

UNIVERSITY OF HOUSTON SYSTEM
ADMINISTRATIVE MEMORANDUM

SECTION: Fiscal Affairs

NUMBER: 03.A.24

AREA: General

SUBJECT: Extension of Credit by Universities

1. PURPOSE

This document sets forth the policy standards for universities of the University of Houston System to ensure compliance with state of Texas law for the extension of credit to private and public entities, including business entities, individuals and other public agencies. Furthermore, it is the intent of this document to establish guidelines for the prudent extension of credit where deemed permissible and in the best interest of the System to do so.

2. POLICY

2.1. Constitutional and Statutory Prohibition: The System is prohibited from entering into a transaction for the sale or lease of goods or services in which the institution extends the credit of the state to the obligor. This prohibition is defined in [Article 3, Section 50](#) of the Texas Constitution, which states: “The Legislature shall have no power to give or to lend, or to authorize the giving or lending, of the credit of the State in aid of, or to any person, association or corporation, whether municipal or other, or to pledge the credit of the State in any manner whatsoever, for the payment of the liabilities, present or prospective, of any individual, association of individuals, municipal or other corporation whatsoever.”

Prohibition against certain extensions of credit by retail stores owned or operated by institutions of higher education is defined in [Section 51.929](#) of the Texas Educational Code, which states: “(a) Except as provided by Subsection (b) of this section, a retail store that is owned or operated by an institution of higher education may not enter into a transaction for the sale or lease of goods or services in which the institution extends the credit of the state to the obligor.”

2.2. System Policy: In view of this prohibition, universities may not deliver merchandise or provide services to individuals, associations or corporations in any situation where the use of state appropriated funds are involved, unless payment is received. The prohibition against the extension of credit does not apply to federal, state, county or municipal government agencies; political subdivisions of the state of Texas; tuition and fees installment options as specified in the [Texas Educational Code, Section 54.007](#).

In those instances where a state agency is not prohibited from extending credit, [Texas Government Code, § 403.0551](#) authorizes the Texas Comptroller of Public Accounts to offset state payments against a person's indebtedness, delinquency or default. In addition, [Texas Government Code, § 403.055](#) and similar statutes (known collectively as "warrant hold statutes"), contain provisions requiring that state agencies report to the Texas Comptroller of Public Accounts the names of persons who have an indebtedness or tax delinquency to the state.

2.3. Universities may determine that the extension of credit in specific cases is appropriate and in the best interest of the universities. Universities are responsible for establishing guidelines for doing so, which must contain:

2.3.1. A process to ensure that the requested extension of credit is not a prohibited transaction.

2.3.2. A procedure for ensuring that any extension of credit is done so in a prudent manner, including the use of standardized credit applications, commercial credit reports and specification of the level of authority required for approval of the requested credit.

2.3.3. Establishment of the billing, accounting and collection procedures for recording and monitoring the credit extended and ensuring that the agreed upon payment is received. Such procedures are to include the creation of a reserve for doubtful accounts in cases of on-going credit extensions, or the identification of non-state appropriated funds to offset any expenses in other cases.

2.3.4. A procedure for ensuring compliance with [Texas Government Code, § 403.055](#) and similar statutes which require that state agencies report to the Texas Comptroller of Public Accounts the names of persons who have an indebtedness or tax delinquency to the state is required when the receivable is maintained in an enterprise system with required reporting information.

3. DEFINITIONS

3.1. Debtor: Entity purchasing goods or services on credit (i.e., the buyer).

3.2. Creditor: Entity selling goods or services on credit (i.e., System department).

3.3. Account Receivable: An asset that represents a claim against another entity for goods or services that has been provided, but for which cash has not been received.

