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A CALL TO ACTION FOR HBCU INVESTMENT

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In response to 2020's racial awakenings, philanthropic organizations and wealthy donors collectively pledged billions in donations to historically Black colleges and universities (HBCUs). While such philanthropy is welcome, it is not sufficient to fix the systemic issues HBCUs wrestle with, which derive from a lack of access to capital markets. HBCUs need routine access to investment capital from a range of sources, including traditional banks, community development financial institutions (CDFIs), philanthropy, and other trusted, mission-driven partners that will enable long-term planning for institutional development and expansion.

In February 2022, Reinvestment Fund, a national nonprofit, mission-driven financial institution, invited a small group of leaders from HBCUs, banks, CDFIs, and philanthropy for a series of conversations about how the financial sector can support these postsecondary institutions. The cross-sector convenings gathered 30 attendees that represented 17 organizations and were facilitated by Dr. Andre Perry of Brookings.

The lessons from these convenings show that HBCUs play a critical role in unlocking upward mobility for students, driving economic growth by cultivating talent and nurturing entrepreneurship, and supporting the overall development of the neighborhoods they are located in by leveraging their physical, social, and financial assets. Increasing access to capital markets by removing long-standing barriers are crucial for stabilizing neighborhoods and campuses while expanding the impact of these assets.

To increase HBCUs' community development capacity, financial and educational leaders must:

1. **Build trust and familiarity between CDFIs and HBCUs**
2. **Devise a strong, HBCU-backed theory of change and power**
3. **Translate social and knowledge capital into collateral for capital markets**
4. **Collaborate across sectors in response to the challenges and opportunities for HBCUs**
5. **Develop revenue support for students from external projects and development**
6. **Combine balance sheets to lend to a pool of HBCUs versus individual HBCUs**

HBCUs will continue to play a vital role in the decades to come. As bastions of inclusivity, these schools equip Black students from all socioeconomic backgrounds with the skills they need to secure jobs, start businesses, invent new technologies, tackle social issues, oversee public budgets, and more.

By taking the steps outlined above, we can ensure that every HBCU can sustain and transform the neighborhoods and cities that host them, as well as maintain or update shared infrastructure, support campus operations, and expand educational programing. Ultimately, we invite leaders to answer this call and work together to unlock shared prosperity and innovation in communities across the nation.

United Negro College Fund, Headquarters in Washington, D.C.

Aligning HBCUs and mission-driven financial institutions

Since their beginnings prior to the Civil War, HBCUs have prepared their students to be leaders. In addition to training the next generation of Black judges, doctors, and other professionals, these institutions are central in producing STEM graduates prepared for the jobs of today and tomorrow. According to a recent McKinsey report, HBCUs account for 10% of all matriculating Black students, and award 17% of all bachelor's degrees and 24% of all STEM-related bachelor's degrees for the nation's Black students.

In addition, according to a 2017 United Negro College Fund (UNCF) report, HBCU graduates "generate $14.8 billion in economic impact annually; that's equivalent to a ranking in the top 200 on the Fortune 500 list of America's largest corporations."

Yet despite these institutions' powerful impact, HBCUs are chronically underfunded due to state underinvestment, lower alumni contributions (related to lower Black incomes and Black wealth), and lower endowments. Much of this underfunding represents the effects of systemic racism, both historical and present-day. But while racism has certainly shaped Black neighborhoods and institutions, it doesn't define them. Black cities and the institutions within them need investments that acknowledge the structural sources of dispossession as well as the possibilities their assets have to offer, including people, institutions, and neighborhoods.

There is a common-sense match between HBCUs and CDFIs. Both are mission-driven institutions that play critical roles in the overall social and economic development of neighborhoods and cities. HBCUs are postsecondary institutions established prior to 1964, whose principal mission was, and is, the education of Black Americans. CDFIs emerged during the civil rights movement to serve disinvested communities; they provide capital and other resources to a wide range of mission-aligned organizations. CDFIs regularly work with anchor institutions—place-based, mission-driven, community-facing organizations—to support capacity building, often in communities that have experienced race- and/or place-based injustice.

