401

# Loan/Refinance Application Packet - VP

## Accompanying Your Loan Forms

This booklet contains the following form:

- 401 Loan/Refinance Form

ICMA RETIREMENT CORPORATION

The Public Sector Expert

*Your employer has chosen to make loans available from your qualified plan, administered by the ICMA Retirement Corporation (ICMA-RC). The loan provision is a valuable feature, giving you the opportunity to borrow from your vested account balance and repay the loan through payroll deduction. The loan is actually an investment of a portion of your vested account balance in a promissory note which you will sign upon receiving the loan funds. All loans bear interest that you pay and is credited to your account.*

*The amount you receive as a loan is not treated as a taxable plan distribution unless you default on the loan or if the loan fails to conform with the Loan Guidelines or with Internal Revenue Code Section 72(p), at any time. You may wish to consider other sources for small loans, as the expense of record keeping loans in a qualified plan results in fees which may be significant in relation to the size of the loan.*

## Steps to Follow

### 1. Obtain Loan Guidelines from your employer.

The Loan Guidelines contain the specific provisions adopted by your employer relating to permissible loans, such as:

**Eligibility**. Loans are available to active employees. Your employer may permit you to borrow from the Participant Contribution Account and/or the vested portion of the Employer Contribution Account. Your employer may limit the purpose for which loans are available, including only in the event of hardship.

**Loan Frequency**. Loans may be taken only once per calendar year; your employer may permit you to have either (a) only one loan or (b) no more than five loans outstanding.

**Loan Amount.** The minimum permitted loan amount is $1,000. The maximum loan amount is set by the Internal Revenue Code. A worksheet for calculating this amount is included on the last page of this brochure.

**Length of Loan.** Loans must be repaid in substantially equal installments of principal and interest, at least monthly, over a period that does not exceed five years. The only exception that your employer may permit is a longer repayment period for a loan used to acquire a principal residence.

**Loan Repayment Process.** You begin repaying your loan as soon as administratively practical through payroll deduction. You may continue to repay the loan through your employer while on leave of absence. Some employers' loan guidelines permit participants to continue loan repayments **through the employer** after separation from service. Your loan repayment is prorated according to your most recent election of investment option(s) and to the contribution type(s) from which the loan was withdrawn. Under no circumstances may you send a repayment directly to ICMA-RC. All repayments must be submitted through your employer. You may pay all or a portion of the principal and interest obligation early without penalty or additional fee. Extra payments are applied forward to the principal and interest breakdown on the original repayment schedule, unless the additional payment is for the balance due.

**Loan Interest Rate.** The loan interest rates are set for regular loans at the prime rate (the often-quoted rate that banks charge their best customers) plus 0.5%, and for principal residence loans at the FHA rate. The method for setting these rates is established in the Loan Guidelines. Loan interest rates are locked in at the time of approval and remain fixed throughout the life of the loan.

### 2. Determine whether the amount you wish to borrow is within federal tax code requirements.

You may calculate the maximum amount available to you using the Maximum Loan Worksheet on page four. ICMA-RC cannot issue a loan for more than allowed by the Internal Revenue Code. Your requested loan amount is subject to downward adjustment without notice due to changes in your account balance between the time of application and the time the loan is made.

### 3. Complete the attached application form.

**401 Loan/Refinance Application Form**. This form is used to apply for a new loan or to refinance an existing loan (increase the amount of the outstanding loan balance). You may apply for a new loan (1) if your employer permits only one loan and you have no loans outstanding or (2) if your employer permits up to five loans and you have fewer than five loans outstanding.

Refinancing is available to participants who have *only* one loan outstanding. You must refinance a loan to receive an additional outstanding loan amount if you are not permitted a new loan under your employer's Loan Guidelines. In refinancing a loan, you are not permitted to extend the loan repayment period beyond the length of the payment period permitted for the initial loan.

### 4. Submit a completed form, with spousal consent if applicable, to your employer.

You must complete the form according to the instructions provided and obtain your spouse's consent to the loan during the 90-day period before the loan is made if you are a participant in a plan which provides full spousal rights (most money purchase plans and some profit-sharing plans). Your employer's benefit office should be able to supply you with information on this requirement. Any required signature of your spouse must be witnessed by either a notary public or your employer's plan representative authorized to approve withdrawals. Please do not submit your application directly to ICMA-RC as this will delay processing. Your employer will review and approve the application. If your application is denied, your employer will provide the denial in writing. If approved, your employer will send the completed, approved application to ICMA-RC.

