

**Appendix A to
University Policy 601.18, Debt Policy
Central Loan Program Management Proposal - Overview**

Each division is responsible for the repayment of all funds borrowed from the central loan program, plus interest and certain fees established in the University's internal lending policies, regardless of the internal or external source of funds.

Loan structures with standard financial terms are offered to divisional borrowers. The University may provide for flexible financing terms in order to accommodate individual divisions if it is determined to be in the University's best interest. The Director of Treasury Services clearly articulates the policies and procedures for the assumption and repayment of debt to all borrowers. The Director of Treasury Services is the University's loan officer for divisional borrowers.

De-linking External and Internal Debt Structures

The University has adopted a central loan program under which it provides funding for projects across colleges and units under the guidance of the VCBA. In this regard, the University has established a pool of financing resources, including debt, for a central source of capital.

The benefits of this program include:

- (i) Enabling the structuring of transactions in the best economic interests of the University that otherwise wouldn't be possible on a project-specific basis;
- (ii) providing continual access to capital for borrowers and permitting the University to fund capital needs on a portfolio basis rather than on a project-specific basis;
- (iii) funding specific projects with predictable financial terms,
- (iv) achieving the lowest average internal borrowing costs while minimizing volatility in interest rates,
- (v) permitting prepayment of internal loans at any time without penalty, and
- (vi) achieving equity for borrowers through a blended rate.

The central loan program can access funds from a variety of sources to originate loans to divisions. The University manages its funding sources on a portfolio basis, and therefore payments from colleges and units are not tied directly to a particular source of funds. (Note: Due to federal tax and reimbursement requirements, actual debt service for certain projects still must be tracked.)

Blended Interest Rate

The University charges a blended interest rate to its colleges and units based on its cost of funding. In some instances, at the discretion of the Director of Treasury Services, the type and useful life of the project being financed may affect the appropriate term and interest rate of any loan.

This blended interest rate may change periodically to reflect changes in the University's average aggregate expected long-term cost of borrowing. The blended interest rate may also include a reserve for interest rate stabilization purposes.

In addition to charging borrowers interest, the central loan program collects amounts to pay for costs of administering the debt portfolio. These costs are clearly articulated to divisions, and are passed on to borrowers in the form of a rate surcharge and an upfront fee for loan origination. These charges may be reviewed and adjusted from time-to-time.