in turn, assist them in attracting and retaining additional students. Campus beautification projects and multipurpose community centers were cited as examples. In addition, they regarded new construction—for which program loans are available only under exceptional circumstances—as particularly important because new construction attracts more students and because renovations often incur unexpected costs. Nevertheless, many public HBCU school officials we spoke with said that in view of their states' continuing fiscal constraints, they expect to consider the loan program as a future funding resource.

Education Has Taken Some Steps to Improve the Program, but Weaknesses in Management Control Exist

While Education has taken limited steps to improve the program, we found significant weaknesses in management controls that compromise the extent to which Education can ensure program objectives are being achieved effectively and efficiently. Education has recently provided schools the choice of fixed or variable interest rates, allowed for larger loan amounts, and afforded more opportunity for schools to negotiate loan terms, which appealed to schools. In addition, Education has attempted to increase awareness of the program among HBCU officials through increased marketing of the program by the DBA. While Education has taken steps to improve the program, we found significant weaknesses in its management control with respect to its communications with HBCUs, compliance with program and financial reporting laws and guidance, and monitoring of its DBA.

Education Has Recently Introduced Some Program Improvements, Including Flexible Loan Terms

Since 2001, Education has taken some steps to improve the program—in some cases by allowing greater negotiation of certain loan terms and conditions. Department officials said that changes to the program were necessary to remain competitive with other programs and the private market. These flexible terms included a variable interest rate option and the opportunity to negotiate the amount of additional debt that a school can subsequently assume through other financing arrangements. In fact, since 2003, 4 of the 7 schools that have received loans have taken advantage of the variable interest rate. Regarding the department's monitoring of their debt, officials at another school said that they were able to negotiate with the DBA the amount of additional debt they could assume—from \$500,000 to \$1 million—before they would have to notify the department. School officials said this change was important because it not only reduced their administrative burden but it also gave them additional leeway to pursue other capital financing. The program made greater use of loans for the sole purpose of refinancing existing debt since 2003.¹⁹ Two participants reported an estimated savings of at least \$3.7 million by refinancing under the program. According to department officials, Education has also made greater use of the Secretary's authority to originate loans exceeding \$10 million and to make multiple loans to an institution, providing schools with more purchasing power. Program officials said that while the limit on the amount and number of loans that

¹⁹ Previously, refinancing was always coupled with a requirement that most proceeds be used for construction or renovation purposes, according to department officials.

could be made was to prevent disproportionate use of the loan fund by larger and more affluent schools, it no longer reflected the reality of current costs for construction and renovation or the budgetary constraints facing many states.

Additionally, program officials we spoke with said they had enhanced program marketing. For example, the DBA has developed a Web site describing the program and offering answers to frequently asked questions. In addition, officials reported attending the national and regional conferences for college executives shown in table 4, completing over 60 campus site visits and contacting other school officials by telephone. Program officials also reported that most schools received written correspondence or an e-mail to inform them of the program. By these efforts, all HBCUs have been contacted in 2005, according to DBA officials. They also said they timed these outreach efforts to correspond with schools' annual budgetary and enrollment processes in order to prompt schools to think about potential capital projects that could fit the program. DBA officials said that their marketing approach for fiscal year 2006 would be the same as in the previous year.

Table 4: Designated Bonding Authority's Attendance and Scope of Activities at Conferences since 2002

Conference name	Years attended ^a				HBCUs in membership ^b	DBA's activity
	2002	2003	2004	2005		
Southern Association of Colleges and Schools (SACS) regional meetings	●	●	●	●	77 HBCUs in 11 states	Breakfast and luncheon sponsorships, exhibit space, receptions, and dinners
National Association of College and University Business Officers (NACUBO) national or regional conferences		●	●	●	c	Exhibit space, client dinners
United Negro College Fund's annual events		●	●	●	39 private 4-year colleges	Event sponsorships, contact with meeting participants
National Association of State Universities and Land Grant Colleges (NASULGC) Annual Meeting	●				18 land grant HBCUs/other members	Contact with meeting participants
Thurgood Marshall President's and Member Schools' Professional Conference		●			School executives at 47 HBCUs	Contact with meeting participants
National Association for Equal Opportunity in Higher Education's annual conference	●	●	●	●	All HBCU executives/other members	Exhibit space, evening receptions
White House Initiative on HBCUs National HBCU Week Conference	●	●	●	●	All HBCU executives	Direct contact with meeting participants, client dinners

Source: GAO analysis.

^aGAO did not confirm conference attendance with host association/organization^bInformation on HBCUs included in membership based on most recent data available.^cNo description of HBCU membership was available.

Weaknesses in Management Control Exist

While Education has taken some steps to improve the HBCU loan program, we found significant weaknesses in its management control of the program with respect to its (1) communications with HBCUs, (2) compliance with program and financial reporting laws and guidance, and (3) monitoring of its DBA, as described below.

