A Description of The New Cash Payment Process for Equipment Loans

We are in the process of updating our Revolving Equipment Loan Program; we will now be using System Cash to fund the program. This improvement will give us greater flexibility and remove any Private Use risk. In addition, we will now be able to issue loans at a lower interest rate starting at 1.0% (this rate is subject to change).

Currently the USM relies on bond funds on deposit with the trustee to fund loans. This structure incurs external fees and requires additional oversight regarding the use and tracking of the funds. As such, the interest rate charged to the institutions is 3.5% which includes interest charged on the bonds, administration fees and a budget stabilization component; by eliminating the bonds, we are able to lower the interest rate charged.

Under the existing structure, institutions submit an application for the loan, with all loans greater than $500,000 requiring pre-approval. All approved loan applications and invoices must be provided to the System Office by the 20th of a month for payment to be made that month.

The new equipment loan process is as follows:

**Loan Origination**

1. The institution will submit an Equipment Loan Application prior to purchasing equipment to the System Office:
   - iyeh@usmd.edu
   - mcyang@usmd.edu
   - snorris@usmd.edu

   Applications for all loans greater that $500,000 must be submitted at least 30 days prior to the date of the loan. Applications for all other loans must be submitted at least 7 days in advance of the loan.

2. Loan documents must be completed by an authorized signer; please complete and return the Equipment Loan Authorized Signers form.

3. Once you have received approval for the loan, proceed with your purchase and remit payment for equipment through your institution's accounts payable. *This step is new. In the past, invoices were paid directly to the vendor from the bond funds.*

4. After payment has been made; submit invoice and proof of payment to the System Office for review, along with the Equipment Loan Origination Document. We ask that:
   a. The original paperwork be held at the institution and a pdf of that payment request be sent to the USMO via email.
   b. All documents be submitted to the System Office by the 20th of the month. The loan origination date will be the 1st of the following month.
5. Once the review is complete, our office will provide an amortization schedule outlining the payment terms and will transfer the total amount noted on the Equipment Loan Origination Document, not to exceed the total purchase price of the equipment, to the institution.

All forms are available at https://www.usmd.edu/usm/adminfinance/finafair/debt-management/

Loan Repayment

1. All loans will incur interest at an annual fixed rate of 3.0% with payments due October 1 and April 1 of each year for the life of the loan. The interest rate will be reviewed at least annually, pending market conditions; the rate for new loans will be announced at the start of each fiscal year. Interest rate volatility may prompt reimplementation of the budget stabilization process.

2. Loans will be offered for terms of 3 or 5 years in order to limit the exposure to interest rate risk. Longer term loans will be considered on a case by case basis, depending on the circumstances of the purchase.

3. The System Office will initiate payments for Kuali institutions. All other institutions should make payments through R*Stars as instructed.

4. Existing loans will maintain their existing amortization schedules, including the budget stabilization element.