University of Washington Internal Lending Program (ILP)
Prepared for: Infrastructure Financing Task Force
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Overview

The UW's Internal Lending Program (ILP) was adopted in mid-2008 after receiving new legislative authority to issue local debt for any university purpose. The ILP makes internal loans to campus borrowers and manages repayment in accordance with financing agreements between the campus borrower and the institution. The University bundles those internal loans and borrows externally to secure the funds for those loans.

Objectives

· Lower institutional borrowing costs
· Stable and predictable borrowing rates

Benefits

· Borrower receives stable and predictable internal rate
· Timing is set by borrowers need
· Refunding Savings benefit all borrowers
· Greater flexibility in structuring loans
· Debt issuance costs fixed at 1%, ongoing fees included in internal rate
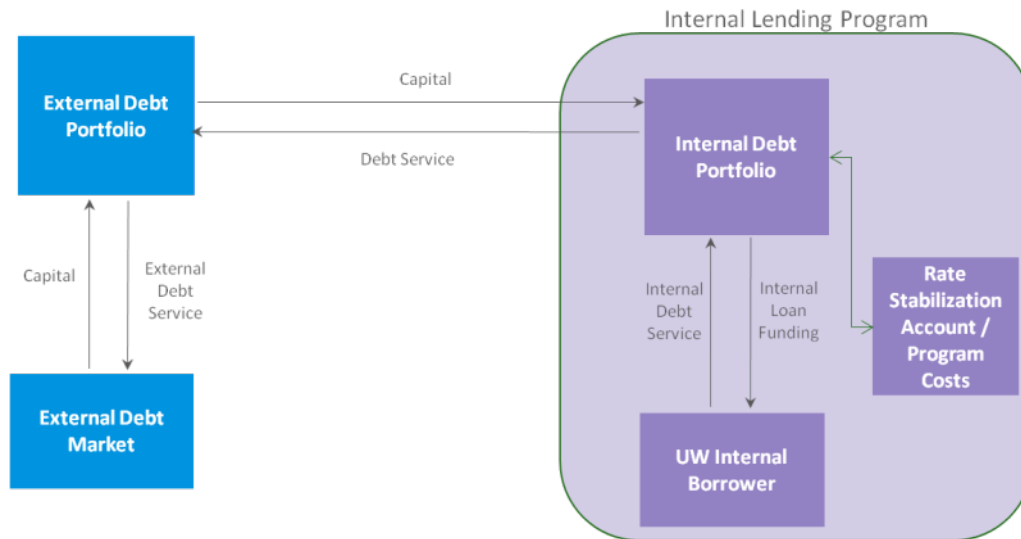· Debt may be prepaid at any time

Annual Bond Resolution

The annual bond resolution, which authorizes both the issuance of new debt during the upcoming year and the refunding of existing bonds, is presented to the Board for approval each July. The annual bond resolution is limited in the amount of debt that is expected to be issued over the next 12 months.

Rate Stabilization

The ILP offers a uniform internal lending rate to all campus borrowers. The internal lending rate includes a reserve component for rate stabilization that will be used to subsidize the internal lending rate if increases in external borrowing rates put upward pressure on the internal rate.The rate stabilization reserve has to be large enough to offset substantial increases in external borrowing rates - otherwise, the internal lending rate will have to be raised in order to preserve the solvency of the ILP. Because the ILP is relatively new, the rate stabilization account cannot currently offset any meaningful volatility in external borrowing rates.

ILP Program Structure

UW ILP Internal Process

Credit Analysis
- Treasury works with Borrower to assess financial feasibility of project

Project Approval
- Board of Regents approves borrowing over $5M
- President or designee approves borrowing under $5M

Financing Agreement
- Key document that outlines terms of loan
- Includes max authorization, loan term, first payment date, borrower covenants and disclosure requirements

Expenditure Funding
- Treasury reviews and funds internal loan with debt proceeds or reserves

Debt Repayment
- Treasury completes transfer from unit to ILP
- Until construction is complete, loan payment will be recalculated monthly as unit continues to borrow funds