Issue Brief № 54

The Impact of HBCU Capital Loan Forgiveness

by Krystal L. Williams, Stephen G. Katsinas and Nathaniel J. Bray

Executive Summary

This issue brief outlines: (1) the Historically Black Colleges and Universities (HBCU) Capital Financing Program—a federal loan program to assist the nation’s 102 federally-designated HBCUs to obtain low-cost capital financing for campus maintenance, renovation, and construction projects; (2) efforts to have these loans forgiven due to HBCUs’ financial constraints resulting from the COVID-19 pandemic; and (3) the impact of loan forgiveness on 7 of the 14 HBCUs in the State of Alabama. These key points are discussed:

- The historical financial challenges HBCUs experienced that underscore the importance of HBCU Capital Financing Program loan forgiveness;
- The key role that HBCUs played in advocating for loan forgiveness; and
- The impact of this loan forgiveness policy development not only on 7 of the 14 HBCUs in Alabama, but also upon the state itself.

The case of Stillman College is presented to highlight the financial burden that the federal loan forgiveness program alleviated for HBCUs across the State of Alabama. The brief concludes with a discussion of the critical importance of federal loan forgiveness and how it can be leveraged to provide “greater bang for the buck” with regard to state financial support to HBCUs.

HBCU Financial Challenges: Important Historical Context

In 2018-19, the nation’s 102 federally designated HBCUs served a total of 347,321 students. Nearly all of the 102 HBCUs are located in southern states; 50 are privately controlled, and 52 are publicly controlled including 10 public two-year colleges. In 2018-19, of the 347,321 students served, 244,643 (i.e. 70 percent) were Black students, and 153,126 of the 347,321 (i.e. 44 percent) received need-based federal Pell Grants that totaled $759,260,103 for an average Pell Grant of $4,958.
Clearly, the federal government has made major investments in the success of HBCUs and is committed to helping them help their students attend college and achieve degree success.

With 14 within its borders, no state has more HBCUs than Alabama: In addition to two created by the Second Morrill Act of 1890—Alabama State University and Alabama A&M University—Alabama hosts seven private nonprofit HBCUs—Miles College, Oakwood College, Selma University, Stillman College, Talladega College, and Tuskegee University, and six public two-year HBCUs—Bishop, Drake, Gadsden, Lawson, Shelton, and Trenholm State Community Colleges. Alabama’s 14 HBCUs are a vital component of the state’s higher education system, delivering access and success to thousands of students each year.

The nation’s HBCUs have encountered numerous historical financial challenges over their histories, and these provide important context for understanding their current economic status. Studies show an overall decline in inflation-adjusted federal funding provided to HBCUs and other higher education institutions since the early 2000s, revealing disparities between federal money provided to HBCUs and non-HBCUs.¹

In addition, HBCUs, which serve large numbers of low-income students receiving Pell Grants. These students, and the HBCUs that serve them, are susceptible to changes in an inconsistently funded, unstable federal Pell Grant program that has seen cuts eight times since its creation in 1972.²

Most HBCUs, including the Stillman College example presented in this brief, saw enrollment decline for five straight years following the abrupt imposition by Congress of new Pell eligibility requirements due to budgetary constraints approved in the spring of 2012 and implemented immediately that fall. At Concordia College, an HBCU in Selma that closed in 2018 after 96 years of operation, 90 percent of its enrollment were Black students, and 90 percent received Pell Grants.³

In addition to federal funding challenges, state-level analyses highlight other financial issues. A number of HBCUs have been unable to acquire state funds that are long overdue.⁴⁵ Moreover, HBCUs, like other private nonselective open-enrollment “invisible colleges,” generally have small endowments⁶, which provide a critically important buffer when institutions are confronted with
economic downturns or abrupt decreases in public funding, as occurred with the federal Pell eligibility restrictions in 2012. On a related note, HBCUs often must navigate unequal consideration from foundations and corporate donors for gifts to support students and university operations. This is the context for the HBCU Capital Finance Program Loan Forgiveness and other COVID-related programs that provided an essential lifeline to HBCUs experiencing financial hardships due to funding disparities that were exacerbated with the pandemic.

**What is the HBCU Capital Financing Program?**

The U.S. Department of Education’s HBCU Capital Financing Program was created by Congress as a loan guarantee program to provide federal assistance to HBCUs for low-cost capital financing campus maintenance, renovation, and construction projects. When enacting the program as part of the Higher Education Amendments of 1992, Congress found academic and residential facilities on many HBCU campuses suffered from deferred maintenance, and that HBCUs often were unable to secure financing needed for maintenance and construction projects due to their smaller overall enrollments, limited endowments and other related financial risk factors. To remedy this situation, the HBCU Capital Financing Program provides HBCUs with access to low-cost capital financing by issuing federal guarantees on the full principal and interest of qualified bonds, the proceeds of which are used for capital financing loans. By helping the institutions, Congress assists HBCUs to educate many students who are academically talented and economically disadvantaged.

**Moving Towards Loan Forgiveness: The Instrumental Role of Stillman College**

When Cynthia Warrick became the seventh president of Stillman College in 2017, she inherited a balance sheet putting the College in danger of closure. Included in the balance sheet was a $40 million loan of prior debt from the HBCU Capital Financing Program. The annual loan repayments were $260,000 per month or $3.12 million per year, despite the College’s declining enrollments – and tuition revenues – that followed the 2012 Pell eligibility restrictions. Faced with the untenable choice of paying back the loan (Stillman could not) or closing the college’s doors, President Warrick chose an alternate approach.
Upon her arrival, President Warrick noticed how Gulf Coast HBCUs saw their HBCU Capital Financing loans forgiven due to the devastation experienced following Hurricane Katrina.\textsuperscript{10} Loan forgiveness was part of the federal government’s recovery assistance in the wake of the destruction from a once-in-a-century storm (so powerful was Katrina that it was still a Category 1 hurricane as its eye passed over Tuscaloosa 200 miles inland from the Gulf Coast).