<p>Communication with HBCUs</p>	<p>Many HBCU officials we interviewed reported a lack of clear, timely, and useful information from Education and the DBA at various stages of the loan process, and said the need to pursue such information themselves had sometimes led to delays. While program materials represent the loan application as a 2- to 3-month process, about two-thirds of the loans made since January 2001 were not closed until 7 to 18 months after application. Officials from one school said that it had taken 6 to 7 months for the DBA to relay from Education a clarification as to whether its proposed project was eligible. Other schools reported that Education had not provided timely or clear information about the status of their loans. In some cases, schools reported that the lengthy loan process resulted in project delays and cost increases over the intervening time period. An official from one school told us that it remained unclear to him why his school was denied a loan.</p> <p>Education officials acknowledged that the loan process was lengthy for some borrowers and said its DBA had attempted to work with these borrowers to address problems with applications. School officials told us that in some cases the loan process could have been expedited had Education and the DBA made use of previous borrowers' experiences to apprise them of problems that could affect their own applications—such as the fact that title searches can be especially time consuming and problematic for private HBCUs, some of which did not receive all property deeds from their founders when they were established in the 1800s. With regard to making loan payments, several officials we interviewed said that DBA officials had not provided information that was in sufficient detail. In one situation, officials from one school reported that school auditors had questioned the accuracy of the loan payment amount for which the school was billed by the DBA because the billing statements omitted information concerning the extent to which the amount billed included escrow payments. Other officials noted that they had not received written notification from the DBA concerning the full amount of their potential liability after funds had been withdrawn from the schools' escrow accounts to cover payments on behalf of another borrower that had recently defaulted on a loan.</p>
<p>Compliance with Program and Budget Laws and Federal Financial Accounting Standards</p>	<p>Education has not complied with certain statutory requirements relating to the program's operations and how federal agencies are to account for the government's cost of federal loan programs. In creating the program, Congress established within the Department of Education an HBCU Capital Financing Advisory Board composed of the (1) Secretary of Education or the Secretary's designee, (2) three members who are presidents of private HBCUs, (3) two members who are presidents of</p>

public HBCUs, (4) the President of the United Negro College Fund or his/her designee, (5) the President of the National Association for Equal Opportunity in Higher Education or his/her designee, and (6) the Executive Director of the White House Initiative on HBCUs. By law, the Advisory Board is to provide advice and counsel to the Secretary of Education and the DBA concerning the capital financing needs of HBCUs, how these needs can be met through the program, and what additional steps might be taken to improve the program. To carry out its mission, the law requires that the board meet with the Secretary of Education at least twice each year. Despite this requirement, the board has met only three times in the past 12 years, the most recent meeting occurring in May 2005. According to Education officials, the Advisory Board did not routinely meet because of turnover among Education staff as well as HBCU presidents designated to serve on the board. Education officials told us that there could have been other reasons why the Advisory Board did not meet in earlier years, but none that they had knowledge of. Although Education officials told us that they had believed another Advisory Board meeting would be convened soon after the May 2005 meeting, no such meeting has yet been scheduled.

We also found that Education has not fully complied with requirements of the Federal Credit Reform Act of 1990, which, along with guidance issued by OMB and accounting standards, provide the framework that Education is to use in calculating the federal budget costs of the program. In particular, Education has excluded certain fees paid by HBCUs from its calculations of program costs. The interest payments made by HBCUs on program loans includes a surcharge of 1/8th of 1 percent assessed by FFB in accordance with its policy and as permitted by statutory provisions governing its transactions.²⁰ Under the Federal Credit Reform Act of 1990, these fees—i.e., the surcharge—are to be recognized as cash flows to the government and included in agencies' estimated costs of the credit programs they administer.²¹ In addition, these fees are to be credited to the program's financing account.²² OMB officials responsible for coordinating

²⁰ 12 U.S.C. § 2285(c).

²¹ 2 U.S.C. § 661d(c).

²² A financing account records all of the cash flows resulting from direct loans or loan guarantees. It disburses loans, collects repayments and fees, makes claim payments, holds balances, borrows from the Department of the Treasury, earns or pays interest, and receives the subsidy cost payment from the credit program account. The credit program account receives and obligates appropriations to cover the subsidy cost of a direct loan or loan guarantee and disburses the subsidy cost to the financing account.

agencies' subsidy cost estimates acknowledged that Education should include the fees in its budgetary cost estimates and noted that other agencies with similar programs do so. Further, the written agreement among Education, the FFB, and the DBA that governs the issuance of bonds by the DBA for purchase by the FFB for the purpose of funding loans under the program also stipulates that these fees are to be credited to Education. Despite these provisions, Education has not included the fees in its calculations of the federal cost of the program, thereby overestimating the program's costs; nor has Education accounted for the fees on its financial statements.²³ Instead, the DBA has collected and held these fees in trust.²⁴ Although the contract between Education and the DBA generally describes how the DBA is to manage the proceeds from and the payment of bonds issued to fund loans made to HBCUs, it does not specifically address how the DBA is to manage the payments that reflect the 1/8th of 1 percent paid by borrowers. In general, the DBA collects borrower repayments and remits the proceeds to the FFB to pay amounts due on the program's outstanding bonds. However, the amounts paid to the FFB do not include the fees paid by borrowers. As a result, it is unclear how these funds, retained by the DBA, are to be eventually returned to the federal government. Moreover, Education has not monitored the DBA's handling of these funds and is unaware of the accumulated balance.

Monitoring the Performance of the DBA

Although the current DBA has been under contract with Education for over 5 years, Education has not yet assessed its performance with respect to key program activities and contractual obligations, although Education officials said that they have been pleased with the DBA's performance. One of these major activities is "marketing" the capital financing program among HBCUs in order to raise awareness and help ensure that the program is fully utilized. Although the DBA is required by its contract with Education to submit annual reports and audited financial statements to Education, it has not done so. While DBA officials told us the department has offered some informal assessments, Education officials have not guided their marketing efforts. Still, we found indications that the DBA's marketing strategy has likely suffered from a lack of guidance and

²³ According to 31 U.S.C. § 3515, federal agencies are required to prepare and submit to OMB audited financial statements covering their operations.

