



Highlights of [GAO-07-64](#), a report to congressional requesters

## 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](http://www.gao.gov/cgi-bin/getrpt?GAO-07-64).

To view the full product, click on the link above. For more information, contact Cornelia Ashby at (202) 512-7215 or [ashbyc@gao.gov](mailto:ashbyc@gao.gov).

## CAPITAL FINANCING

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

## 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.