

Title: **Internal Loan Policy**  
Responsible Office: Controller's Office, Treasury Office, and Budget Office  
Date Published: February 2014  
Approved by: Michael Wagner, Vice President for Finance

## **Definitions**

AMORTIZED LOAN - a loan that is to be repaid in equal periodic amounts

INTERNAL LOAN - a loan to a department from Dartmouth's working capital, generally for purchases of capital equipment, that is paid back over a pre-established period of time through monthly principal and interest charges to the department's operating account.

WORKING CAPITAL - Dartmouth's current liquid operating assets

DEBT SERVICE – repayments of principal and interest

## **Policy**

This policy contains the guidelines for granting and administering internal loans to departments or schools from Dartmouth's central funds. An internal loan provides an alternate source of funding for capital renovations or acquisitions of equipment when other financing sources are not available. Generally it is expected that a department, division or school will look to its reserves as a primary source of financing purchases that are not covered by its annual operating budget. In certain cases, fundraising or external debt may be available for these purchases (see Prerequisite section below). An internal loan is analogous to a bank loan except that Dartmouth (central) is advancing money to one of its departments. A department borrows from Dartmouth's working capital and pays this debt back, with interest, over a fixed period of time through monthly charges to its operating account.

There are three types of internal loans: 1) standard, 2) capital construction/ renovation, and 3) non-standard. Standard and capital construction/renovation internal loan policies and terms are described below. Loan requests differing from those described below are considered non-standard loans and must be approved by the Vice President for Finance (VPF) with amount, term, interest rate, and debt service payment determined on a case by case basis; however, the principles set forth herein will generally apply to non-standard loans.

*All internal loans must be approved before the asset is purchased or the capital construction/renovation begins.*

## **Standard Internal Loans**

### **Loan amount:**

Minimum	\$ 50,000
Maximum	\$300,000

The **term** cannot exceed the depreciable useful life of the equipment or renovation being financed or 5 years, *whichever is less*.

Computers/Servers	3 years
Other Equipment and Vehicles	5 years

The **interest rate** is fixed for the life of the loan. The rate is based on the Treasury Constant Maturity (TCM) rate for a comparable term plus 1.5% (150 basis points). Rates are calculated twice a year (July and January), and are based on the prior 6 month daily average. The TCM benchmark rates can be found at:

<http://www.federalreserve.gov/releases/H15/data.htm>

Any request to waive interest charges must be approved by the VPF.

Note: For A-21 compliance purposes, the interest on service center loans must be charged to a non-service center chartstring of the school/division/department that sponsors the service center.

### **Debt service payment:**

Frequency:	Monthly
Amount:	Fixed principal and interest
Start date:	The month after the asset is purchased
Prepayment:	Allowed, with no penalty

### ***Request and Approval process:***

Step 1 – The department submits the following information to Treasury:

- Description of the renovation or equipment to be financed.
- Amount of loan and repayment period requested, including anticipated start date.
- Alternative funding options considered, including analysis of reserves.
- Chart string to fund debt service, if loan is approved.

Step 2 – Treasury determines if the asset/renovation qualifies for a standard internal loan and if so, determines the interest rate, term, and monthly debt service. Treasury then provides this information to the Budget Office and the Controller's Office. If neither office raises any concerns or questions, Treasury provides the information to the department. If/when the department accepts the terms of the loan, Treasury forwards all pertinent information to the Budget Office and the Controller's Office.

### ***Loan setup process:***

The Controller's Office sets up the appropriate values in the chart of accounts to record the internal loan, provides the necessary information to record the loan and the monthly payments in the General Ledger.

The borrowing department purchases the capital equipment, charging it to a departmental operating chart string, and notifies the Controller's Office of the amount and chart string where the purchase is recorded.

The Controller's Office sets up the loan by removing the purchase from the operating chart string, capitalizing the asset, and initiating a recurring monthly entry for the debt service.

### **Capital Construction/Renovation Internal Loans**

***Loan approval process:*** The decision to grant an internal loan needs to be made by the EVP and VPF before the project begins.

Step 1 – Discuss availability of loan funding: departments should meet with the VPF and EVP to discuss availability of internal loan funding early in the planning stages of a capital project. Discussion should include loan amount, estimated drawdown schedule, repayment term, and how the repayments will be funded.

Step 2 – Obtain project approval: The project must go through the normal Capital Facilities Budget process for approval. The approval steps depend on the size of the project.

Step 3 – Set final terms: Once the project is approved, Treasury will document the final terms, including loan amount, estimated start date, and repayment term. The department must agree to these terms.

Step 4 - Set interest rate: Treasury will provide the interest rate once the project begins.

#### ***Loan setup process:***

Once all approvals have been obtained (steps 2 and 3 above), the department submits the CIP account setup form to the Controller's Office, indicating internal loan funding and the amount approved. The Controller's Office requests a new subactivity for the loan.

The borrowing department constructs or renovates the asset, charging costs to the CIP account string.

The Controller's Office funds the project from internal loan funds, and initiates a recurring monthly entry for the debt service after the final drawdown.

#### **Loan amount:**

Minimum	\$250,000
Maximum	determined by VPF

The **term** will be determined based on the individual project being financed.

The **interest rate** is fixed for the life of the loan. The rate is based on the Treasury Constant Maturity (TCM) rate for a comparable term plus 1.5% (150 basis points). Rates are

calculated twice a year (July and January), and are based on the prior 6 month daily average. The TCM benchmark rates can be found at:  
<http://www.federalreserve.gov/releases/H15/data.htm>

Any request to waive interest charges must be approved by the VPF.

**Debt service payment:**

- Frequency: Monthly
- Start date: The beginning of the first quarter following the final drawdown of the loan funds. In some cases, this may be before final project completion date.
- Amount: The amount borrowed will be amortized to determine total principal and interest for each fiscal year. Although the loans will be amortized over fiscal years, within a fiscal year the monthly principal and interest payments will be allocated evenly each month.
- Prepayment: No penalty. Please contact the Treasury with any prepayment plans. Treasury will work the Controller's Office and the Budget Office to ensure payments are received and if the loan is not fully paid off that any remaining payments are re-calculated.

**Oversight**

Controller's Office – Dianne Ingalls  
Treasury Office – Scott Frew  
Budget Office – Jeff Ives