

## UNIVERSITY POLICY

<b>Policy Name:</b>	Internal Bank Financing Program				
<b>Section #:</b>	40.2.20	<b>Section Title:</b>	Financial Management: Fiscal Management	<b>Formerly Book:</b>	
<b>Approval Authority:</b>	Executive Vice President – Chief Financial Officer and University Treasurer	<b>Adopted:</b>	02/01/2016	<b>Reviewed:</b>	06/07/2021
<b>Responsible Executive:</b>	Associate Vice President for Finance and Associate Treasurer	<b>Revised:</b>	06/07/2021		
<b>Responsible Office:</b>	University Treasury	<b>Contact:</b>	Director of Debt Management: 848-445-1159		

### 1. Policy Statement

The goal of this policy is to provide a resource-efficient internal financing mechanism to University departments through the establishment of an Internal Bank within University Treasury.

### 2. Reason for Policy

Financing must take into account many factors: availability of University and other resources, ability to raise funds for projects, the University prioritization process, access to debt financing in the context of external bond ratings, debt policy, and financial metrics designed to manage financial risk, market conditions, and financing structures, among others. An Internal Bank will provide financing that makes efficient use of the University's resources.

### 3. Who Should Read this Policy

University administrators including, but not limited to Chancellors, Vice Presidents, Deans, Directors, Department Chairs, and Business Administrators.

### 4. Resources

[University Policy 20.1.2: Capital Planning](#)

[University Policy 20.1.3: Capital and Non-Capital Construction & Renovation Projects](#)

[University Policy 40.2.21: Debt Management Policy](#)

[University Facilities and Capital Planning](#)

### 5. Definitions

n/a

## 6. The Policy

### I. Overview:

The Internal Bank is established within University Treasury and is the entity to provide internal financing for capital projects, initiatives, equipment, operating deficits, or other prudent purposes.

### II. Objectives:

By disassociating external debt from internal financing needs and providing internal loans at a blended interest rate, the Internal Bank can provide equitable and predictable financing to the University community while minimizing the overall weighted average cost of capital through managing the University's debt portfolio in the aggregate. The internal financing program will be managed consistent with University policies regarding the incurrence of debt and approval of capital projects. The Internal Bank will use an asset/liability approach to managing University resources including working capital, operating funds, capital reserves, and debt financing to provide internal financing, preserve appropriate levels of liquidity, and enhance available University resources over time.

### III. Internal Bank Loan Program

- A. Loans: The Internal Bank will use available resources including short and long-term debt financing and operating cash to make internal loans.
- B. Financing Requests: Financing needs will be identified by academic and administrative units and submitted for review to the University Budget Office, University Treasury, and Institutional Planning and Operations (IP&O), where applicable. Final approval for internal loans will be granted by the Executive Vice President – Chief Financial Officer and University Treasurer or designee.
- C. Approval Factors: Proposals for internal loans will be reviewed based on factors including, but not limited to: ability to pay debt service and operating costs; relationship to Strategic and Master Plans; and the availability of other funding sources such as gifts and grants.
- D. Loan Structure: The Office of Debt Management and Capital Finance will provide assistance to units in structuring loans to accommodate available resources for loan repayments. Internal loans will be structured with terms appropriate for the type of asset or activity being financed.
- E. Loan Terms: Loans will be evidenced by a loan agreement. Loan agreements may include covenants and specific operating benchmarks to ensure repayment. The rate on the loans will be at the blended rate as established by the Internal Bank on an annual basis unless amended by the Executive Vice President – Chief Financial Officer and University Treasurer or designee to accommodate a unique situation or risk profile. Loans will be repaid on a monthly basis between the borrowing department and the Internal Bank through internal accounting and budgetary mechanisms. There will be no penalty for early repayment.
- F. Blended Rate: The blended rate will be charged for all loans and will consist of the blended cost of capital of the University's debt portfolio plus an amount for Internal Bank administrative costs and an appropriate level of reserves to mitigate interest-rate risk. The blended rate will be reviewed annually and, if appropriate, adjusted retroactively and/or going forward. The Internal Bank will manage the blended rate to minimize volatility in loan rate changes.

#### **IV. Internal Bank Funding**

- A. General: The Internal Bank will use an asset/liability management approach to internal debt financing.
- B. Liabilities: The Internal Bank will develop a capital structure for the University that considers outstanding debt, current market conditions, risk-adjusted cost of financing structures, and opportunities to minimize the blended rate. It will also take into account external bond ratings, debt policy metrics, and available resources to minimize potential blended rate volatility. External Debt will be structured separately from Internal Bank loan structures.
- C. Assets: The Internal Bank's assets will consist of the University's working capital, operating funds, capital reserves and the rate stabilization fund. The Internal Bank will manage the assets to maximize return consistent with maintaining appropriate levels of liquidity and taking prudent risks.

#### **V. Internal Bank Reporting**

The Internal Bank will provide an annual report of the Internal Bank's activities to the Board of Governors.