Similarly, with the COVID-19 pandemic in early 2020 and the mandated closure of the American economy by the federal and state governments, Stillman and other HBCUs faced an unprecedented crisis of plummeting enrollments, an acute need for supplies, and a growing sense of panic on campus. With their great numbers of low income, first-generation-in-college students, HBCUs saw an immediate decline in enrollment. As the parents and siblings of students lost their jobs, higher education was put off or on hold to help support their families.

Given how tuition is the key revenue source, the reduced cohort sizes had a cascading effect on Stillman College finances, as smaller class sizes advanced through their four years of college-going. The $3.12 million annual HBCU Capital Financing Loan repayment requires maintaining enrollments and the tuition dollars those enrollments generate. Thus, once those enrollments declined substantially due to the pandemic, the financial repayment models no longer worked. In this way, the COVID-19 pandemic dealt a devastating blow to HBCUs like Stillman carrying federal HBCU Capital Financing Loans.

Realizing that the financial strain was caused by enrollment decreases due to an event over which they had no control, President Warrick led a group of HBCU presidents whose institutions held loans to Washington to meet with officials at the U.S. Department of Education and on Capitol Hill. Stillman’s leadership efforts were joined by 44 other HBCUs across America. As a result of these collective efforts, over $1.6 billion in federal loans were ultimately forgiven across all 45 institutions, including nearly $427 million for 7 HBCUs in Alabama.

\textit{HBCU Capital Finance Program Loan Forgiveness: Local and State Impacts}

Table 1 shows that under the HBCU Capital Finance Program a total of $427 million was forgiven in Alabama, with institutions receiving between $6.3
million and $147 million in relief. About a third of the total (i.e. $171 million) was forgiven at private nonprofit HBCUs like Stillman College.

Table 1. HBCU Capital Finance Program Loan Forgiveness in Alabama

<table>
<thead>
<tr>
<th>Institution</th>
<th>Amount Forgiven*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama A &amp; M University</td>
<td>$86,569,273.60</td>
</tr>
<tr>
<td>Alabama State University</td>
<td>$147,442,409.86</td>
</tr>
<tr>
<td>Lawson State Community College Birmingham</td>
<td>$21,246,115.83</td>
</tr>
<tr>
<td>Miles College</td>
<td>$6,268,665.36</td>
</tr>
<tr>
<td>Stillman College</td>
<td>$30,312,091.67</td>
</tr>
<tr>
<td>Talladega College</td>
<td>$8,738,314.15</td>
</tr>
<tr>
<td>Tuskegee University</td>
<td>$126,380,201.09</td>
</tr>
<tr>
<td>Estimates Across all Listed Institutions</td>
<td>$426,957,071.56</td>
</tr>
</tbody>
</table>


Two-thirds of the federal HBCU loan forgiveness were for Alabama’s public HBCUs, or about $255 million. This $255 million would have ultimately been a financial burden for the State of Alabama if not forgiven by the federal government. Nationally, deferred maintenance has long been an issue for public higher education; in 2020, Alabama Governor Kay Ivey signed a $1.48 billion bond issue for facilities across public elementary, secondary, and postsecondary sectors, of which public higher education’s share (including all public HBCUs) was $338 million. This was the first bond issue passed since 2007. Thanks to federal HBCU loan forgiveness, state funding will undoubtedly go farther.

Recent events highlight a series of legal challenges that resulted from inequitable investments in public HBCUs compared to non-HBCUs. March of 2021 saw a $577 million settlement of a longstanding legal battle concerning discrimination and inequitable funding of HBCUs by the State of Maryland. HBCUs in Mississippi won a similar settlement after decades of legal disputes. Similar opportunities in other states may emerge given the new Administration in Washington and the pressing need to resolve longstanding funding disparities.

With the loan forgiveness of the HBCU Capital Finance Program, a valuable opportunity for a reset was presented – leveraging Federal forgiveness with phased-in increased state support of Alabama HBCUs. These investments are important, given research suggesting HBCUs in Alabama have a total economic impact of $1.5 billion, generate 15,062 jobs for their local and regional economies, and generally make substantial economic contributions to their communities.
Concluding Thoughts

HBCU Capital Finance Program Loan forgiveness was beneficial to each of the 45 HBCU recipients, including 7 institutions in Alabama. Furthermore, by providing over $255 million to public HBCUs in Alabama, it lifted a financial burden that the state otherwise would have had to assume. Undoubtedly, the loan modification and ultimate forgiveness process would not have been feasible without the leadership of President Warrick at Stillman College, and the active collaboration and involvement of other HBCU presidents. As part of larger federal pandemic-related policies, these loan forgiveness efforts provide necessary supports for a set of institutions that: 1) were hit the hardest by the pandemic, and 2) serve a demographic of students most negatively impacted by COVID-19. While federal loan forgiveness efforts are important, there is a need for continued state support given these institutions’ financial constraints and their substantial contributions to their local and regional economies. This need predates the pandemic; however, it is now even more important because of the financial constraints many of these colleges (and their students) will operate under in a post-COVID environment. Thus, the HBCU Capital Finance Program Loan forgiveness program represents a unique opportunity for additional state financial investments in Alabama HBCUs, as it has lifted a financial burden for the state.
References


7 Ibid, Williams and Davis, 2019.


12 Cason, M. “Ivey cites students, teachers as Alabama issues $1.5 billion in bonds for school capital projects,” Al.com, October 23, 2020.