### 5. Receive loan documents and check from ICMA-RC through your employer.

After reviewing the loan for conformance with the Internal Revenue Code, Plan Document and Loan Guidelines, ICMA-RC will send the loan documents listed below and a check to your employer, who will notify you that you may execute the documents and receive the check. ICMA-RC sends out loan documents and checks two business days after receipt of complete and approved applications received through 12 noon Eastern Time. Executed loan documents **must** be returned by your employer to ICMA-RC within ten days of issuance. Loan documents include:

> **Disclosure Statement.** The Disclosure Statement contains all of the terms of your loan, including the annual percentage rate, finance charge (total interest paid over life of loan), amount financed (loan amount), total repayments (principal plus interest) and frequency of repayment. The disclosure statement also covers some additional provisions, such as default, prepayment, nonassignment and arrearages. An **Amortization Schedule,** listing each payment date and the amount of principal and interest due on that date, is part of the Disclosure Statement. You must sign the Disclosure Statement; your employer will return the original to ICMA-RC, and you should keep the copy. This is a legal document and your signing of the Promissory Note agrees to these terms.
>
> **Promissory Note.** This document pledges your vested account balance in your employer's plan as security for the loan you are receiving. You must sign the Promissory Note in order to receive the check. If you have any concerns or questions, do not sign the Note until they are resolved.
>
> **Truth-in-Lending Recision Notice.** You may cancel your loan obligation in writing within three business days of receipt of the loan documents and check.

### 6. Begin loan repayments.

Your employer will begin to make payroll deductions for your loan repayments in accordance with the Amortization Schedule provided to you. Under no circumstances will ICMA-RC accept personal checks for your loan repayment.

## Important Additional Information

### How much will I be charged for the loan?

A standard, nonrefundable loan application fee of $50 is due when your loan application for a new, refinanced or reamortized loan is received by ICMA-RC. It will be deducted from your account, if applicable to your employer's plan. A standard $35 annual maintenance fee is deducted from your account (on the first day of the quarter containing the anniversary of the loan issuance) after each year the loan is outstanding, unless this fee is not applicable to your employer's plan.

### What happens if I die before the loan is paid off?

If you die prior to full repayment of your outstanding loan(s), the outstanding loan balance will be deducted from your account prior to distribution to your beneficiary(ies). The unpaid loan amount is a taxable distribution and may also be subject to early withdrawal penalties. Your estate is responsible for taxes or penalties on the unpaid loan amount, if any. Your beneficiary is responsible for taxes due on the amount he/she actually receives. A Form 1099 will be issued to both the beneficiary and your estate for these purposes.

### What happens if I separate from service before my loan is paid off?

Your employer's Loan Guidelines specify whether loans are due and payable (1) when you separate from service (not permitting you to continue repaying the loan), (2) when you separate from service and receive a distribution of all of your vested account balance or (3) when you separate from service and receive a distribution of any part of your account balance.

### Why must I specify my contribution investment allocation before I begin loan repayments?

Your loan repayments will be invested according to your current contribution investment allocation instructions. Therefore, if you previously did not specify your contribution investment allocations, call ICMA-RC's toll-free VantageLine 1-800-669-7400 or VantageLink (www.imarc.org) to change your allocation.

### My loan is for a principal residence purchase. Can I deduct the interest on my federal tax return?

While ICMA-RC does not provide tax advice, you should be aware that the instructions for completion of Schedule A, Form 1040 require that a condition of deductibility of home mortgage interest is that the loan is secured by the property. The security of your qualified plan loan for a residence is your vested account balance, rather than the property itself.

### How is my payroll deduction for loan repayment treated for tax purposes?

Your payroll deduction for loan repayments will be made on an after-tax basis. At the time that funds were transferred from Employer and/or Employee Contribution Accounts to the investment in the Promissory Note, no taxable income was reported. When loan repayments are made, the repayments are credited back to the contribution type from which funds were transferred when the loan was made. Because the amounts credited replace amounts already identified as to taxability, the repayment is made on an after-tax basis. A second tax deduction for replacing the funds, which will retain their pre-tax status, would amount to the same funds in the account having resulted in a tax deferral twice.

### How does this appear on my statement?

Your quarterly and annual statements will include a loan summary report, detailing the crediting of repayments to your account and presenting the outstanding loan balance amount.

### Whom can I call for assistance?

Assistance is available from ICMA-RC's Investor Services staff from 8:30 a.m. to 9:00 p.m. Eastern Time. Please call the toll-free VantageLine at 1-800-669-7400, and request that you be connected to Investor Services.