²⁴ The DBA has collected this fee from all but one borrower—West Virginia State University, which received a loan in 1996 prior to the requirement that Education collect the fee.

monitoring by Education. Officials we spoke with at 4 schools did not know of the program, and another eight told us they had learned about it from peers or advocacy organizations. Others were aware of the DBA's marketing activities, but offered a number of suggestions for improvement, citing a need for more specific information as to the extent to which collateral would be needed, how the program meets the needs of both private and public schools, or examples and testimonials about funded projects. Several school officials said DBA outreach through conferences was not necessarily well targeted—either because the selected conferences covered a full range of topics for a variety of schools and not only HBCUs, or because they focused on issues relating to either public or private HBCUs, or because they drew school officials not involved in facilities planning. Additionally, the DBA has reserved its direct contact marketing largely for 4-year schools. DBA officials justified this decision on grounds that smaller schools tended to have more difficulty borrowing and that they had targeted larger schools that they believed would be most likely to benefit from the program. However, as prescribed by law, loans are to be fairly allocated among as many eligible institutions as possible. Because the DBA's compensation is determined as a percentage of the amount borrowed, and the costs it incurs may not vary significantly from loan to loan, it is important to monitor its activities to ensure it is not making loans exclusively to schools that are likely to borrow larger amounts and for which its potential for profit is highest.

With regard to the DBA's basic responsibility for keeping records, we found several cases in which critical documents were missing from loan agreement files. Moreover, the DBA was unable to provide us with entirely complete files for any of the 14 institutions that had participated or were participating in the program. For example, documents that included loan applications, decision memoranda, financial statements, and real property titles were missing for several schools. In our file review, we found that files for 9 schools did not include the original application. Files for 8 schools did not include the required financial statements for demonstrating long-term financial stability, and 5 lacked DBA memoranda pertaining to the decision to make the loan. Moreover, until our review, key Education officials were unaware that such documents were missing.²⁵

²⁵ Several of the files had been compiled by a prior bonding authority. Nevertheless, the DBA is required under its contract with Education to maintain files on participants for the life of the program and a minimum of 6 years thereafter.

HBCUs Affected by Hurricanes Expressed Satisfaction with Special Loan Provisions and Concerns with Application Deadline, while Education Officials Said They Would Evaluate Loan Processes

Officials from four HBCUs in the Gulf Region we spoke with (Dillard University, Southern University at New Orleans, Xavier University, and Tougaloo College) told us that, in light of the extensive hurricane damage to their campuses, they were pleased with the emergency loan provisions but concerned that the 1-year authorization would not provide sufficient time for them to take advantage of the special program features. School officials from each of the four schools noted that their institutions had incurred physical damages caused by water, wind, and, in the case of one institution, fire, and that the actual financial impact of the hurricanes may remain unknown for years. Although Education officials told us that they have not yet determined the extent to which the department would make use of its authority to waive or modify program provisions for hurricane-affected institutions, the department would be prepared to provide loans to hurricane-affected HBCUs.

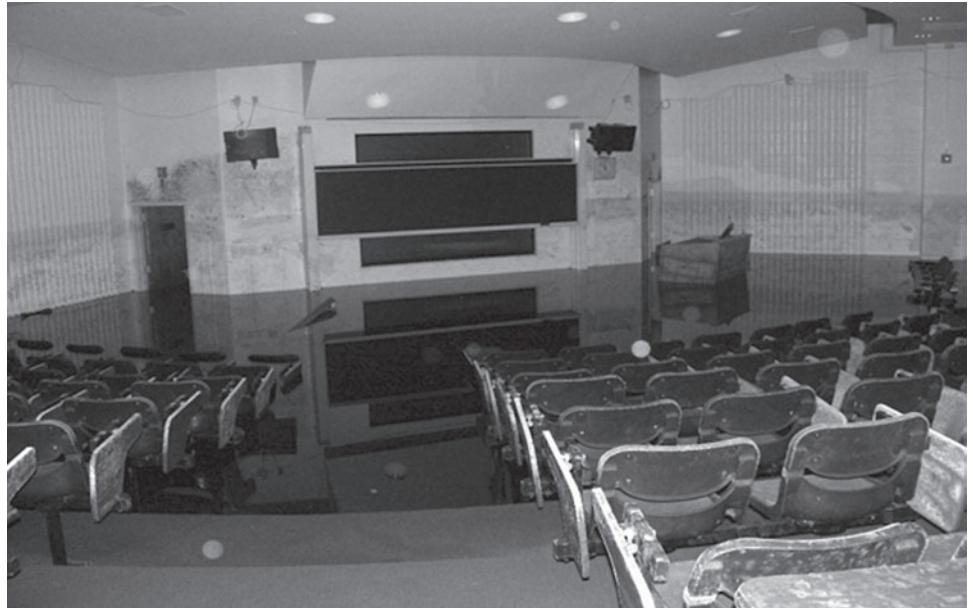
Gulf Area HBCUs Experienced Significant Hurricane Damage, and the Full Financial Impact May Remain Unknown for Years