In this report, we uplift the voices in the three Reinvestment Fund convenings that identified the structures and practices critical to better aligning these two mission-driven sectors. These conversations were organized around three distinct areas:

1. **Access to capital:** Understanding the barriers and opportunities to acquiring financial resources to make investments that secure the future of HBCUs and surrounding communities.

2. **Telling the HBCU story:** Uplifting the historical and present-day impacts of HBCUs, which should serve as social and economic collateral.

3. **Capacity building:** Identifying what is needed in terms of operational, programmatic, financial, or organizational leadership and infrastructure to enable CDFIs to make successful investments in support of HBCUs' goals for growth and sustainability.

This report begins with a case study that highlights the importance of each theme. The remainder dives deeper into the three topic areas, and includes a discussion of key issues, insights, and action items. To preserve privacy, various quotes from the conversations are provided without attribution. We intend for this paper to be useful to practitioners involved with financial institutions, HBCUs, and community development. Ultimately, the report seeks to open lines of capital from private, philanthropic, and government sources to HBCUs to maximize community development impact.

McNair Hall, North Carolina A&T State University

Centennial Hall, Edward Waters University

Uplifting the college and the community: A case study of Edward Waters University

Since its founding in 1866 as Florida's first HBCU, Edward Waters University (EWU) has been an educational haven for Black students. The Christian, urban, liberal arts institution is located in the heart of the Black community in North Jacksonville, Fla., and it continues to be a critical educational option for low-income, first-generation students looking for a quality college experience. Approximately 1,000 full-time students are enrolled in one of its five bachelor's degree programs (biology, business administration, communications, criminal justice, and psychology).

For the last two years, the university has been named one of the nation's "Top Ten Smaller HBCUs That Are Rising" by the HBCU Campaign Fund. Nevertheless, like many HBCUs, EWU has struggled to overcome systemic barriers to capital that have limited the school's capacity to expand its educational options and define investment strategies that uplift the majority-Black neighborhood the institution sits in.

In 2020, EWU refinanced its existing debt with Reinvestment Fund, allowing it to access more favorable terms. This increased the school's liquidity and freed up capital to upgrade its campus learning and living facilities. In 2021, EWU was able to receive debt relief through the Department of Education's HBCU Capital Financing Program, which provides low-cost capital to finance improvements to campus infrastructure.

By refinancing or otherwise reducing its debt burden, EWU now has more resources to deploy in neighborhood and economic development projects. For example, in 2018, EWU and the nonprofit community development organization LISC Jacksonville opened Steps 2 Success, the first Financial Opportunity Center in the state of Florida. LISC Jacksonville is also working with community leaders on revitalizing the neighborhood's commercial corridor and partnering with the neighboring Rail Yard District to provide employment opportunities for residents.

Said one convening participant about EWU's reinvestment projects:

"We were engaging in not only a reinvestment in Edward Waters University, but we were a part of the community. For everything we did as a university, it was building up the community."

Virginia State University

Hampton University

Current and historic discrimination block HBCUs' access to capital from traditional lenders

In an equitable world, underwriting criteria and lending would be based on HBCUs' measurable impact. Banks and other lenders would focus on how these institutions create intergenerational economic mobility and provide economic value for the surrounding community. But sadly, most lenders focus exclusively on the amount of capital that HBCUs command rather than the social value they create. Ignoring present-day and historic discrimination, lenders penalize HBCUs with sparse balance sheets and deem them "too risky." In turn, they privilege institutions that benefited from segregation and bias in accruing large balance sheets. This desire to only invest in so-called "sure bets" with quick returns replicates funding disparities that arise from differences in endowment size and yearly giving between HBCUs and predominately white institutions (PWIs.) As documented by The Atlantic staff writer Adam Harris in his book The State Must Provide, these funding disparities are rooted in the history of racist underfunding combined with redlining and other lending practices that have compounded the racial wealth gap in communities across the nation.

