

HBCU Capital Financing Program Credit Criteria

Administrative Factors (including policy setting and day-to-day management)

- The Board of Trustees, the make-up of its membership (business, professional, educational, governmental), and the members' duration of service
- The college president, his/her cabinet and other day-to-day management support
- State government oversight appointment powers, subsidy/appropriations, if any, and reporting requirements

Debt Factors (including debt limitations, debt structure, and debt make-up; record of debt incurrence and repayment of default; and debt service coverage requirements)

- Debt load (overall debt exposure) vs. overall resources available for debt repayment (e.g. unrestricted endowment or other assets)
- Adequacy of funds pledged for annual debt repayment and debt repayment requirements
- Borrower's familiarity with debt repayment obligations and ability to produce records that demonstrate an ability to administer and manage debt repayment obligations
- Earnings coverage requirements with respect to debt currently outstanding and additional debt to be incurred

Legal Security Provisions (including key provisions of Loan Agreement and Indenture of Trust)

- Loan Agreement and key requirements and covenants of Borrower:
 - Adherence to and compliance with rate covenant (and consequences for failing to comply)
 - Adherence to debt service reserve requirements
 - Agreement to adjust fees and charges as necessary to comply with rate covenant
 - Obtaining consent as required before incurring additional debt
- Important provisions related to the Agreement to Insure:
 - Preliminary and final assessment of the Agreement to Insure
 - Evidence that administrative fees and expenses associated with the financing are in accordance with the terms and requirements stipulated under Article 8 of the Agreement to Insure
 - Stipulation that, in accordance with provisions of Article 3 of the Agreement to Insure, all requirements related to a third-party trustee have been or will be complied with

Debt Service Coverage Ratios (based upon both historic and projected earnings coverage)

- Debt service coverage ratio of at least 1.20x
- Limitations, if any, associated with the incurrence of short-term cash flow or operating loans

Debt Service Coverage Requirements (associated with the incurrence of additional debt)

Economic Factors (including key drivers of the local economy, if any, that impact the financing)

Application's Acceptance and Matriculation

Enrollment and Retention

Financial Factors (including historic and projected operating results)

- Performance of key operating income sources
- Performance of key operating expenses vs. budget
- Critical examination and review of the statement of cash flow
- Detailed review and examination of year-end operating results
- Review and analysis of projected operating results, including appropriate stress scenarios that are in line with historic operating activities of peer institutions in the region
- Important borrower credit metrics vs. credit peers in region:
 - Days cash on hand
 - Education expense/student
 - Net tuition/student
 - Expendable financial resources to direct debt
 - Operating cash flow margin
 - Average gift/student

Capacity to Effect Upward Adjustments in Fees and Charges in a manner that enables Borrower to remain competitive, and a host of other revenue generating strategies that will be driven by specific circumstances