Officials from the three HBCUs we visited reported extensive damage to their campuses as a result of the 2005 hurricanes and noted that it may take another few years to determine the full financial impact. School officials told us that they have not been able to fully assess all hurricane-related costs, such as replacing property, repairing plumbing systems, landscaping, and replacing sidewalks, and as result, current estimates are only preliminary. School officials noted that the assessment process was lengthy because of, among other things, the time required to prioritize campus restoration needs, undertake complex assessments of historic properties, follow state assessment processes, and negotiate insurance settlements. Each of the four schools we contacted incurred physical damages caused by water and wind; one school also incurred damage by fire. For example, the campuses of all three schools in New Orleans were submerged in 2 to 11 feet of water for about a month after the hurricanes, damaging the first floors of many buildings as well as their contents. As a result, schools required removal of debris and hazardous waste (e.g., mold and asbestos), repair and renovation, and the taking of actions recommended by FEMA to mitigate future risks. Xavier University officials, who preliminarily estimated \$40 million to \$50 million in damage to their school, said that they faced the need to undertake several capital projects, including replacing elevators, repairing roofs, and rehabilitating the campus auditorium and replacing its contents. According to officials from Southern University at New Orleans, state officials have estimated damages at about \$17 million; at the time of our visit 10 months after the

hurricanes, state insurance assessors were beginning their work on the campus library, where mold reached all three floors, covering books, art collections, card catalogues, and computers. Officials at Dillard University also reported extensive damage, preliminarily estimated as high as \$207 million.²⁶ According to officials, five buildings—which were used for academic support services and residential facilities—had to be demolished because of extensive damage; three of these buildings were destroyed by fire. Further, they also reported that the international studies building, built adjacent to a canal levee in 2003, will have to be raised at least 18 feet to make it insurable. Officials at Tougaloo College, in Mississippi, reported wind and water damage to the roofs of some historic properties, which along with other damages, they preliminarily estimated at \$2 million. Figures 2-4 show some of the damages and restoration under way at the three schools we visited.

²⁶ Officials also noted that the school had incurred additional costs, such as renting temporary space, architectural and legal services, and lost revenues, which collectively amounted to about \$130 million.

Figure 2: Xavier University Science Building Auditorium Before and After Restoration from Flood Damage



Sources: Xavier University.

Figure 3: Exterior of Southern University's Library with Waterline Indicating the Extent of Flooding



Source: GAO.

Figure 4: Removed Asbestos from Dillard University Library Awaiting Disposal



Source: GAO.

Note: All of the affected HBCUs have resumed operations but are still in the process of restoring their campuses to varying degrees. In the case of Southern University, it has created a new campus nearby consisting of more than 400 trailers constructed by the U.S. Army Corps of Engineers while damage assessments are being made. By contrast, Dillard University had moved its operations—classes, student services, administration—and students to a local hotel and other buildings as it undertook the restoration of its campus. Officials were scheduled to reopen that campus in September 2006. Xavier University had resumed operations on its campus in January 2006 while it continued to restore its facilities.

Schools Found Select Terms for Emergency Loans Favorable, but Said They Would Be Challenged to Make Application in the Time Allotted

The school officials we spoke with found certain emergency provisions of the loan program favorable, but they expressed reservations about the time frame within which they are required to make application for the special loans. Most school officials appreciated the reduced interest rate and cost of issuance (both set at 1 percent or less) and that the Secretary of Education was provided discretion to waive or modify statutory or regulatory provisions, such as credit criteria, to better assist them with their recovery. They said the normal sources of information for credit evaluation—such as audited financial records from the last 5 years—would be difficult to produce. Other conditions of the emergency loan provisions some officials found favorable were the likelihood that loans would be awarded sooner—providing a timely infusion of funds—with

more flexibility compared to other programs. Officials at both Dillard and Xavier Universities said that because their institutions had already spent a significant amount of their available resources, the emergency loans could be used to bridge any emerging financial difficulties they experience as they continue to pursue insurance settlements and assistance from other federal agencies, including FEMA and SBA. Additionally, some school officials said that the program may allow for greater flexibility compared to FEMA and SBA aid. For example, some officials told us that in addressing damages caused by the hurricanes they would like to improve upon their facilities to mitigate potential environmental damages in the future and, at one school, upgrade an obsolete science laboratory with state-of-the-art equipment. They said, however, that in some cases FEMA aid is limited to restoring campus facilities to their prestorm conditions and in other cases desired improvements might not be consistent with requirements for historic preservation.

While most school officials we spoke with found select provisions favorable, they expressed concerns with stipulations that limit the extension of the special provisions to 1 year, primarily because all of the costs associated with damage from the hurricanes have not been fully identified. Further, officials at Southern University at New Orleans—a public institution—said that they are subject to an established capital improvement approval process involving both its board of directors and state government officials that alone normally requires a year to complete. Additionally, some of the schools are concerned that they may not be able to restore damaged and lost records needed to apply to the program. Officials reported that a time frame of at least 2 to 3 years would allow them to better assess the costs of the damages. Other concerns cited included eligibility requirements for the deferment provision, and officials from one institution expressed disappointment that the emergency provisions did not include some form of loan forgiveness.

Education Is Preparing to Take Steps to Ensure It Can Provide Loans from Available Funds to Help Hurricane-Affected HBCUs Restore Their Campuses

According to Education officials, they are preparing to take the steps necessary to ensure that the department is prepared to provide loans to hurricane-affected HBCUs. Education officials noted that in light of the statutory limit on the total amount of loans it can make under the program and the balance of loans outstanding as of August 2006, about \$141 million in funding is available for private, and \$66 million for public, HBCUs—both those affected by the hurricanes and others. The officials noted that the department had not yet determined to what extent the Secretary would use her discretion to waive or modify program requirements, including the

statutory loan limits. They told us that some of their next steps included determining how the program's application processes could be changed to ensure that funds can be provided to hurricane-affected schools in a timely manner. They said the department would need to consider to what extent it would apply credit criteria to hurricane-affected institutions in light of the fact that these institutions would likely be experiencing fiscal stresses as they seek to rebuild their campuses and attempt to return to their prior levels of enrollment. They noted that they would talk with school officials to gain a better understanding of which program criteria remain applicable, but anticipate using fewer credit criteria in their determinations. Education officials also noted that they will likely have to decide on the appropriate level of flexibility to exercise with respect to collateralizing loans for hurricane-affected HBCUs because some institutions may lack the collateral they had prior to the hurricanes. Moreover, these officials stated that the department would need to consider establishing limits on the types of projects for which it would provide funding to ensure that loans are not provided for capital projects for which other federal aid is available, such as that provided by FEMA. For example, program officials recognized that a significant cost of recovery for the schools in the Gulf Coast region is debris removal, but believe FEMA is likely to provide funding for such costs. Even with these challenges and outstanding questions, program officials said that they are confident the department will be able to lend funds to hurricane-affected institutions prior to expiration of the special legislative provisions applicable to hurricane-affected HBCUs. They noted that the department has already notified eligible institutions of the availability of funds and would hold additional meetings with schools to gain an understanding of their capital improvement and restoration needs.

