June 22, 2020

Re: Main Street Lending Program—Nonprofit Organization Facilities

Dear Chairman Powell,

On behalf of the American Council on Education (ACE) and the undersigned higher education associations, we submit the following comments in regard to the Main Street Lending program (MSLP) non-profit organization facilities and the proposed terms and structure. For our nation’s colleges and universities, access to affordable capital is a necessary lifeline as they navigate the economic fallout from the COVID-19 crisis.

The financial impact of the novel coronavirus on institutions is extreme and the costs continue to mount. Institutions incurred additional costs to move instruction online early in the pandemic, are losing substantial auxiliary revenues, and face a range of further challenges that are unique to each campus. At the same time, many institutions of higher education provided significant refunds of expenses such as on-campus housing and meal plans. Academic medical centers and their associated faculty physician practices on the front lines of treating COVID-19 patients have lost significant revenue by halting elective procedures and non-urgent patient care visits during the pandemic. Lost summer revenue and looming losses in the fall, such as deep cuts in state funding for public institutions of higher education, as well as potential enrollment declines across higher education, compound their challenges. Moreover, as institutions make plans toward how to proceed in the fall, they will undoubtedly face additional costs to ensure a safe learning environment which will include, among other things, sufficient PPE for students and staff, campus COVID-19 cleaning, testing and tracking tools, and efforts to de-densify campus housing and learning facilities.

America’s colleges and universities have a major direct (and indirect) impact on their local, state, and regional economies. Universities are often one of the, if not the, largest employers for an area. The research activities at colleges and universities in diverse fields such as biotechnology, energy, and aerospace create jobs and businesses at a national level. Individual students, staff, and faculty also have a direct impact on local and regional economies via spending on housing, shopping, food services, construction, and local small businesses. This outsized economic impact is seen across all sectors of higher education.
We appreciate the efforts to create a new non-profit lending facility. As you seek to finalize its terms and structure, we offer the following comments to help ensure that all institutions of higher education can access this important program:

1. **Ensure both nonprofit private and public colleges and universities are eligible for the nonprofit MSLP facility**

Under the proposed terms for the new facility, “nonprofit” is defined as “a tax-exempt nonprofit organization described in section 501(c)(3) of the Internal Revenue Code (IRC).” The terms also note that “other forms of organization may be considered for inclusion as a Nonprofit Organization under the Facility at the discretion of the Federal Reserve.” Because of how public institutions of higher education are organized, most two-year and four-year institutions may not have separate 501(c)(3) status, but rather are organized as entities of the state.

Because the proposed terms note that other forms of organization may be considered for inclusion as nonprofit organizations, we urge the Federal Reserve to specify that both public and private nonprofit higher education institutions are eligible for these loans. We recommend that the final guidance on eligibility reference the definition of institutions of higher education as defined by Sec. 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a)). This clarification is critical because public institutions are unable to directly participate in the Municipal Liquidity Facility created to help state and local governments manage cash flow pressures.

2. **Adjust the proposed list of qualifications for Eligible Borrowers**

The proposed term sheet includes a list of eleven items for an organization to meet in order to be eligible to apply under the nonprofit facility. Our comments focus on proposed changes to those eligibility requirements, to make it easier for our colleges and universities to access these programs.

Point five states that an eligible borrower “has 2019 revenues from donations that are less than 30% of total 2019 revenues.” Footnote #3 notes that “donations include proceeds from fundraising events, federated campaigns, gifts, and funds from similar sources.” We ask that the final guidance clarify that “donations” as used in the proposed terms, only includes donations recognized or spent in the current year, and ensure that this does not include “promised” donations. Like many other nonprofits, colleges and universities often receive gifts that are disbursed over multiple years. We ask that additional language (underlined below) be added to footnote #3 and include that donations “include proceeds from fundraising events, federated campaigns, gifts, and funds from similar sources without restrictions in the current year and exclude endowment spending. Revenues in the requirement would be unrestricted revenues.”

