# Administrative Policy

**Subject:** Approval and Issuance of Loans and Forgivable Loans (For Key Recruitments)

**Purpose:** The purpose of this Policy is to provide guidance regarding the required approval and terms of all Loans and Forgivable Loans to employees or employment candidates to ensure appropriate documentation and tax treatment.

**Policy:** University of Minnesota Physicians loan requests must be completed using the standard Loan Approval Request Form and must be approved by the CEO of University of Minnesota Physicians prior to the offer of such loan and issuance of loan proceeds. The CEO of University of Minnesota Physicians ("CEO") will approve all loan requests. In addition, loans that exceed $100,000 must also be approved by the Finance Committee of University of Minnesota Physicians and any loans that exceed $250,000 must be approved by the Board of Directors.

The liability related to issued loans is the responsibility of the applicable sub-entity (Clinical Service Units (CSUs) or Central)

All loans will have a written agreement, in the form of a signed Promissory Note approved by University of Minnesota Physicians Legal Department, which includes required language regarding the terms of standard Loans or Forgivable Loans.

**Procedure:** Request and Approval Process:

1. When an authorized Department Manager identifies a need for a loan to be issued, the request must be made on the Loan Approval Request Form (available on resource or from the Accounting Department).
2. Once the completed form has been approved by the appropriate CSU approver, the document will be routed to the Accounting Department for tracking and approval processing.
3. Accounting will review the request to ensure all necessary information has been completed and will route the completed form to the CFO and Legal Department.
4. Legal Department will obtain CEO approval (either directly or through the CFO) for the requested loan amount and related terms (for loan requests up to $100,000).
5. The CEO will review the requested loan and will designate approval (for amounts up to $100,000) by either signing the Loan Approval Request Form or documenting the approval via email.
6. Requests over $100,000 must be approved by the University of Minnesota Physicians Finance Committee. Any loans that exceed $250,000 must be approved by the Board of Directors. (Note: current policy requires the Finance Committee approval on any loans over $250,000. University of Minnesota Physicians may require a mortgage or other security interest for loans greater than $100,000)
7. Legal Department will generate a Promissory Note, containing the standard required language and will incorporate the specific terms of the requested loan.
8. The Promissory Note will be routed to the requestor at the CSU for review and any questions or edits must be routed through the Legal Department for resolution.

9. If no changes are necessary, the Promissory Note can be issued to the Borrower for signature acceptance along with a related Offer Letter, if applicable.

10. When the signed Promissory Note and Offer Letter are received, a copy should be routed to the Accounting Department, along with a copy of the CEO approval of the Loan Approval Request Form to initiate the loan payment to the Borrower. Accounting will route the final payment request to the VP of Finance and CFO for final review prior to release of payment (consistent with standard accounts payable check disbursement procedures).

Communication to Borrower for Forgivable Loans:

1. In addition to receiving an Offer Letter and Promissory Note, describing the terms of the forgivable loan, it is recommended that each Borrower receive a letter describing the tax impact and timing of tax withholding to ensure their understanding that the loan and related interest is not taxed at the time the proceeds are paid but rather at the time the principal and interest are forgiven.

   (NOTE: WE WILL CLARIFY AND INCLUDE THIS IN THE STANDARD PROMISSORY NOTE LANGUAGE AND MAKE IT A SEPARATE COMMUNICATION IN ADDITION TO THE OFFER LETTER AND NOTE)

Issuance of Loan Proceeds:

1. Upon receipt of the signed Promissory Note and Offer Letter (if applicable), the Accounting Department will match the terms of the Note and Offer Letter to the Loan Approval Request Form, previously approved by the CSU approver and the CEO of University of Minnesota Physicians.

2. If there are no discrepancies, a check will be issued and sent to the Borrower’s address as noted on the request form, or if special handling is requested the check can be routed to the requestor to be delivered in person.

3. Accounting will record the loan as a receivable due from the Borrower and will track forgiveness dates of the loan to ensure that appropriate balances are forgiven and appropriately accounted for in the month of each anniversary date. The outstanding balance of the receivable will be reduced by the forgiven amounts.

4. Accounting will provide a summary of all outstanding loan balances at least quarterly to the CFO.

Payroll Processing:

1. Upon initial issuance of loan proceeds to the Borrower no payroll entry is required, since the proceeds are not considered earned income until they are forgiven.

2. Accounting will notify the appropriate payroll department (University of Minnesota Physicians or University of Minnesota) in the month a forgiveness date has been reached and will provide them with the total dollar amount forgiven (principal and interest). Information will be emailed by UMP Accounting Department to the UofM Payroll Services at payroll@umn.edu. Use taxable benefit code HFR – Taxable Benefit/Compensation. The email will include 1) employee name, 2) employee ID, 3) employee record number, 4) value of loan amount forgiven and 5) the number of pay periods over which to spread the value (if appropriate).

3. Payroll will record the forgiven amount as taxable earnings for the employee and will withhold the related taxes. The taxes will be withheld from employee pay in the impacted pay period(s).
4. The taxable earnings may be spread over a maximum of four (4) pay periods (if within the same calendar year) to spread the tax withholding impact over more than one pay period to reduce the impact on net take home pay for the Borrower on one paycheck.

5. The forgiven amounts will be reflected on the Borrower’s W-2 as earned income in the year the amounts are forgiven.

**Loan Terms:**

**PRINCIPAL:**

1. It is recommended that University of Minnesota Physicians use forgivable loans for new hire bonuses greater than $10,000. This mitigates the financial risk of paying a bonus that is not recoverable in the event that a new employee leaves the organization shortly after their initial hire date.