Conclusions

HBCUs play an important role in fulfilling the educational aspirations of African-Americans and others and in helping the nation attain equal opportunity in higher education. In establishing the Capital Financing Program, Congress sought to help HBCUs continue and expand their educational mission. The program has in fact assisted some HBCUs in financing their capital projects. Factors, however, including awareness of the program; clear, timely, and useful information concerning the status of loan applications and approvals; and certain loan terms and conditions, may be discouraging other schools from participating in the program. Some HBCUs have accessed even more attractive financing outside of the program, while yet others may face financial challenges that make it unwise to borrow through the program—factors that affect program utilization and make the development of program performance goals and

measures challenging. Despite the challenge, Education is attempting to design performance goals and measures—a positive step that if successfully completed could be useful in informing Congress and others about the extent to which the program is meeting Congress' vision in establishing it.

HBCU officials had a number of suggestions, such as changing the frequency of schools' loan repayments from a monthly to a semiannual basis, that they believed could improve the program and positively influence program utilization. By soliciting and considering such feedback from HBCU officials, Education could ensure that the program is optimally designed to achieve its objectives effectively and efficiently. However, Education has not made consistent use of the mechanism—the HBCU Capital Financing Advisory Board—Congress provided to help ensure Education received input from critical program stakeholders. Receiving feedback from schools would also allow the department to better inform Congress about the progress made under the program.

Effective management control is essential to ensuring that programs achieve results and depends on, among other things, effective communication. Agencies must promote relevant, reliable, and timely communication to achieve their objectives and for program managers to ensure the effective and efficient use of resources. Effective management control also entails ensuring that an agency complies with applicable laws and regulations and that ongoing monitoring occurs during the normal course of an agency's operations. In failing to follow the requirements of the Federal Credit Reform Act, Education has overstated the budgetary cost of the program. Accurately accounting for the cost of federal programs is all the more important in light of the fiscal challenges facing the nation. Moreover, failing to adequately monitor the DBA's performance with respect to critical program responsibilities—record keeping, marketing, accounting, and safeguarding the federal funds it has been collecting from program borrowers—increases the program's exposure to potential fraud, waste, abuse, and mismanagement.

Recommendations for Executive Action

To better ensure that the HBCU Capital Financing Program can assist these schools to continue and expand their educational missions, GAO is making the following five recommendations for Executive Action. To ensure that it obtains the relevant, reliable, and timely communication that could help ensure that program objectives are being met efficiently and effectively, and to meet statutory requirements, we recommend that the Secretary of Education regularly convene and consult with the HBCU

Advisory Board. Among other things, the Advisory Board could assist Education in its efforts to develop program performance goals and measures, thereby enabling the department and the board to advise Congress on the program's progress. Additionally, Education and the Advisory Board could consider whether alternatives to the escrow arrangement are feasible that both address schools' concerns and the need to keep federal costs at a minimum. If Education determines that statutory changes are needed to implement more effective alternatives, it should seek such changes from Congress.

To ensure program effectiveness and efficiency, we recommend that the Secretary of Education enhance communication with HBCU program participants by (1) developing guidance for HBCUs, based on other schools' experiences with the program, on steps that applicants can take to expedite loan processing and receipt of loan proceeds, and (2) regularly informing program applicants of the status of their loan applications and department decisions.

In light of the program's existing credit requirements for borrowers and the funds placed in escrow by borrowers to protect against loan delinquency and default, we recommend that the Secretary of Education change its requirement that borrowers make monthly payments to a semiannual payment requirement consistent with the DBA's requirement to make semiannual payments to the FFB.

To improve its estimates of the budgetary costs of the program, and to comply with the requirements of the Federal Credit Reform Act, we recommend that the Secretary of Education ensure that the program subsidy cost estimation process include as a cash flow to the government the surcharge assessed by the FFB and paid by HBCU borrowers and pay such amount to the program's financing account. Additionally, we recommend that the Secretary of Education audit the funds held by the DBA generated by this surcharge and ensure the funds are returned to the Department of the Treasury and paid to the program's financing account.

To ensure adequate management control and efficient program operations, we recommend that the Secretary of Education increase its monitoring of the DBA to ensure its compliance with contractual requirements, including record keeping, and that the DBA is properly marketing the program to all potentially eligible HBCUs.

Agency Comments

In written comments on a draft of this report, Education agreed with our findings and all but one of our recommendations and noted that our report would help it enhance the program and better serve the nation's HBCUs. Education agreed with our recommendation to regularly convene and consult with the HBCU Advisory Board and noted that the department would leverage the board's knowledge and expertise to improve program operations and that the department had scheduled a board meeting for October 27, 2006. Education also agreed with our recommendation to improve communications with HBCUs, noting that it would take steps including developing guidance based on lessons learned to expedite loan processing and receipt of proceeds, and regularly informing applicants of their loan status and department decisions. Moreover, Education agreed with our recommendation to improve its budget estimates for the program, indicating that it would work with OMB and Treasury to do so. Further, with regard to our recommendation that the department increase its monitoring of its DBA, the department stated that it would require the DBA to submit quarterly reports on program participation and financing, identify and locate missing loan documentation, and maintain these efforts for each subsequent loan disbursal. Additionally, the department said that it was planning to conduct an audit of the DBA's handling of loan funds and associated fees, as we recommended.