Point six under eligible borrowers would require institutions to demonstrate eligibility using a ratio of adjusted “earnings before interest, depreciation, and amortization” (EBIDA) to unrestricted 2019 operating revenue greater than or equal to 5%. EBIDA is
not something generally used by institutions of higher education, and footnote #4 of the proposed terms explains the methodology for calculating EBIDA. In order for this to work for colleges and universities, we ask that the following language be included in footnote #4 (new suggested language underlined): “The Eligible Lender should calculate operating revenue as unrestricted operating revenue, excluding funds committed to be spent on capital, excluding changes in net assets related to pension and other postretirement benefits, and including a proxy for endowment income in place of unrestricted investment gains or losses.”

Point eight states “at the time of loan origination, [the eligible borrower] has a ratio of (i) unrestricted cash and investments to (ii) existing outstanding and undrawn available debt, plus the amount of any loan under the Facility, plus the amount of any CMS Accelerated and Advance Payments, that is greater than 65%.” This could be problematic because the balance sheets of colleges and universities have significant property, plant, and equipment with related debt and consequently could make the 65 percent a challenging threshold for our institutions. We recommend that this percentage be lowered to allow more of our institutions to participate in this facility.

3. Expand eligibility thresholds to ensure all colleges and universities can access the nonprofit MSLP facility

Even with the expansion of the program to nonprofits with up to 15,000 employees, some nonprofit institutions or systems of higher education will not qualify under the current threshold. This includes large institutions of higher education which may be among the top five employers within their states, such as the public flagship universities or the major private research universities. We ask that nonprofits of all sizes be made eligible for these loans, regardless of the number of their employees, given the importance and direct and indirect economic impact of these institutions to their communities and regions. We also support the removal of the minimum of 50 employees.

Further, hospital systems affiliated with universities should not be aggregated with universities for the purposes of any size cap. Both universities and their affiliated hospitals should separately be eligible to apply for funding. Academic medical centers are unique relationships between universities, medical schools, teaching hospitals, and faculty physician practice plans, which may or may not fall under the same 501(c)(3) nonprofit organization. As such, hospital systems and physician practice plans affiliated with universities should not be aggregated with universities for the purposes of any size cap. Universities, their affiliated hospitals, and physician practice plans should separately be eligible to apply for funding.

Likewise, the eligibility requirement of an endowment of less than $3 billion will make some of our institutions both public and private ineligible. An endowment is not a single fund that can be used for any purpose like a checking or savings account. Rather, it is a collection of often thousands of gift funds permanently invested to support the charitable educational mission of an institution both in the present and the future. The bulk of university endowments—at many institutions, 70 percent or more—are
restricted funds that can only be spent in ways that meet the legally binding terms specified by the donor, enforceable under state contract law and attorneys general. For example, donors may endow a chair in a particular academic field, give money for specific library collections, designate gifts for academic research, or endow student aid. Endowments are not accessible as rainy-day funds and are ill-suited to patch emergency funding needs. In the final terms, we ask that you remove the $3 billion endowment threshold from the eligibility requirements.

We continue to ask that all student workers (not just, but including, those working in the Federal Work Study programs) be exempted from the count of employees for the purposes of eligibility for this and any future Federal Reserve and Treasury programs. Many of our institutions employ student workers across campus as a part of their overall financial support to help pay for college and provide students with work experiences while keeping them close to campus for the purposes of their education. With the majority of our campuses closed for the spring semester and transitioned to online learning, all or most of these student employees have left campuses, and therefore should not be included in the employee headcount for the purposes of eligibility.

4. Expand and change the proposed loan terms to ensure they are a useful tool as colleges and universities respond to COVID-19

While we appreciate that the Federal Reserve has tried to keep the terms similar between the MSLP business program and the proposed MSLP nonprofit facility, we believe the terms in the MSLP nonprofit facility should reflect the unique nature of nonprofits. Accordingly, we believe the nonprofit facility should offer longer deferments and repayment terms than what is currently included in the proposed term sheet, given the financial cycle of nonprofits. For example, for colleges and universities, any enrollment declines at the start of fall 2020 will affect our institutions for at least an additional four years as that smaller class advances through their degree programs. A longer repayment period (at least 6-8 years) as well as a longer deferment period (2 years or longer) will help to ensure nonprofits are on better financial standing to make payments on these loans.