2. Amounts less than $10,000 may be paid as a one-time bonus and processed through the standard payroll process. (See separate policy regarding approval of bonuses.)

**INTEREST RATE:**

1. For loans of three years or less, the interest rate for a loan will be fixed and determined at the time the loan is originated and will be equal to the Prime Rate plus 1%. (Prime Rate is Available at www.wsiprimerate.us/) For example, Prime Rate of 3.25% plus 1% equals a loan interest rate of 4.25% per annum.

2. Interest on the loan will be computed on the basis of actual number of days elapsed in a 365-day year.

**FORGIVENESS OF AMOUNTS:**

1. The requestor will determine the forgiveness terms (if applicable). Typically, loans are forgiven in equal amounts on each anniversary over a 2-5 year period.

2. Principal and all interest accrued will be forgiven on the date specified in the loan (the “Forgiveness Dates”).

3. Any amount (principal and interest) forgiven will be reported as taxable income on Form W-2 for the year in which such amount is forgiven.

4. The Borrower will be responsible for paying any resulting taxes on the related taxable income at the time the any portion of the loan is forgiven.

**ACCELERATION:**

1. If a Borrower fails to follow any covenant or agreement contained in the Promissory Note or terminates employment, for any reason, with Lender (University of Minnesota Physicians) prior to the forgiveness date, the remaining outstanding balance of the loan and any interest accrued thereon shall become immediately due and payable.

**Definition(s):**

- **Borrower** – the employee/candidate who is receiving loan proceeds and the individual who signs the Promissory Note.
- **Lender** – University of Minnesota Physicians
- **Prime Rate** – interest rate as defined and updated periodically in the Wall Street Journal. Available at www.wsiprimerate.us/
- **Principal** – total loan amount to be paid to the Borrower.
- **Promissory Note** – legal document describing the terms of the loan.
<table>
<thead>
<tr>
<th><strong>W-2</strong> – payroll tax document that reports individual employees’ annual earned income to the IRS.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Policy Owner:</strong></td>
</tr>
<tr>
<td><strong>External Reference:</strong></td>
</tr>
<tr>
<td><strong>Related Policies:</strong></td>
</tr>
<tr>
<td><strong>Approved By:</strong></td>
</tr>
<tr>
<td><strong>Approval Date:</strong></td>
</tr>
<tr>
<td><strong>Effective Date:</strong></td>
</tr>
<tr>
<td><strong>Revision Date:</strong></td>
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<tr>
<td><strong>Corporate Taxonomy:</strong></td>
</tr>
</tbody>
</table>
UNIVERSITY OF MINNESOTA PHYSICIANS

Loan Approval and Payment Request Form

Date Requested: 12/7/2011

Requested By: CSU Finance Director on behalf of Dr. CSU Contact phone number: 612-XXX-XXXX

Employee Name (Borrower): New Employee Name

Address:

Description/Reason: To provide a market competitive offer for a new hire in Department.

(attach copy of Signed Offer Letter and Promissory Note when available for payment processing)

Organization: UMP only or U of M (Common Paymaster)  

<table>
<thead>
<tr>
<th>CSU</th>
<th>Resp Ctrl</th>
<th>Provider ID</th>
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<tbody>
<tr>
<td>UofM CP</td>
<td>505</td>
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</table>

Promissory Note Date: 10/1/2011 (10/1/2011 is placeholder - start date TBD)

Total Principal Amount of Note: $25,000.00

Amount payable upon Offer Letter Acceptance Date: 0% $0.00 Date payment is due per Offer letter: Not Applicable

Amount payable upon Start Date of Employment: 100% $25,000.00 Date payment is due per Offer letter: Paid on Start Date

Interest Rate (Simple Interest per Annum): 4.25% (Prime plus 1% on date of Promissory Note)

Loan Type: "Forgivable" or "Standard Loan" (to be repaid in full)

Forgivable

Anniversary Start Date/Annual Forgiveness Date: 10/1/2011 (10/1/2011 is placeholder - start date TBD)

Forgiveness Period (number of years): enter number of years (1, 2, 3, etc)

Forgiveness Method (if not equal amount each year)

Checks will be mailed to address listed. Incomplete forms including missing backup will be returned. Please call the Accounting Department at (612) 884-0862 with any questions. See Form instructions for detailed information.

Approved By (CSU):

Approved By: (CEO) Bobbi Daniels, M.D. (REQUIRED APPROVAL)

Approved By: (Finance Committee)

Finance Committee (REQUIRED FOR APPROVAL ONLY IF LOAN EXCEEDS $100,000)

FOR ACCOUNTING DEPT USE ONLY:

<table>
<thead>
<tr>
<th>Description</th>
<th>Date</th>
<th>GL ACCOUNT</th>
<th>Principal Amount</th>
<th>Interest Amount</th>
<th>Total Amount (earned income on W-2)</th>
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<tbody>
<tr>
<td>Initial Loan Paid</td>
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<td>12740</td>
<td>$25,000.00</td>
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<td>forgiven 1st anniversary</td>
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<td>forgiven 4th anniversary</td>
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<tr>
<td>total forgiven loan plus interest</td>
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<td>$25,000.00</td>
<td>$2,125.00</td>
<td>$27,125.00</td>
<td>$27,125.00</td>
</tr>
</tbody>
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Submit Completed forms to:
Accounting Department
Attn: Controller
720 Washington Ave SE, Suite 200
Minneapolis, MN 55414