Endowments are investable assets, along with savings, real estate, stocks, and other resources that nonprofits draw upon for operational expenses and expansion. Altogether, the 10 largest HBCU endowments in 2020 totaled just $2 billion, compared to $200 billion across the top 10 PWIs. The combined endowment for every HBCU in the country through 2019 was just over $3.9 billion. For context, New York University alone had an endowment of $4.3 billion that year. Predictably, schools without built-up equity or liquidity face limited financing options.

To further illustrate the disparities in capital access, a participant in our conversations who represented an HBCU membership organization noted the average amount of annual private gifts and contracts in 2019

(dollars given on top of institutions' endowment and tuition dollars). The nation's 100-some HBCUs received approximately $2.5 million on average in annual gifts, compared to $230 million among the approximately 100 PWI institutions with billion-dollar endowments. The 3,300 non-HBCUs that fell below the billion-dollar threshold received approximately $4 million on average.

With fewer resources, HBCUs have less personnel to attract capital, compounding this issue. For example, HBCUs largely don't have property asset managers that go beyond facility maintenance to find new investment opportunities. This throttles the amount of wealth HBCUs can create for themselves and their surrounding communities. As two participants explained during our convenings:

"That's why we have so many older, aging facilities on our campuses—because we've not been able to generate those types of resources or get those resources in order to continue to create the types of investments needed to grow."

"Cash flow and infrastructure are really the Achilles' heel of HBCUs. Because what you find is the lack of investment in deferred maintenance that needs to be addressed and the cash flow is not there."

These disparities in available capital, combined with narrowly focused underwriting and lending practices, create a negative feedback loop in which wealthier institutions get wealthier while other institutions struggle to sustain current operations and are denied opportunities to grow.

Here's how one of our participants explained this situation:

"The very traditional underwriting processes that banks follow makes it hard to break the chicken-egg syndrome of success begets success…If you got a good balance sheet, you get financed. If you don't have the balance sheet of a Johns Hopkins, then it's going to be very difficult to get very big financing opportunities."

Participants also noted that there is a lack of flexible tools among most traditional lenders, which prohibits the consideration of past discrimination and adoption of different underwriting processes and credit practices. But as one participant explained, this is a problem even for many mission-driven lenders:

"Impact investors are often looking for profit-maximizing market rates and financial return. They may have certain perceptions that could be wrong about the relative risk and return opportunities with investing in HBCUs."

To break this pattern, a participant who currently structures loans at a CDFI stressed the importance of lenders looking holistically at HBCUs. HBCU leaders should take the initiative in providing that holistic picture. As detailed in the next section, by emphasizing the assets and potential of their institutions through compelling narratives, HBCU leaders can help lenders go beyond balance sheets and understand an opportunity that is often overlooked.

Florida A&M University

Garnering investment by telling the HBCU story

When seeking access to capital markets, HBCUs, like all other institutions, must put forth a compelling value proposition that conveys the benefits prospective financial resources will yield. While hard data, including balance sheets, does matter, all value is socially constructed, including the value that lenders recognize and assign to the people, places, and institutions they choose to fund or not to fund based on perceptions of their worth and potential. Recognizing that investment choices are made by humans, a value proposition is a story of sorts that communicates to lenders both the collateral that will secure the loan and the unique value that underlies the strength of the borrower as well as the worthwhileness of the investment in regards to its social impact. A value proposition that leads with social impact is particularly vital in dealing with mission-driven lenders, but even profit-driven lenders should be responsive in their lending and investment decisions to the fuller social value contained in a value proposition.

Participants throughout our convenings expressed that telling the HBCU story must lead with the institutions' impact on their students and society. This narrative-driven approach allows HBCUs to communicate their deeper worth, which is often not adequately captured by numbers on a spreadsheet. As one participant told us:

> **"The Paypals, Amazons, Starbucks, Squares, and Googles are all trying to get into the space of working with BIPOC-led banks, and they're using sets of metrics that make it too conservative to lend even though it's still a good risk. That's where good storytelling can make a difference."**

The emphasis on storytelling also provides greater insight into the context surrounding each institution, enabling smarter investment that is tailored to the unique challenges and opportunities of each HBCU. As one Reinvestment Fund leader explained:

"It wasn't until we started to really work with the schools that we began to understand and appreciate the depth of their culture and impact. Deep engagement with the institutions helped us understand their stories…so we could meet their individual needs."

