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Howard Taps Bond Market Most Black Colleges Miss Out On.

- **University plans to sell \$215 million in debt on Thursday**
- **Marks first deal by historically Black college since pandemic**

When Howard University completes a \$215 million bond sale this week, it will become the first historically Black college to join in the unprecedented borrowing binge that has swept over U.S. markets.

American universities as a whole have been active participants in this frenzy, with more than 100 of them selling \$27 billion of bonds this year. But historically Black colleges and universities, known as HBCUs, have accounted for only \$147 million, or 0.5%, of that amount. And that came from a deal that Howard, which was founded in Washington, D.C., in 1867, did in February. The country's 100 other HBCUs have been left out.

By many measures, the cards are stacked against Black institutions. They tend to serve lower-income students, which makes their balance sheets less robust and their endowments smaller — the sorts of things that may limit prospective bond buyers. No Black institution cracks the top-100 richest schools in the country and HBCUs average \$15,000 per student in endowment funds, compared to \$410,000 for similar non-HBCU schools, according to a 2018 U.S. Government Accountability Office report.

It is only now, months into the torrid bond-market rebound orchestrated by the Federal Reserve, that Howard's Chief Financial Officer Michael Masch is confident that investors are ready to buy the school's debt once again. Masch was forced to put a planned sale on hold in March, when the pandemic briefly caused the bond market to seize up, and has been waiting for the right moment to revive it ever since.

"There was just no market to go to," Masch said in an interview. "We just folded our tents and faded back into the night and waited until there would be a settling down of the credit markets."

The sale also marks the first debt offering by an HBCU since the police killing of George Floyd on May 25 sparked widespread protests and a broader national conversation about racism and systemic inequality in the U.S.

The heightened focus on such issues may lure in more buyers than normal and help push down the interest rate that Howard has to pay, bond analysts say, but that will ultimately do little to address the financial difficulties that HBCUs face.

Serving underrepresented groups means that Black institutions have to chip in more for tuition for low-income students than peers, said Emily Wadhwani, an analyst for Fitch Ratings. Their endowments are much smaller as well, with the median endowment coming in at half that of a comparable predominantly white school, according to the 2018 GAO report. The combined endowment of all 101 HBCUs totals about \$3.86 billion, a tenth of Harvard University's endowment,

according to an estimate by the United Negro College Fund.

This financial picture is not one that's rewarded by Wall Street. As a result, even a top-tier HBCU like Howard carries a low investment grade credit rating, despite receiving more than \$200 million in direct aid annually from the federal government. Most of the universities that tapped the muni market since the sell-off in March have been in the highest rating tier.

For lower-rated issuers, it costs more to borrow because investors require higher yields to make up for owning riskier bonds. And HBCUs have to contend with racial bias on Wall Street, according to a 2018 academic study that found they pay higher fees than peer schools even when accounting for credit quality, maturity and the size of the deal.

Bill Mayew, a professor of accounting at Duke University and one of the original authors of the 2018 report, said that two years later, such bias likely still exists though he hasn't done an updated analysis. There is "no reason to suspect any difference in how the market operates," he said.

"Their resources that they have on hand via a foundation or cash endowments, are often, not always, but often smaller than their peers," said Fitch's Wadhwani, who analyzes higher education credits. "How well they fundraise and how long they've been around — all of those things are frequently weaker than those of their greater peers."

The Howard deal has underlying ratings one notch above junk by S&P Global Ratings and Fitch. The taxable offering is scheduled to price Thursday, in a negotiated sale managed by Barclays Plc and Loop Capital Markets. The bonds are expected to carry Assured Guaranty Municipal Corp. insurance, and proceeds will be used to refinance higher yielding debt sold in 2011.

Howard, named for Civil War hero General Oliver O. Howard, head of the post-Civil War Freedman's Bureau, has awarded more than 100,000 degrees. The university is made up of 13 schools and colleges and hosts a leading research library on African American history. Howard's alumni include California Senator Kamala Harris, Supreme Court Justice Thurgood Marshall and novelist Toni Morrison.

The timing of Howard's bond sale during a national reckoning around racial inequality may draw more demand and new buyers to the deal. Clients have been asking about ways they can invest in minority communities, said Ron Homer, head of impact strategy at RBC Global Asset Management.

And investing in HBCUs checks the boxes for impact investment strategies, said Eric Glass, a portfolio manager at AllianceBernstein. "There's no better social investment within the education space in my opinion," he said. Glass said he participated in Howard's February sale, receiving a smaller allocation than he wanted because the deal was "incredibly" oversubscribed.

That interest is already beginning to be reflected on the fundraising side, where HBCUs have lagged historically, according to Michael Lomax, chief executive officer and president of the United Negro College Fund.

In June, Netflix CEO Reed Hastings and Patty Quillan donated \$120 million to the UNCF, Spelman College and Morehouse College, the largest individual gift for scholarships at HBCUs ever. Public funding for HBCUs has seen some increased support even amid other pandemic-induced spending cuts. In Florida, Governor Ron DeSantis set aside \$123 million in the budget for the state's historically Black institutions, including \$17 million for Bethune-Cookman University, which has been grappling with major financial challenges. And HBCUs received \$577 million from the federal stimulus package in April.

The Netflix donation is a breakthrough, but it will take more than a one-time donation to push these schools forward, Lomax said. “This is a community which has received significant gifts but is generally speaking not the beneficiary of the same level of philanthropy as their white peers.”

Still, the Howard sale doesn’t appear to be the prelude to an HBCU bond boom. There are no other such deals on the calendar so far, according to data compiled by Bloomberg. Howard plans to come to market again this year, its first new money issuance since 2011, to finance a steam distribution center, said Masch.

But even as the market continues to favor borrowers, HBCUs simply don’t have the financial profile to come to market and take advantage in the way other, richer institutions can, he said.

“If you have a lot of cash around and a pretty robust income portfolio which is not tuition dependent — the bond markets are going to view your ability to repay your debt favorably,” Masch said. “It’s a great opportunity if you have the cash.”

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— *With assistance by Janet Lorin*