

I. Purpose of the Internal Bank Policy

The Oregon State University Board of Trustees (Board) has established within the Office of the Vice President for Finance and Administration an Internal Bank that will operate in perpetuity with the following objectives:

- a) To more efficiently and effectively carry out the treasury management function within Oregon State University (University);
- b) To facilitate the long-term financial stability of the University through effective asset/liability management strategies and optimizing the University's capacity to access the capital markets at a reasonable cost; and
- c) To accumulate unrestricted net assets for the University.

The Internal Bank integrates the three primary functions of treasury management: (1) cash management, (2) limited term investment management (i.e., management of non-endowment assets), and (3) debt management (both short- and long-term). In order to integrate these functions, the Internal Bank will operate as follows:

- Cash and limited term assets of all University departments and units are pooled for investment purposes, and the Internal Bank is charged with the responsibility to manage those funds to maximize investment returns with a prudent level of risk while assuring necessary liquidity.
- Financing necessary for capital investments approved pursuant to University policy is provided by the Internal Bank to departments or units through a Central Loan Program:
 - Interim financing may be provided for capital investments in anticipation of philanthropy, planned issuance of long-term debt or from other sources of funds.
 - Permanent financing may be provided for projects with an identified repayment source and will include an amortization schedule for a term consistent with the useful life of the project.
- The University's debt is managed in a portfolio approach and the Internal Bank is charged with the responsibility to minimize the University's cost of capital within a prudent level of risk.

II. Management of the Internal Bank

The Internal Bank will be the responsibility of the University Vice President for Finance and Administration. The University Vice President for Finance and Administration delegates to the University Associate Vice President for Finance and Administration, with oversight by the University Provost and Executive Vice President, the responsibility for management of the Internal Bank. The Associate Vice President may employ staff to provide the services that align with the goals of the Internal Bank. The Internal Bank's operating expenses will be paid out of the Internal Bank's income, generated by interest rate spreads and service fees.

The University Associate Vice President for Finance and Administration will be responsible for:

- Establishing the internal lending rate.
- Establishing and maintaining the Central Loan Program.
- Managing the University's operating asset investments and debt portfolio.
- Developing and maintaining related internal control processes and procedures.
- Accounting for the operation of the Internal Bank.
- Developing financial and other performance monitoring reports.
- Developing and implementing operating policies and procedures.
- Developing and managing the annual operating budget of the Internal Bank.
- Maintaining access to adequate liquidity sources to meet the needs of the University.

The Internal Bank may contract with professional advisory firms to assist with the management of the investment and debt portfolio, as described in the University's Investment Policy and Debt Policy.

The operation of the Internal Bank will comply with all applicable federal and state statutes, rules and policies. Where applicable, the Internal Bank will coordinate and cooperate with the Oregon State Treasurer and Department of Administrative Services in making investment and debt financing decisions.

The University Associate Vice President for Finance and Administration will monitor the operating performance of the Internal Bank and its ability to achieve stated long-term goals. The Vice President for Finance and Administration will annually report to the Board on the Internal Bank's performance. Any material adverse change in performance will be reported to the Board.

III. Operations of the Internal Bank

Required Approvals

The University Vice President for Finance and Administration will make recommendations to the Board's Finance and Administration Committee and request approval for the following transactions:

- a) Investment of operating assets that fall outside of the Oregon State University Investment Policy or related policies.
- b) Issuance of new debt for capital or operating purposes in accordance with the Oregon State University Debt Policy.
- c) Transactions to acquire external forms of interim financing, such as bank lines of credit or commercial paper for liquidity purposes.
- d) Transactions to manage the debt portfolio in accordance with the Oregon State University Debt Policy.

Funds Available for Internal Lending via the Central Loan Program

In accordance with the Debt Policy, the University will operate a Central Loan Program. Funds available for lending include the following:

1. Proceeds from new debt issuance
2. Proceeds from repayment of internal loans via the Central Loan Program
3. Internal Bank liquidity, to be provided through University cash or external borrowing, after considering:
 - i. Anticipated external debt service requirements
 - ii. Operating cash flow needs
 - iii. Operating costs of the Internal Bank
 - iv. Adequacy of Internal Bank reserves, such as an interest rate reserve

Deposit Interest Rate

The University Associate Vice President for Finance and Administration, in consultation with the University Vice President for Finance and Administration, will develop procedures to establish the interest rate to be credited to departments or units that have funds on deposit in the Internal Bank. The rate will be periodically evaluated and adjusted as necessary.

Internal Lending Rate

Annually, the University Associate Vice President for Finance and Administration, in consultation with the University Vice President for Finance and Administration, will establish the Central Loan Program interest rates, which may vary based on internal loan duration. It is the goal and objective to establish those rates to remain in perpetuity. However, it is understood, should the capital markets behave in an unanticipated manner and the reserves available to the Internal Bank are projected to become depleted or excessively large, the Central Loan Program interest rates may be modified on all loans outstanding, including loans that relate to financings undertaken before the establishment of the Internal Bank. This is critical to ensure the interest rate adjustment is equitable across borrowers and is not unfairly applied to only the projects financed subsequent to the establishment of the Internal Bank.

Internal Bank Reserves

The Internal Bank may build and maintain an Interest Rate Reserve to hedge future volatility in debt and investment markets by:

1. Charging a spread between the investment income generated on operating cash and limited term assets and the amount credited to departments or units that have deposits with the Internal Bank.
2. Charging a spread between the Internal Lending Rates charged to internal borrowers and the blended opportunity cost of capital.

The University Associate Vice President for Finance and Administration, in consultation with the University Vice President for Finance and Administration, may establish additional reserves to be held by the Internal Bank that align with its goals and objectives.

Document History

- Promulgated October 17, 2014 by majority vote of the Board of Trustees