

Internal Loan Policy for Capital Construction and Renovation Projects

FIN-TRE-VI-130



About This Policy

Effective Date:

06-01-2006

Last Updated:

03-01-2010

Responsible University Office:

Office of the Treasurer

Responsible University Administrator:

Senior Vice President and Chief Financial Officer

Policy Contact:

MaryFrances McCourt

Senior Vice President, Chief Financial Officer and Treasurer

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Related Information

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* [VI-140, Capital Financing](#)

Related Forms

* [Internal Loan Application](#)

Scope

Policy Statement

Reason For Policy

Procedure

Additional Contacts

History

[Back to top](#) ↗

Scope

All University departments and operating units.

[Back to top](#) ↗

Policy Statement

This policy describes the procedures for authorizing, granting and administering internal loans, where such loans are made from the University's internal cash liquidity resources, for qualifying projects. Qualifying projects include capital construction or renovation projects including, but not limited to, capital projects for which statutory authorization for external financing is not available and emergency R & R projects. Internal loans must be approved by the Internal Loan Committee.

[Back to top](#) ↗

Reason For Policy

This policy governs the extension of internal loans from the University's working capital for the purpose of financing capital construction or renovation projects (i) for which statutory authorization for external financing is not available or (ii) for providing interim financing for institutional strategic initiatives where a gap exists between the date of acquisition or construction of a project and the timing of the cash receipts from the sources of funding.

Internal loans will be utilized to provide a short to medium term financing alternative for campuses seeking to finance capital projects in a manner that does not detract from the overall University cash portfolio investment performance objectives and liquidity requirements.

The objectives of the Internal Loan Policy include the following:

- a. Provide an alternate source of funding when external financing is not available.
- b. Provide an alternate source of funding when the timing of receipt of gifts and grants would impede the progress of a strategic initiative.
- c. Promote efficient working capital management by (i) establishing a target range of maximum outstanding internal loan balances, as well as (ii) duration guidelines.
- d. Provide a source of funds for emergency R & R projects when state funding is not available.
- e. Ensure that internal loans will not be authorized without the borrowing unit and any campus guarantor submitting a fiscally responsible and achievable business plan in support of a timely repayment plan.
- f. Set guidelines for the percentage of liquidity to be utilized for internal loan investments.

[Back to top ↗](#)

Procedure

A. Memorandum of Agreement

A Memorandum of Agreement (MOA) is required for all internal loan requests over \$1.0 million. This document will include a high level summary of the business plan, the terms of the loan (including loan repayment guarantees), and any other pertinent information relative to the project financing. The MOA will be executed by senior executives of both the Campus and University Administration.

B. Internal Loan Application Requests

Internal loan requests should be directed to the Office of the Treasurer and should be approved by the Campus Vice Chancellor/Vice Provost for Administration and Finance before submission. Formal requests will include the Loan Application (see Related Forms section above) and Loan Agreement.

C. Maximum Amount Eligible for Internal Loans

The total amount of internal loans outstanding at any time shall not exceed 5% - 7% of the trailing twelve-month average balance of the University's operating fund investment pool. Any variance from this guideline requires approval of the Senior Vice President and Chief Financial Officer (SVPFCFO).

D. Individual Loan Amount

Individual loans may not exceed \$15 million for any individual capital project.

E. Maximum Loan Term

The maximum loan term is 10 years. All interest and principal must be paid back within this timeframe. Borrowers will repay internal loan principal and interest over a predetermined period of time through regular and recurring fixed charges to the borrower's operating account. The loan repayment term will not exceed the anticipated useful life of the asset being financed.

F. Interest Charges

Interest will be calculated on the loan balance beginning on the date on which the funds are deposited into the appropriate construction/project fund general ledger account. Interest will be calculated quarterly based on the weighted average quarterly outstanding loan balance. The interest rate charged for fiscal year 2009-10 will be based on the trailing eight quarter average of the 90-day Treasury bill rates plus 150 basis points (1.5%). Beginning with fiscal year 2010-11 and following years, interest will be based on the trailing twelve quarter average of the 90-day Treasury bill rates plus 150 basis points (1.5%). The interest rate will be subject to annual revision, and may also be adjusted to be consistent with any prospective internal loan policy changes and/or at the discretion of the SVPFCFO. The interest rate on loans will be re-set annually and will be calculated for the ensuing fiscal year on or around March 31 of each year.

G. Loan Application Process and Agreement

All internal loan requests will be submitted on the University approved Internal Loan Application (see Forms). This information will be reviewed by the Internal Loan Committee and will be used to develop the Internal Loan Agreement. Requests for internal loans will include the following information:

1. Detailed project description
2. Loan amount
3. Repayment term
4. Repayment source – source(s) of funds for principal repayment should be included in a pro forma cash flow/budget projection over the term of the loan. Such pro forma projections will be in a format prescribed and/or approved by the Treasurer and will include, but not be limited to, information

- required in the *Project Credit Review and Financial Performance Requirements* section of the University’s *Institutional Credit Guidelines* (see Related Information on side bar).
5. Account number to be charged for debt service payments

6. Name of Dean/ Department Chair accepting terms of the loan

7. Name of appropriate Fiscal Officer accepting terms of the loan

8. Preliminary approval of request by Campus Vice Chancellor for Administration and Finance or Vice Provost.

H. Limitations on Use of Gifts and Grants

When a capital project will require the use of gift and/or grant funding, legally enforceable gift or grant agreements maturing in five years or less must be in hand prior to the approval and authorization of the project and related external financing or internal loans. Bequests or other deferred gift instruments, for which the receipt of gifts funds by the University are predicated on the occurrence of future events for which the dates of occurrence are uncertain or subject to change, cannot be counted toward the project financing cash flow requirements for the project being financed.

I. Early Repayment

Internal loans may be prepaid at any time without penalty.

J. Status Reports

An internal loan portfolio status report will be provided to the Board of Trustees on an annual basis as part of the fiscal year-end closing reports.

Back to top ↗

Additional Contacts

| Subject | Contact | Phone | Email |
|-----------------------|---------------------|--------------|--|
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Back to top ↗

History

This policy was established on June 1, 2006.