With respect to our recommendation that would allow participating schools to make semiannual payments, Education said it would be imprudent to implement the recommendation at this time because of the potential for default as well as the exposure from a default by a current program participant. We considered these issues in the development of our recommendation and continue to believe that the credit evaluation performed by the DBA, the funds set aside by borrowers held in escrow, and the security pledged by borrowers provide important and sufficient measures to safeguard taxpayers against potential delinquencies and default. Further, while not noted in our draft report reviewed by the department, the law requires that borrowers make payments to the DBA at least 60 days prior to the date for which payment on the bonds is expected to be needed. In addition, borrowers have been required to submit, on an annual basis, audited financial reports and 3-year projections of income and expenses to the DBA. These measures provide additional safeguards as well as a mechanism to alert the department of potential problems. We added this information to our description of program terms and conditions in table 1.

Education also provided technical comments that we incorporated into this report where appropriate.

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies to the Secretary of Education appropriate congressional committees, the Director of OMB, and other interested parties. We will also make copies available to others upon request. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-7215 or AshbyC@gao.gov. Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff that made major contributions to this report are listed in appendix IV.

Cornelia M. Ashby

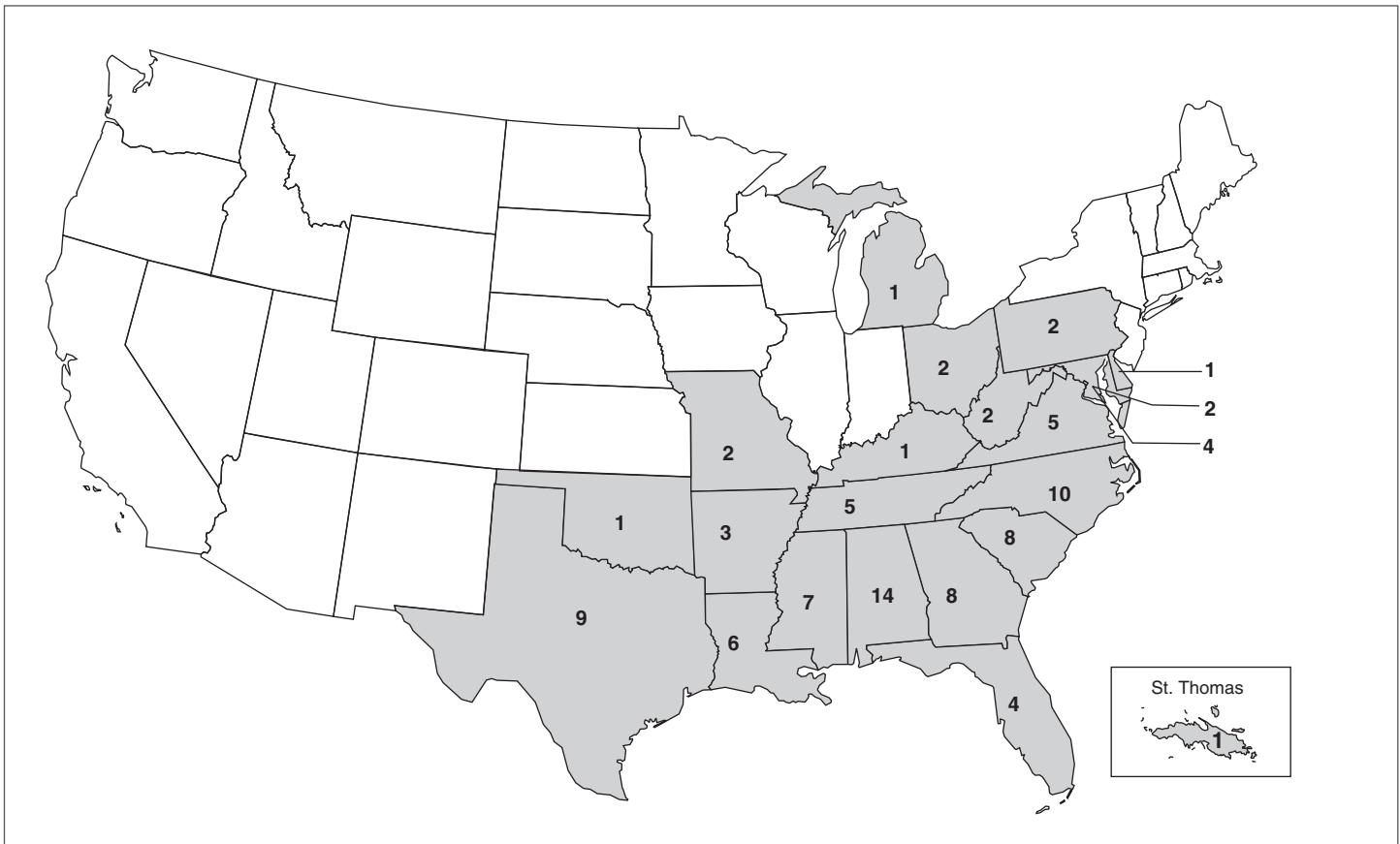
Cornelia M. Ashby
Director, Education, Workforce,
and Income Security Issues

