FIN-024 Internal Borrowing Program

Effective Date Friday, August 21, 2009

Status Final

Last Revised Tuesday, September 2, 2025

Policy Type University

Contact Office Treasury Management

Oversight Executive
Vice President and Chief Financial Officer Executive Vice President and Chief Operating Officer

Applies To
Academic Division, the Medical Center, the College at Wise, and University-Associated Organizations.

Table of Contents

Policy Statement
1. Permissible Use of Funds
2. Loan Terms
3. Loan Documents
4. Allocation of University Debt Capacity
5. Requesting a Loan
6. Compliance with Policy

Procedures

Reason for Policy

The policy establishes guidelines and requirements for University units, University-Associated Organizations, and other University-affiliated external parties to borrow money from the University's Internal Bank for certain approved purposes.

Definition of Terms

Internal Bank

Description

Mechanism established by the Office of the Treasurer through which treasury services are provided to the University's units. These services include loans, investments, and commercial banking services.

University Units

Description Schools and departments within the University.

Policy Statement

University units, University-Associated Organizations, and other University-affiliated external parties wishing to finance certain projects may borrow funds through the University's Internal Bank. The use of borrowed funds may be an effective way to finance certain projects primarily when a project is critical enough that it would not be prudent to wait until adequate reserves are accumulated and it is expected that future cash flows will be sufficient to make debt service payments. Loans are typically offered with standard terms; however, in certain instances, loan terms may be customized as deemed prudent by the Office of Treasury Management. Since debt is a limited resource, Treasury Management must assure that it is used prudently and in support of wider University objectives.

1. **Permissible Use of Funds:**
   The Internal Bank grants loans primarily to fund capital expenditures. Treasury Management considers the nature of the project, the availability of alternative financing, and the ability to repay the loan when considering whether or not to approve loans.

   Approval for the funding of capital projects totaling $1 million or more should be sought according to the University's Capital Project Approval Process. The business and funding plans for the project must be approved as required under this process in order to obtain debt funding for a capital project.

   Debt funding may be sought for projects costing less than $1 million. The unit should discuss the project with Treasury Management to determine the feasibility of debt funding.

   In general, the use of debt funding for certain expenditures is not permitted. Some examples include funding of:

   - Annual Renovation and Infrastructure Plan (ARIP) projects.
   - Project contributions to the Grounds Improvement Fund (GIF).
   - Project contributions to parking assessments.
   - Other Board of Visitors approved assessments.

2. **Loan Terms:**
   Loans for capital projects are typically made for a term of 20 years at the Internal Bank's blended interest rate. The blended rate is reviewed regularly by Treasury Management and may be reset at Treasury Management's discretion. Loan payments are typically made on a monthly basis with the principal balance of the loan and cost of issuance being amortized over the life of the loan. At its discretion, Treasury Management may consider the capitalization of interest or require collateral depending on the nature of the loan, the projects being financed, and the ability of the borrower to make loan payments.

   In determining loan terms, Treasury Management considers the nature and life of the asset and attempts to match the life and cash flow structure of the asset with the term of the loan. However, borrowers may wish to adopt a shorter repayment schedule if it better meets their cash flow profile. An assessment will be made by the Comptroller's Office to determine the tax-exempt nature of the asset being funded to determine whether taxable or tax-exempt debt is appropriate. Projects that do not qualify for tax-exempt funding may still be eligible for a loan at taxable borrowing rates.

3. **Loan Documents:**
   A borrower must execute a loan agreement with the University's Internal Bank which outlines the responsibilities of both parties under the loan. In particular, borrowers must agree to provide the necessary information as requested by the Comptroller's Office in order for the University to comply with IRS

guidelines related to tax-exempt financing.

4. **Allocation of University Debt Capacity:**
   In conjunction with any loan request, Treasury Management assesses the University's capacity to issue debt and whether its debt capacity is being allocated in an optimal manner. Since debt is a limited resource, Treasury Management must assure it is used prudently and in support of the University's strategic objectives. Treasury Management seeks to provide a fair allocation of debt capacity among various University units while considering the optimal levels of debt for borrowing units.
5. **Requesting a Loan:**
   Borrowers may wish to consult with Treasury Management prior to submitting a loan application to determine whether the project qualifies for debt financing. A borrower must provide a business plan and a schedule of cash flows for the project when submitting a loan application. Additional information may be requested by Treasury Management as deemed necessary.

6. **Compliance with Policy:**
   Failure to comply with the requirements of this policy may result in disciplinary action up to and including termination in accordance with relevant University policies.

   Direct questions about this policy to Treasury Management.

Procedures

To apply for a loan, University units, University-Associated Organizations and other University-affiliated external parties must submit the following to Treasury Management:

- loan application
- a business plan
- a schedule of cash flows for the project

Related Information

Fraternity/Sorority Investment Program (pg. 6112)

Major Category Finance and Business Operations

Next Scheduled Review Saturday, September 2, 2028

Revision History

Confirmed 9/2/25; University-Related Foundation changed to UAO 5/10/22; Added Compliance section 12/16/21.

Supercedes Policy Text

IX.D.10 Internal Loans from Current Funds.

Approved By Executive Vice President and Chief Operating Officer

Approved Date Friday, August 21, 2009