

INTERNAL LOAN GUIDELINES

The Guidelines apply to all University institutions, regional campuses, colleges, departments, centers, programs, and auxiliary entities.

TABLE OF CONTENTS

	<u>Page</u>
1. Purpose	2
2. Objectives	2
3. Responsibilities	2
4. Loan Capacity	3
5. Process	3
6. Standard Term	4
7. Auxiliary Funds	5

1. **Purpose:**

To provide seed capital or bridge financing for initiatives and/or capital purchases that will support the university's mission, as guided by the strategic plan. The guidelines intend to establish the process for granting and administering internal loans to academic colleges and support units from a pool of funds set aside at the division level.

2. **Objectives:** Include, but are not limited to:

- Provide bridge loan funding when units are unable to self-fund initiatives expected to provide the unit with incremental revenue opportunities and/or positively impact the university's strategic priorities.
- Ensure that colleges and support units submit fiscally responsible and achievable business plans which support timely repayment.
- Provide access to funding across units.

3. **Responsibilities:**

Pursuant to the delegated authority of the University President, the University Chief Financial Officer (CFO) or the University's Controller and Director of Budget are responsible for approving new loans and modifications to existing loans.

The University Controller ("Controller") is responsible for facilitating the authorized transfer of funds, if necessary; establishing the accounting for all loans in coordination with the Treasurer; and providing routine and ad-hoc reporting to the CFO. The Controller may also refer compliance matter(s) related to the internal loans to the CFO and/or University Audit and Compliance Office.

The Director of University Budgets ("Director of Budgets") shall review the funding source for loans for compliance with the requirements of this Policy, regulations, and statutes. Director of Budgets will immediately report to the CFO about the borrower's ability to repay the loan, or any observation of declining fund balances, which may cause the amount of outstanding loans to exceed the maximum capacity of the Loan Funds.

The University Treasurer ("Treasurer") is responsible for management of the Policy, developing appropriate procedures and methods; reviewing loan requests; providing a rate of interest to be charged;

determining the level of risk associated with the proposed loan; preparing appropriate loan documentation; recommending loan approval/disapproval to the CFO; providing routine and ad-hoc reporting to the CFO or his/her designee; and for monitoring repayment of internal loans.

4. Loan Capacity:

The maximum amount of internal loans outstanding is determined by the Director of Budgets in collaboration with the Treasurer and then reviewed and approved by the CFO. Under no circumstances may the CFO approve a loan that would reduce the working capital necessary to support the operating budgets of FAU auxiliary units (i.e., the CFO may not approve a loan that cannot be funded from the excess of working capital necessary to support the operating budgets of FAU auxiliary units). The maximum amount of internal loans outstanding will not exceed 40% of the total auxiliary fund, unless a temporary exception is approved by the CFO. Temporary exceptions are circumstance driven and must follow the strategic directives of the institution as well as adhere to applicable Florida State Statutes and Florida Board of Governors regulations.

Recognizing that the fund balances will fluctuate, the amount available for internal loans will be determined by the Director of Budgets at the time each new loan request is considered. Any trend of declining fund balances, which may cause the outstanding loan portion to exceed the amount available for internal loans, will be promptly reported to the CFO.

Internal Loans finance capital projects or major equipment purchases that do not qualify for bridge financing and/or are too expensive for units to leverage reserves/carryforward funding. It is subjected to a continued positive cash position and positive credit ratings, in accordance with the President and the Board of Trustees directives. Additionally, it is restricted to 1-20 years and Federal funds rate at the time of the request, such as the State of Florida Special Purpose Investment Account (SPIA) rates.

5. Process:

Each unit will submit a loan application form to the University Budget Office, complete with an analysis of all recurring and non-recurring resources within the unit and the expected source(s) of repayment. It is expected that a unit will look first to its reserves as a primary source of funding for

purchases that are not covered by its annual operating funds. Financial need must be demonstrated with supporting schedules for a loan application to be considered.

The loan application and financial analysis will be reviewed by the Director of Budgets and sent to the CFO who will review each proposal and make a funding recommendation. The CFO or the Controller will make the final determination to approve or deny the loan. Requests will be approved based on availability of funding, and the CFO or Controller will reserve the right to recommend wait-listing or resubmission of certain applications in the future if funds are not currently available. If the loan is approved, the Director of Budget/CFO and the borrowing unit's Vice President or his/her designee will execute a memorandum of understanding outlining the distribution and repayment terms of the loan.

All internal loans must be approved prior to the start of an initiative or purchase of equipment.

6. Standard Terms:

Loan Amount

\$100,000 or greater

Loan Term

In general, loan terms for equipment can be financed for 5 years or the life of the asset, whichever is less. Loan terms for capital projects can be financed less than 5 years for bridge financing or 5, 10, or 20 years for capital projects. Internal loans at this time cannot exceed the useful life of the asset and/or 20 years. The loan term is based on the unit's proposal and will be evaluated by the CFO and the Director of Budgets.

The following information should be determined together with any additional information that may be requested by the Director of Budgets:

- a. Borrowing entity
- b. Purpose of Internal Loan and its relationship to the University's mission, vision, and strategic plan.
- c. Requested Amount
- d. Effective date (funding date for loan)
- e. Repayment term and maturity date

- f. Committed funding source of repayment (the Treasurer may request a pro forma cash flow/budget projection over the term of the loan)
- g. Repayment schedule
- h. Name/title of Accountable Officer / Dean / Director
- i. Contact Person / Fiscal Officer

Interest Rate: Interest rate might not be applicable to some loans depends on the CFO's review and decision. Fixed annual rate with ability to adjust for loans more than 5 years. The rate is based on the average effective rate the university earns on deposits at the U.S. State Treasury. If, however, a longer loan repayment term is requested and approved, the division reserves the right to apply a higher interest rate.

Debt Service Payment:

- a. Frequency: Quarterly or Annually
- b. Amount: Fixed principal and interest
- c. Start Date: No later than the end of the quarter or fiscal year after the initial distribution of funds unless otherwise approved.

Prepayment: All internal loans may be prepaid on any date without penalty

Consequence of Default: Should a unit be unable to repay the loan under the agreed upon terms, then the CFO or his/her designee will negotiate an alternate method of repayment which could include, but not be limited to, withholding of future funding distributions and/or a reallocation of existing non-recurring resources.

7. Auxiliary Loans

Any loans related to auxiliary service(s), including those that are deemed self-supporting, must follow the requirements pursuant to Florida BOG Regulation 9.013 Auxiliary Operations.