Original Approval Date: October 24, 2013

Most Recent Approval: March 15, 2019

Most Recent Editorial Date: July 5, 2022

Internal Loan Policy

Office of Accountability:	Vice President (University Services and Finance)
Office of Administrative Responsibility:	Finance, Procurement and Planning – Investments and Treasury
Approver:	Board of Governors
Scope:	Compliance with this University policy extends to all academic, support and excluded staff, postdoctoral fellows, and academic colleagues as outlined and defined in the Recruitment Policy (Appendix A and Appendix B: Definitions and Categories).

Overview

The *Post-Secondary Learning Act* requires approval of the Lieutenant Governor in Council for all borrowings unless the liability or expenditure can be provided for out of the annual income of the year or out of other money available for the purpose. The University has a **Non-Endowed Investment Pool (NEIP)**, which pools and invests all expendable funds to provide liquidity and income for University operations. Given the availability of capital as represented by the NEIP, and the fact that it is impractical to obtain government approval for small borrowings with short durations, an internal loan policy was developed.

Purpose

The internal loan policy is primarily intended to provide the University and its **Related Entities** with a financing vehicle that can quickly respond to new opportunities or unforeseen problems that require an element of short-term bridge financing.

The internal loan policy is also intended to assist units and researchers in the acquisition of equipment that would otherwise be acquired through **capital leases**. As a general rule, the University's **opportunity cost of capital** is considerably lower than the interest rate implicit in capital leases, thus creating a cost saving opportunity.

Policy

1. SPECIFIC POLICIES FOR INDIVIDUAL INTERNAL LOANS

a. Internal loans will generally be limited to a maximum **amortization** period of five (5) years.

b. All requests for internal loans must be supported by a solid business case that clearly outlines how the repayment will be funded.

c. For floating rate internal loans, other than those to Related Entities, the interest rate shall be based on the rate that the University would have earned had these funds been invested in its NEIP Liquidity Strategy plus 1.50%. Floating rate loans to Related Entities will be done on commercial terms, with comparable conditions and interest rates that an arms-length lender would charge in similar circumstances.

d. For fixed term internal loans, other than those to Related Entities, the interest rate shall be the rate quoted by the Government of Alberta under its Loans to Local Authorities Program for similar loans closest to the quoted term. Fixed term loans to Related Entities, will be done on commercial terms, with comparable conditions and interest rates that an arms-length lender would charge in similar circumstances.

e. Early loan repayments, other than those from Related Entities, may be assessed a three (3) month interest penalty. Early loan repayments from Related Entities will be done on commercial terms comparable to what an arms-length lender would charge in similar circumstances.

2. GENERAL POLICIES FOR INTERNAL LOANS

a. The maximum total outstanding internal loans at any given point in time shall not exceed 20% of the NEIP's target allocation to the Yield Strategy. This represents 20% of 40%, or 8% of the total NEIP portfolio as at October 31st of any given year.

b. Should the outstanding internal loans at any point in time exceed the maximum limit in 2a, no additional internal loans would be approved.

c. The total outstanding internal loans shall be incorporated into the quarterly NEIP investment reporting to the Board Investment Committee.

3. APPROVAL

a. The Director of Investments and Treasury may approve internal loans up to five hundred thousand (500,000) dollars.
b. The Associate Vice-President of Finance, Procurement and Planning may approve internal loans up to one (1) million dollars.
c. The Vice-President of University Services and Finance may approve internal loans up to two (2) million dollars.
d. Internal loans in excess of two (2) million dollars but less than seven (7) million dollars and internal loans with amortization periods in excess of five (5) years will require the approval of the Board Finance and Property Committee.
e. Internal loans in excess of seven (7) million dollars will require the approval of the Board of Governors.

Definitions

Any definitions listed in the following table apply to this document only with no implied or intended institution-wide use.

Non-Endowed Investment Pool (NEIP)	The NEIP consists of expendable funding that is pooled for investment purposes.
Related Entities	Legal Entities created pursuant to the Creation of a Legal Entity Policy.
Capital Lease	A lease will be classified as a capital lease, as opposed to an operating lease, if it meets one or more of the following conditions: the lease term is for at least 75% of the property's estimated economic life; the lease includes an option to purchase the property for less than its fair market value; ownership is transferred to the lessee at the end of the lease term; or the present value of the lease payments are at least 90% of the property's fair market value.
Opportunity Cost of Capital	The rate of return that the University would otherwise be able to

	earn at the same risk level as the investment that has been selected.
Amortization	The reduction of debt through regular payments of principal and interest over a specified period.

Related Links

University Funds Investment Policy (UAPPOL)
Creation of a Legal Entity Policy (UAPPOL)

Published Procedures of This Policy

Internal Loan Procedure

If any of the links are broken, please contact uappol@ualberta.ca
Contact for questions about this policy: policy.treasury@ualberta.ca