

Chapter 10 – Loans

10.1 Generally

Loans are a permissible way for a campaign to receive funds. There is no limit on the amount of money that can be loaned to the campaign. However, unless the loan is executed properly and paid off in a timely manner, the loan will be converted into a contribution. This could have serious legal consequences for the political committee, the candidate and the lender if the loan exceeds applicable contribution limits.

10.2 Loan Sources

1. Non-Candidate Committees

Non-candidate committees may receive a loan only from a financial institution or an entity in the business of making loans. It may not receive a personal loan from an individual or any other business entity.

Example

Entity Name	Bank of Maryland
Date Loan Accepted	7/26/2022
Loan Amount	\$1,000
Interest Rate Charge	8% per annum
Prime Interest	8% per annum
Balance	\$1,080
In-Kind Interest Amount	0
Repayment Terms	1 year

The loan source, date the debt was incurred, amount, interest rate charged and prime rate, and outstanding balance must be reported on the campaign finance report.

2. Candidate Committees

A. Outside Sources

A candidate committee or slate may receive a loan from anyone or entity only if the loan is:

- In writing with a copy of the agreement at the State Board;
- Accepted by the express written consent of the candidate(s)
- Personally guaranteed by the candidate; and
- Repaid by the end of the next election cycle immediately following the election cycle in which the loan was received.

Example

Candidate Committee – General Loan

Entity Name	Soft Shell Crab Sandwich Eating Society
Date Loan Accepted	7/26/2022
Loan Amount	\$10,000
Interest Rate Charge	4% per annum
Prime Interest	6% per annum
Interest Paid	\$400
Interest Rate (prime)	\$600
In-Kind Interest Amount	\$200
Repayment Terms	5 years

The loan was given on 7/26/22, thus incurred within the 2022 election cycle (1/1/19 through 12/31/22) and therefore must be repaid before the end of the next election cycle or the 2026 election cycle (1/1/2023 through 12/31/2026). If the loan is not repaid by the end of the next election cycle, the outstanding balance of the loan becomes a contribution by the lender and would exceed the \$6,000 contribution limit. The lender may be in violation of the contribution limit subject to criminal and civil penalties. While the committee may not have sufficient fund for repayment, the lender still has an obligation to make a good faith effort to collect the outstanding balance from the candidate personally.

Additionally, in this example the interest rate charged on the loan is 4%, whereas the prime rate is 6%. The 2% difference must be accounted for as an in-kind contribution of \$200.

B. Candidate or Spouse

A candidate or the candidate’s spouse may make an “informal” loan to the candidate’s committee. To do so, the candidate (or the candidate’s spouse) simply loans money to his or her own campaign. The candidate or spouse is not require to file the loan consent form or charge interest. Remember that the treasurer must receive the loan to deposit it into the campaign bank account. All assets of the political committee including candidate loans must pass through the treasurer. The treasurer reports the loan on the next scheduled campaign finance report and retains all other documents relating to the loan. Also, the repayment period (by the end of the next election cycle) is not applicable.

However, if the candidate does want to charge interest, the loan would be treated as if it were from an outside source. The candidate or spouse would file with the campaign finance report a loan consent form and personally guarantee repayment by the end of the next election cycle.

10.3 Interest

Interest must be calculated and charged on all loans, based on the prime rate on the day that the loan is made.

- If the lender agrees not to be paid interest, the interest amount that should have been paid must be treated as an in-kind contribution from the lender.
- If the lender agrees to an interest rate that is less than the prime rate, the difference between interest at the agreed rate and interest at the prime rate must be treated as an in-kind contribution from the lender.

Interest Rate

It is the responsibility of the candidate and political committee to document, using a commercially reasonable standard, the prime rate on the day the loan was made. For example: the Wall Street Journal publishes the prime rate every day. The definition of prime rate in the Journal is "The base rate on corporate loans posted by at least 70% of the 10 largest U.S. banks." The Wall Street Journal is considered the official source for prime rate.