Under “eligible loans” item #2 “principal payments deferred for two years and interest payments deferred for one year (unpaid interest will be capitalized),” we ask that the capitalization of unpaid interest requirement be waived. Similarly, item #3 would require “principal amortization of 15% at the end of the third year, 15% at the end of the fourth year, and a balloon payment of 70% at maturity at the end of the fifth year.” In line with our recommendation to extend the repayment period, we ask that principal amortization occur evenly during the extended payment period rather than having a balloon payment at maturity. The balloon payment would be especially difficult for colleges and universities who are likely to be impacted for several years following the COVID-19 crisis.

We believe the interest rate on the MSLP nonprofit loans should be below the rate for the MSLP business loans, currently set at an adjustable rate of LIBOR + 300 basis points. Non-profits seek to serve their respective missions while remaining solvent,
compared to for-profit entities which work to maximize net revenues so as to generate a surplus through normal business activity to cover borrowing costs. Rather than LIBOR plus 3 percent, we propose that the Fed set the margin above LIBOR at a lower level for non-profit borrowers, ideally at a level sufficient to cover the costs of the program without generating a net gain for the Federal Reserve. An attractive and competitive interest rate will help colleges and universities access this important program and allow our institutions to manage their higher costs, lost revenue, avoid large-scale employee furloughs, and continue to play an essential role in their communities’ long-term economic recovery.

We thank you for your consideration and look forward to working with you on this and other important loan programs as the Federal Reserve responds to the COVID-19 crisis.

Sincerely,

Ted Mitchell
President

On behalf of:

Achieving the Dream
ACPA - College Student Educators International
Alabama Association of Independent Colleges and Universities
American Association of Colleges of Nursing
American Association of Collegiate Registrars and Admissions Officers
American Association of Community Colleges
American Association of State Colleges and Universities
American College Health Association
American Council on Education
APPA, “Leadership in Educational Facilities”
Association for Biblical Higher Education
Association of Advanced Rabbinical and Talmudic Schools
Association of American Medical Colleges
Association of American Universities
Association of Catholic Colleges and Universities
Association of Chiropractic Colleges
Association of Governing Boards of Universities and Colleges
Association of Independent California Colleges and Universities
Association of Independent Colleges and Universities of Ohio
Association of Independent Colleges of Art & Design
Association of Jesuit Colleges and Universities
Association of Independent Colleges and Universities of Pennsylvania
Association of Presbyterian Colleges and Universities
Association of Public and Land-grant Universities
Association of Vermont Independent Colleges
Conference for Mercy Higher Education
Connecticut Conference of Independent Colleges
Council for Advancement and Support of Education
Council for Christian Colleges & Universities
Council of Independent Colleges
Council of Independent Colleges in Virginia
CUPA-HR: College and University Professional Association for Human Resources
EDUCAUSE
Georgia Independent College Association
Hispanic Association of Colleges and Universities
Independent Colleges and Universities of Missouri
Independent Colleges of Washington
International Association of Baptist Colleges and Universities
Kansas Independent College Association
Louisiana Association of Independent Colleges and Universities
Maryland Independent College and University Association
Minnesota Private College Council
NAFSA: Association of International Educators
NASPA - Student Affairs Administrators in Higher Education
National Association of College and University Business Officers
National Association of College Stores
National Association of Independent Colleges and Universities
National Association of Schools and Colleges of the United Methodist Church
National Collegiate Athletic Association
North Carolina Independent Colleges and Universities
State Higher Education Executive Officers Association
The Maine Independent Colleges Association
Transnational Association of Christian Colleges and Schools
UNCF (United Negro College Fund, Inc.)
UPCEA
Wisconsin Association of Independent Colleges and Universities