Appendix I: List of Historically Black Colleges and Universities GAO Interviewed

1.	Alabama Agricultural and Mechanical University	Ala.
2.	Albany State University	Ga.
3.	Allen University	S.C.
4.	Barber-Scotia College	N.C.
5.	Bennett College	N.C.
6.	Bethune-Cookman College	Fla.
7.	Bowie State University	Md.
8.	Central State University	Ohio
9.	Cheney University of Pennsylvania	Pa.
10.	Clark Atlanta University	Ga.
11.	Dillard University	La.
12.	Fisk University	Tenn.
13.	Florida Memorial College	Fla.
14.	Jarvis Christian College	Tex.
15.	Kentucky State University	Ky.
16.	Lincoln University	Pa.
17.	Livingstone College	N.C.
18.	Miles College	Ala.
19.	Norfolk State University	Va.
20.	North Carolina Agriculture and Technical State University	N.C.
21.	Saint Philip's College	Tex.
22.	Shaw University	N.C.
23.	South Carolina State University	S.C.
24.	Southern University at New Orleans	La.
25.	Tennessee State University	Tenn.
26.	Texas College	Tex.
27.	Tougaloo College	Miss.
28.	Tuskegee University	Ala.
29.	Philander Smith College	Ark.
30.	University of the District of Columbia	D.C.
31.	University of Maryland Eastern Shore	Md.
32.	Virginia Union University	Va.
33.	West Virginia State University	W.Va.
34.	Xavier University	La.

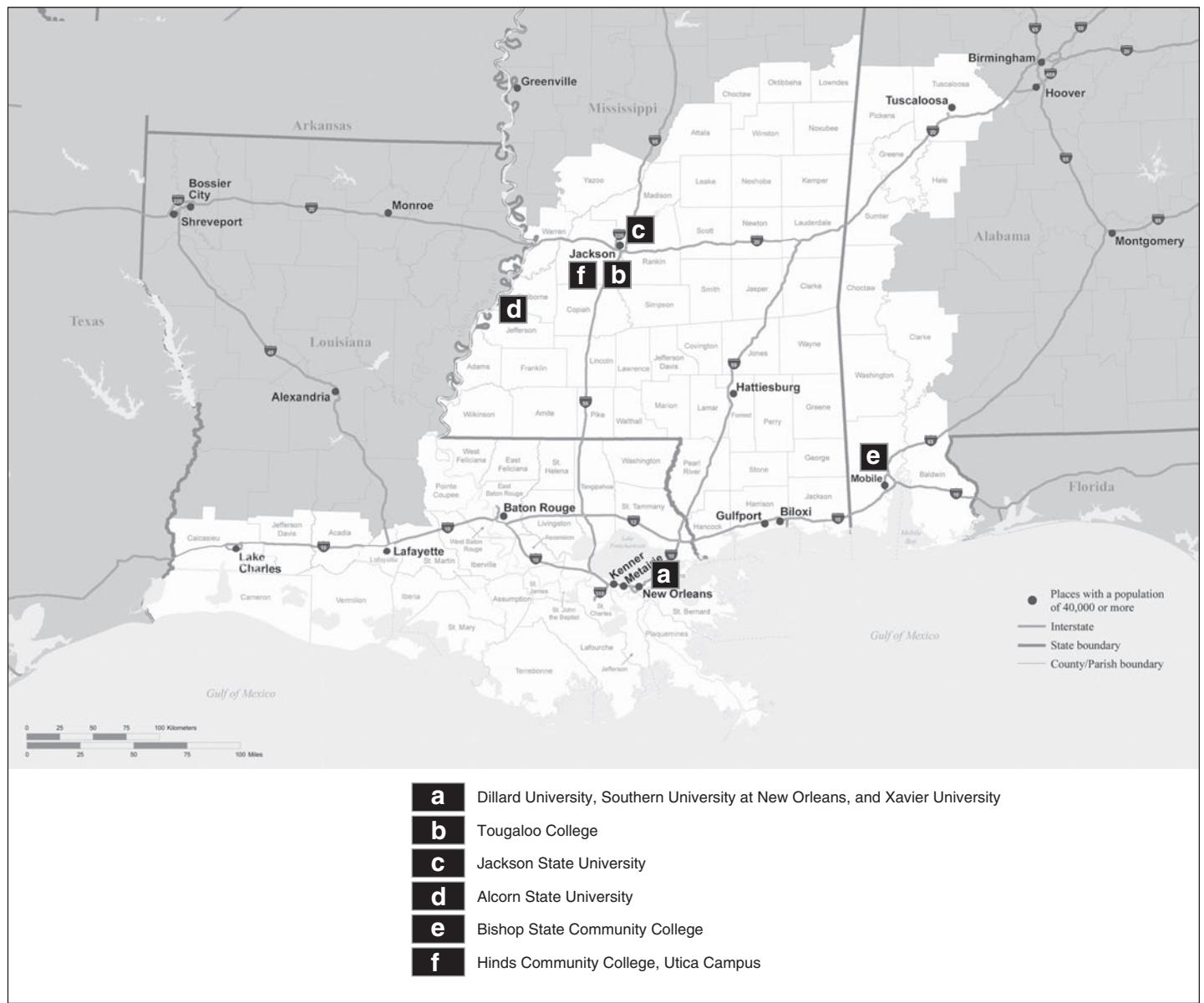
Source: GAO.

Appendix II: Number of HBCUs Eligible to Participate in Capital Financing Program by State (as of August 31, 2006)



Source: GAO data; map, Map Resources.

Appendix III: HBCUs Located in Geographic Area Affected by Hurricane Katrina in 2005



Source: GAO data; map, U.S Department of Commerce, Economics and Statistics Administration, U.S. Census Bureau.