Telling a student-driven narrative may not come as a surprise, as many postsecondary institutions try to lead with the value they add to students and the value their students add to society. But HBCUs should differentiate themselves in the telling of their story by emphasizing a mission-driven approach. For example, one participant highlighted inclusivity as a hallmark of HBCUs:

"Unlike traditional [predominately white] institutions that build their reputations, cache, and funding off of exclusion, HBCUs—from their founding to today—have been institutions of inclusion."

Illustrative of this feature is the fact that HBCUs enroll more than twice as many Pell Grant-eligible students as non-HBCUs (75% versus 35%). The Pell Grant is often used as a proxy for low-income students. In addition, HBCU graduates are more likely to move into a higher income quintile than non-HBCU graduates (53% versus 35%). In other words, HBCUs post better outcomes while taking in the highest number of students from disadvantaged backgrounds.

Investing in HBCUs thus unlocks talent that is too often overlooked or excluded by other institutions.

Beyond simply elevating individual students, HBCUs also generate positive benefits to surrounding areas. The 2017 UNCF report noted that each year, "HBCUs generate 134,090 jobs for their local and regional economies," and every $1 million spent by HBCUs and their students produces 13 new jobs. It's no wonder, then, that our convenings featured a common refrain: "HBCUs punch above their weight." Despite the structural disadvantages and barriers, the nation's approximately 100 HBCUs have more power than people often realize.

Telling the true HBCU story—with particular attention to the distinct history and core strengths of each institution—invites lenders to actively work against economic stratification, rather than rewarding those who already have wealth, privilege, and status. Through this partnership with lenders, HBCUs can expand their mission, facilitating upward mobility for students and bolstering the resilience of Black-majority neighborhoods and communities.

Howard University

An increase in capital requires an increase in capacity

Capital is important, but HBCUs also need the capacity to leverage and deploy that capital effectively. In our final convening, participants emphasized the need to prop up internal capacity among HBCUs to take on and deploy more capital. They also discussed the need to build advocacy capacity to address systemic underfunding at the state and federal level.

During our conversation, participating HBCUs leaders generally acknowledged that they don't have the personnel to manage large acquisitions of debt capital. Related, participants acknowledged that their campuses largely didn't have the administrative office structure and data management tools for long-term success and continued improvement. As one participant said:

> **"For acquisition, it's been our university foundation that has done the most recent development by issuing bonds. But maintenance has been underfunded. So, there is quite a bit of deferred maintenance impacting our infrastructure."**

Participants representing CDFIs and other mission-driven lenders emphasized that capacity building means developing new approaches in determining readiness. They stressed that it's unreasonable to think that underwriting assumptions that reward privilege can be remixed to judge HBCUs. In addition, they noted that capacity building for financial institutions means finding capital that has a longer time expectation for returns.

"How a CDFI differentiates itself is by having the ability to be flexible...having the ability to look outside of the box at a financial transaction. For all financial institutions, credit policy is the guide for how you look at different transactions. CDFIs have an ability to look holistically at the picture versus using a box where there is no deviation. CDFIs hear the need and see what can be accomplished."

In lieu of changes to underwriting assumptions, leaders of the financial institutions recommended "combining the balance sheets"—providing loans to multiple institutions with similar goals.

Representatives of financial institutions—particularly CDFIs—mentioned how there are very different understandings about campus needs and capacities for community development between financial institutions and HBCUs. Most often, CDFIs partner with smaller organizations to execute a well-defined community development project—e.g., affordable housing projects or a community health centers. Consequently, CDFIs may believe that HBCU needs are beyond what the sector traditionally provided. To fully see the opportunities, CDFIs and other lenders must think more comprehensively about communities and regions, looking for ways to scale impact and leverage individual projects toward broader regional aims.

