

## 457 DEFERRED COMPENSATION

### LOAN PROGRAM

Revised 3/7/13

## FREQUENTLY ASKED QUESTIONS REGARDING LOAN PROVISIONS

**Q. Who is eligible to apply for a loan?**

- A. Each active full-time employee enrolled in the full-time 457 plan who has available funds in his or her account on the date of loan application may apply for a loan.

**Q. How much can an employee borrow?**

- A. The minimum loan amount is \$1,000. An employee requesting a loan must have at least \$2,000 in his or her account at the time of loan application.

The maximum amount for any loan requested is the lesser of:

(1) \$50,000, or

(2) one-half of the participant's account balance.

Participants may have only one loan outstanding at a time.

**Q. Does the loan have to be for a specific purpose?**

- A. No.

**Q. What's the interest rate for a loan?**

- A. Contact your deferred compensation vendor [MassMutual (formerly The Hartford) or ICMA-RC] for the current rate. The **interest rate is locked in at the time a loan is approved** and remains the same throughout the life of the loan.

MassMutual (formerly The Hartford) interest will be the prime interest rate; for ICMA-RC, the rate will be prime interest plus ½%. These are the lowest interest rates contractually available in both companies.

**Q. How do I make payments to repay a loan?**

**A. For new loans after March 1, 2010, payments must be through electronic deductions from your personal bank account, also known as ACH deductions. Payroll deduction will not be available.** Per IRS rules, payments must be made with after tax dollars. Those loans existing prior to March 1, 2010 are addressed in the question below. If the entire loan balance is to be paid off prior to the scheduled end date of the loan, please contact your deferred compensation company for further information regarding pay-off amount and other information.

**Q. Will current loans be changed to ACH deductions?**

**A. No, all current loans (existing as of March 1, 2010) will continue through Payroll deduction until their expiration date.**

**Q. If an employee has a loan prior to March 1, 2010, can the employee refinance or re-amortize and choose to have the loan repaid through payroll deduction?**

**A. No, after March 1, 2010, every loan will be paid back through electronic deduction (ACH) from your bank account.**

**Q. Are any fees involved payable to ICMA-RC or MassMutual (formerly The Hartford) for the loans?**

**A. Yes. Both companies charge a fee that is rolled into the total loan amount. Contact the Customer Service Division of the company you are enrolled in for more information.**

**Q. Does the City collect or charge any fees for deferred compensation loans?**

**A. The City of Richardson does not collect or charge any fees in connection with the deferred compensation loans.**

**Q. Can I pay off a loan before the due date or refinance my loan?**

**A. Yes, you may pay off your loan at any time. You may also refinance your loan at any time. There are fees associated with refinancing a loan. However, if you are still paying through Payroll deduction (for loans initiated before 3/10), the employee must refinance the loan into a loan that is repaid through ACH. At that time the employee can pay off the loan completely. It is the employees' responsibility to inform the City of Richardson's Human Resources Department (972-744-4009) of any changes within 5 business days.**

**Q. How do I find out if my loan was approved?**

- A. The promissory note, truth-in-lending rescission notice, and disclosure statement are mailed to the employee along with the issued loan check. The employee confirms receipt and acceptance of these documents and terms at the time the endorsed check is presented for payment.

**IMPORTANT:** **Your loan check and other documents will be mailed to your address of record with the deferred compensation company. You should verify or update your address with your deferred compensation vendor before applying for a loan.**

**Q. What happens if I move or change bank account information?**

- A. The employee is responsible for informing the deferred compensation company of the new information.

**Q. If I have a loan out can I apply for an emergency withdrawal, also?**

- A. You must have a loan before you can apply for an emergency withdrawal. Again, you must qualify with the IRS regulations for an emergency withdrawal.

**Q. What happens if my bank account does not have the funds to support the payment?**

- A. You will be notified by the deferred compensation company of the late status. You must contact your deferred compensation company immediately to make payment. Frequent repayment delinquency may result in placing the plan's tax qualified status in jeopardy.

**Q. What happens if I have an active loan and my employment ends?**

- A. You must pay the balance of your loan when your employment ends. Please contact your deferred compensation carrier at the time of the termination of your employment. If an outstanding balance remains and is defaulted, that amount will be reported to the IRS as an early distribution that will be subject to taxes, IRS penalties, and any other penalties or provisions of your deferred compensation provider.  
Please also see question below concerning defaulted loans.

**Q. What happens if I default on the loan?**

- A. **Defaulted loans place the plan's tax qualified status in jeopardy and are viewed as very serious by the IRS.**

If you default on your loan, it will be considered by the deferred compensation company and the IRS as an in-service distribution, and you must follow the rules of your deferred compensation carrier. The deemed distributive loan appears on your statement until it is repaid or offset when the participant takes an actual distribution. In other words, even though you defaulted, the loan and interest must still be paid. **You are strongly encouraged to seek re-amortization or refinancing, rather than allow the loan to go into default.**

Should you allow the loan to default, you will not be eligible for another loan during your employment. You will only be eligible for an emergency withdrawal if you meet the IRS guidelines.

Also, if you default, you may not contribute to a 457 deferred compensation plan for 12 months, per IRS Rev. Proc. 2004-56.

- Q. Can I take out a loan with both Deferred Compensation vendors?**

- A. No, you may only have one loan at a time.

- Q. What happens if an employee dies prior to repayment of the outstanding loan?**

- A. If an employee dies prior to full repayment of the outstanding loan, the outstanding loan balance and interest will be deducted from the account prior to distribution to the beneficiary(ies).

- Q. Where can I get additional information?**

- A. The customer service line at ICMA-RC is 1-800-669-7400. The customer service line at MassMutual (formerly The Hartford) is 1-800-528-9009.