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The Honorable Steven Mnuchin
U.S. Department of Treasury
Office of the Secretary
1500 Pennsylvania Avenue NW
Washington, DC 20220

Jerome Powell, Chairman
Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

May 22, 2020

Re: Support for creation of a new facility for nonprofits with the Main Street Lending Facility

Dear Secretary Mnuchin and 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) and the creation of a new lending facility for non-profits. We appreciate the changes that the Federal Reserve already has made to the MSLP thus far, particularly increasing the eligibility thresholds to 15,000 employees or $5 billion in annual revenue. 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 are incurring additional costs to move instruction online, losing substantial auxiliary revenues, and facing a range of further challenges that are unique to each campus. At the same time, many institutions of higher education are providing significant refunds of expenses such as on-campus housing and meal plans. Costs have skyrocketed while revenue has plummeted. Looming additional losses for the summer and possibly the fall compound the problem, as well as potentially deep cuts in state funding for public institutions of higher education.

We read with interest the April 30 additional guidance for the MSLP, noting that while it still considered nonprofits to be ineligible for this program, it also included a statement that the Board recognizes the "critical role that nonprofit organizations play through the economy" and the news that you are evaluating a separate approach.[1] We are also heartened by the recent comments by Philadelphia Federal Reserve President Patrick Harker, stating that the Fed is thinking carefully about setting up facilities that can provide direct lending to colleges, universities, and nonprofit medical institutions.[2]

[1] https://www.federalreserve.gov/newsevents/pressreleases/monetary20200430a.htm
[2] https://www.bloomberg.com/news/articles/2020-05-07/harker-says-fed-exploring-emergency-aid-for-colleges-nonprofits

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 employer for an area. 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. Below are some examples:

- In 2013, Wake Forest University, a private nonprofit four-year institution in North Carolina, had an economic impact of $3.3 billion on its regional economy. In construction alone, the university was scheduled to spend $625 million from 2016 through 2026.
- In 2018, a study at the University of Georgia, a public four-year institution in Georgia, showed that through the institution's teaching, research, and service, it generated $5.7 billion across the state.
- In 2019, the University of Michigan, a public four-year institution in Michigan, had 52,730 employees in Michigan and estimated that the total earnings and benefits that the university is responsible for totaled over $5 billion.
- In 2017, a report from Salem Community College (SCC), a public two-year year institution in New Jersey, estimated that their students added $37.9 million in income to the Salem County economy, approximately equal to 1.0 percent of the county's total gross regional product. SCC's impact supported 552 jobs in Fiscal Year 2016-17. For perspective, this means that one out of every 51 jobs in Salem County is supported by the activities of SCC and its students.
- In 2017, Clark Atlanta University, a private nonprofit four-year Historically Black College and University (HBCU) in Atlanta, Georgia, had a total economic impact of $204 million on its local and regional economy, including generating 1,708 jobs with an expected total life-time earnings of $1.9 billion for their 2014 graduates.

Many of our colleges and universities are seeking low-cost, bridge loans to help address the financial impact of the COVID-19 crisis and are interested in accessing the credit and loans created by the CARES Act and made available through the Federal Reserve. As you seek to craft a solution to support nonprofits, specifically institutions of higher education, we would like to offer the following comments:

- The eligibility criteria for nonprofits should make explicit that both public and private nonprofit institutions are eligible for these loans. Because of how public institutions of higher education are organized, some may not have separate 501 (c)(3) status, but rather are organized as an entity of the state. We recommend that the guidance on eligibility include 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)). Public institutions of higher education would also benefit from being eligible to directly participate in the Municipal Liquidity Facility, created to help state and local governments manage cash flow pressures.

- Even with the expansion to businesses with up to 15,000 employees, some of our larger 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.

- As the Fed is aware, EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) is not a metric that is used, or even able to be used in many cases, by nonprofits. We ask that for a new nonprofit facility, the Fed use financial covenant metrics that work for non-profits in order to measure capacity and the maximum size for the loan. Regarding creditworthiness, financial covenants should include several methods by which an institution could qualify, such as: 1) minimum liquidity; 2) fixed charge; or 3) debt service covenants (e.g., a Debt Service Coverage Ratio no greater than 1:2). No additional depository, security, or guarantees should be required.

- In addition, whenever possible the Fed should evaluate multiple years of financials given the potential biases of gauging the financial health of a nonprofit college based on a single year of financials.

- Given the challenges in using EBITDA to evaluate nonprofit organizations, we propose using a net operating metric (without donor restrictions) as the standard for determining the maximum loan eligibility. Maximum loans could be made at the same 4-6x multiplier as for private businesses.

- We believe that a facility for non-profits should offer longer deferments and repayment terms than what is currently included in the MSLP, 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.

- Because nonprofit and public institutions serve as engines for regional workforce development and will play a role in their communities' long-term economic recovery, ideally, we believe the interest rate on these loans should be zero percent. In the alternative, we ask that the rates not be higher than LIBOR plus 100 basis points. This will help colleges and universities to continue to operate as an economic engine for their local and regional communities.

- We continue to ask that all student workers (not just those working in the Federal Work Study programs) be exempted from the count of employees for the purposes of eligibility for these 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.

- 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.

Providing nonprofit colleges and universities access to low-interest loans will enable them to continue to serve as economic drivers in their local and state economies and employ millions of faculty and staff around the country. 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

Cc: Eric S. Rosengren, President and Chief Executive Officer, Federal Reserve Bank of Boston
Patrick T. Harker, President and Chief Executive Officer, Federal Reserve Bank of Philadelphia

On behalf of:

ACPA-College Student Educators International
American Association of Colleges for Teacher Education
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 Council on Education
American Dental Education Association
American Indian Higher Education Consortium
Association of American Medical Colleges

Association of American Universities
Association of Catholic Colleges and Universities
Association of Community College Trustees
Association of Governing Boards of Universities and Colleges
Association of Jesuit Colleges and Universities
Association of Public and Land-grant Universities
College and University Professional Association for Human Resources
Council for Advancement and Support of Education
Council for Christian Colleges & Universities
Council for Higher Education Accreditation
Council of Independent Colleges
EDUCAUSE
ETS
Hispanic Association of Colleges and Universities
NAFSA: Association of International Educators
NASPA - Student Affairs Administrators in Higher Education
National Association for College Admission Counseling
National Association for Equal Opportunity in Higher Education (NAFEO)
National Association of College and University Business Officers
National Association of Colleges and Employers
National Association of College Stores
National Association of Independent Colleges and Universities
National Collegiate Athletic Association
Thurgood Marshall College Fund
UNCF (United Negro College Fund, Inc.)