HBCU leaders also need to broaden their vision. During our conversations, HBCU representatives conceptualized capacity building as filling current on-campus needs rather than boosting their ability to serve as catalysts for community and economic development. To scale their impact, HBCUs must understand that support for students and faculty can and should come from revenues generated from projects that are external to the institution: community and economic development activity. Otherwise, these institutions and their towns will continue to be threatened by policies and practices that extract wealth without supplying opportunity. In other words, capacity-building is simultaneously about development off campus and development on campus, with both forms of development complimenting and enhancing the capacity of the other.

HBCUs need capital to more fully engage in community economic development, which can then generate positive impacts to their bottom line, which they can reinvest in student success. Direct investments in students take longer to pay off, and the benefits are more diffuse. HBCUs' investments in physical and business assets in the community can generate near-term positive financial returns.

To support a more strategic partnership between HBCUs and lenders, leaders in both sectors should draw from models that provide mission alignment and action steps. For example, UNCF's Institute for Capacity Building offers a holistic approach to institutional change that can increase both HBCUs' and CDFIs' abilities to deploy and take on debt that makes positive impacts on lives and communities. UNCF designed a framework specifically for its member HBCUs, which could also inform financial institutions.

Finally, participants underscored that HBCUs must go beyond gaining access to capital markets. Capacity building must also include helping HBCUs tap into innovation ecosystems that allow them to leverage

growth through state and local government grants. One participant pointed to the Economic Development Administration as a vivid example:

> **"I believe that the community itself needs to be educated on how the innovation ecosystem works in their region. They don't know. Comprehensive economic development strategies blanket the nation and are underwritten by the Economic Development Administration. They're funded by state governments and local private partnerships. Every five years they develop this strategic plan to foster economic development in their region. Governments, banks, and anchor institutions are involved in the plan. HBCUs are not. HBCUs should be leading that discussion. And the investments should go to HBCUs."**

In summary, the HBCU-CDFI relationship must lead to investments that include other financial institutions that leverage networked-based supports, including government and private actors, to maximize resources and create efficiencies that take advantage of economies of scale. Lenders and investors must recognize campuses' place and space in their communities, forging partnerships between the colleges and neighboring institutions to offer academic and non-academic ventures that accelerate community and economic development.

Graves Hall, Morehouse College

Six steps for increasing investment in HBCUs

Out of our three cross-sector convenings, certain themes emerged that could reimagine the concepts of value, risk, and impact for HBCUs. Specifically, we identified six key action steps that HBCU and CDFI leaders should pursue together:

1. **Build trust and familiarity between CDFIs and HBCUs.** Historic segregation and discrimination placed barriers between financial institutions and HBCUs, prohibiting relationship building and collaboration. CDFIs and other lending institutions must continue to convene, collaborate, and develop new investment strategies with HBCUs to increase familiarity and trust.

2. **Devise a HBCU-backed theory of change and power.** HBCUs should rally behind a shared set of goals and strategies to maximize their collective strength in order to gain greater access to capital markets.

3. **Translate social and knowledge capital into collateral for capital markets.** HBCUs have many assets that should be converted to investment collateral. Financial institutions' underwriting practices should adapt to recognize the real value that HBCUs add to students, communities, and the nation's social and economic vitality.

4. **Collaborate across sectors in response to challenges and opportunities.** HBCUs and CDFIs must use their convening power to form cross-sector collaborations that lead to more private-public partnerships and investment strategies.

5. **Develop revenue support for students from external projects and development.** Student growth can come from more than scholarship support; economic and community development undergird the places in which students learn and live.

6. **Combine balance sheets to lend to a pool of HBCUs versus an individual HBCU.** Historic discrimination extracted wealth and opportunity from Black institutions, including HBCUs. The nation's more than 100 HBCUs can use their shared experiences and profiles to engage with financial institutions.

Not only are HBCUs worthy of public and private investment, but they are also best situated to make investments in their host cities—precisely because they value Black lives.

It's time to build pathways to investment that can unlock shared prosperity for our communities across the nation.

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