Appendix IV: Comments from the Department of Education



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF POSTSECONDARY EDUCATION

THE ASSISTANT SECRETARY

OCT 2 2006
Ms. Cornelia M. Ashby
Director, Education, Workforce,
and Income Security Issues
United States Government Accountability Office
Washington, DC 20548

Dear Ms. Ashby:

Thank you for the opportunity to review and comment on the U.S. Government Accountability Office's (GAO) draft report entitled "CAPITAL FINANCING: Department Management Improvements Could Enhance Education's Loan Program for Historically Black Colleges and Universities" (GAO-07-64). We appreciate GAO's examination of this important program, and, in accordance with the draft report's recommendations, the Department of Education (Department) intends to take numerous steps towards strengthening the program's ability to serve the nation's Historically Black Colleges and Universities (HBCUs).

The Department's increased leadership and oversight of program activities, including those of the Designated Bonding Authority (DBA), will ensure that the statutory requirements discussed in your report are met and enable us to better address the needs of prospective and current participants as they arise. As part of our effort to more closely monitor the DBA, the Department will require quarterly reports on the status of program participation and financing. In addition, plans are underway to retain an independent firm to audit the DBA during fiscal year (FY) 2007, at which time the handling of loan funds and associated fees will be assessed.

The Department will leverage the knowledge and expertise of the HBCU Capital Financing Advisory Board (Board) by consulting the Board regarding how to maximize the value of marketing and outreach to the HBCU community. In addition, as required by the statute, we will convene Board meetings on a more regular basis. The next meeting has been scheduled for October 27, 2006.

In order to increase program awareness among HBCU administrators, the Department will review and adjust promotion strategies to ensure that the program targets relevant administrators (i.e. facilities officers) at a diverse range of institutions (2- and 4-year, public and private). We must also identify the most effective means and sites of outreach, such as conference participation and school visits, and track the outcomes of these efforts. To support schools that have expressed interest or that appear to be strong candidates for the program, the Department will place greater emphasis on technical assistance in preparing and applying for program loans.

Efforts will be made to simplify each stage of the loan process – including pre-application activities (e.g. obtaining property titles and financial statements), formal initiation of the process,

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and subsequent evaluation, decision, and negotiations – and to clearly convey this process in marketing materials and conversations with school administrators. Experiences of past borrowers will be studied to determine realistic time projections for each phase and to identify lessons that can be shared with new applicants. Throughout the process, the Department and the DBA will provide schools with clear and timely information regarding the status of their inquiries. Anticipated delays will be discussed with applicants as early as possible and monitored closely to minimize project delays and related cost increases.

We recognize schools' frustration with the pooled escrow requirement described in your report; however, modifying this requirement would require legislative action. Given Congress' historical desire to limit program costs, it is unlikely that such a change will occur in the foreseeable future. Furthermore, while the Department understands institutions' preference for semi-annual rather than monthly payments, the potential for default, as well as exposure from the default of a current program participant, leads us to believe that it would be imprudent to implement a less frequent payment schedule at this time.

As suggested in your report, the Department is in the process of revising its fiscal procedures to ensure that fees are accurately collected and recorded. The Federal Financing Bank fee should be held in the program's financing account, and we are currently working with the Treasury Department and the Office of Management and Budget (OMB) to incorporate the fee into the Department's cash flow model as part of our ongoing efforts to improve the estimates of the budgetary costs of the program. These changes should take effect early in FY 2007.

In order to ensure the completeness of program files, the Department is working with the DBA to identify and locate any documents that are currently missing from program records, including property titles, loan applications, and decision memoranda. Future loans will be issued only when an applicant's file is complete, and a more diligent effort will be made to maintain those files following disbursement of a loan.

To determine the program's effectiveness, the Department has begun to develop performance measures that will be implemented in FY 2007. Key stakeholders, including the Board, will be consulted during the development stage of this process. Looking forward, the Department will make certain that rigorous standards are used to measure the performance of both program staff and the DBA.

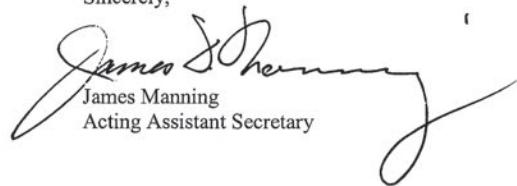
Special attention will continue to be given to the implementation of emergency provisions related to the Gulf Coast hurricanes, as the Department works closely with affected HBCUs to support their recovery and rebuilding efforts. On September 27, 2006, I visited New Orleans to discuss these provisions with HBCU administrators and to offer the Department's assistance in helping them access these funds in a timely manner. We are committed to working with these institutions to ensure that available resources are used to meet their critical needs, but we will remain vigilant about properly segregating and accounting for the various streams of funding that have been awarded to hurricane-affected schools to avoid duplication or misuse of funds.

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of Education**

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Once again, I would like to thank you for taking the time to research and report on the HBCU Capital Financing Program. Your findings and recommendations will be most helpful as we strive to enhance this valuable program.

Sincerely,



James Manning
Acting Assistant Secretary

Enclosure

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contacts

Cornelia M. Ashby, Director, (202) 512-7215

Staff Acknowledgments

In addition to those named above the following individuals made important contributions to the report: Jeff Appel, Assistant Director; Tranchau Nguyen, Analyst-in-Charge; Carla Craddock; Holly Gerhart; Lauren Kennedy; Sue Bernstein; Margie Armen; Christine Bonham; Jessica Botsford; Michaela Brown; Richard Burkard; Carlos Diz; Kevin Jackson; Tom McCool.

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