## Maximum Loan Amount Worksheet (Required under the Internal Revenue Code)

To estimate the maximum amount of a loan for which you may be eligible, calculate each step and select the ***lesser*** of the total from Step 1 or Step 2. If you have had no outstanding 401 or 457 plan loans in the last 12 months, you may enter $50,000 as the total in Step 1 and proceed to Step 2.

| | | |
|---|---|---|
| **Step 1.** | ___________ | A. Enter your highest outstanding loan balance during the previous 12 months from all 401 and 457 plan loans. [See your Loan Amortization Schedule(s)] |
| | (___________) | B. Enter your current outstanding 401 and/or 457 plan loan balance(s). |
| | ___________ | C. Subtract Line B from Line A. |
| | $50,000 | D. |
| | (___________) | E. Enter the amount from Line C. |
| | ___________ | F. Subtract Line E from Line D. |
| | (___________) | G. Enter your current outstanding 401 and/or 457 plan loan balance(s). |
| ***Step 1 Total*** | ___________ | **Subtract Line G from Line F.** |
| **Step 2**. | ___________ | H. Enter 50% of the present value of your total vested account balance in the 401 plan including any outstanding loan balance. |
| | (___________) | I. Enter your current outstanding 401 and/or 457 plan loan balance(s). |
| ***Step 2 Total*** | ___________ | **Subtract Line I from Line H.** |

**The actual amount you may borrow will be calculated using your account balance on the day the loan is made.**

# 401 LOAN/REFINANCE FORM

- Use this form to apply for a new loan or to refinance an existing loan.
- Please read the instructions on the reverse side of this form before completing form.

ICMA Retirement Corporation
Attn.: Recoreds Management Unit
P.O. Box 98150
Washington, DC 20090-8150

VP

## 1 Participant Information

**Employer Plan Number** ___ **Employer Plan Name** ___ **State** ___

**Social Security Number** ___ - ___ - ___

**Daytime Phone Number:** (___) ___ - ___

**Marital Status** ☐ Married ☐ Single

**Name of Participant**

___ Last ___ First ___ M.I.

**Mailing Address:** ___

**City:** ___ **State:** ___ **Zip Code:** ___

**Loan Selection:** ☐ **New Loan** (Complete Parts 2, 4, and 5, if applicable) ☐ **Loan Refinance** (Complete Parts 3, 4, and 5, (if applicable)

## 2 New Loan Information Loan

**A.** Loan Amount Requested $___ or ☐ maximum dollar amount available

**B.** Loan Term Requested (specify number of **MONTHS** per instructions on form back) ___

**C.** Payroll Frequency ☐ Weekly ☐ Bi-weekly ☐ Semi-monthly ☐ Monthly

**D.** ☐ Primary Residence Loan (attach evidence of intent to purchase - see instructions)

**E.** Purpose of Loan ___

**Employer Use Only**
___
Next Payroll Date
(See Introduction)

## 3 Loan Refinance Information

*(Employer: See instruction on reverse)*

**A.** Loan Amount Requested (specify **ADDITIONAL** loan amount, *please see back of form for additional information*) $___

**B.** Loan Term Requested___ number of **MONTHS** *(per instructions on form back)* or ☐ maximum available

**C.** Payroll Frequency ☐ Weekly ☐ Bi-weekly ☐ Semi-monthly ☐ Monthly

**D.** Purpose of Loan ___

**Employer Use Only**
___
Next Payroll Date
(See Introduction)

## 4 Participant Signature

I hereby apply for a loan, subject to and in accordance with the terms and provisions of my employer's plan. I understand that this application will result in a loan origination fee being deducted from my account balance, if such fee is applicable to my employer's plan. I also understand that any amortization schedule or loan data received prior to receipt of the actual loan documents was for illustrative purposes only. As required by law and under penalty or perjury, I certify that the Social Security Number (Taxpayer Identification Number) I provided is correct and that I have read the instructions on the reverse side before completing this form.

___ Participant Signature ___ Date

## 5 Spousal Consent

Spousal consent is required for all married money purchase plan participants. Participants in a profit-sharing/401(k) plan should check with their employer to determine if spousal consent is required.

I, ___, voluntarily consent to my spouse reamortizing a loan from the plan. I understand that no benefits will be distributed under the plan to my spouse or to myself, as beneficiary, until the loan has been repaid, or until the outstanding balance, plus interest, has been deducted from my spouse's account balance according to the provisions of the plan.

___ Spouse's Signature ___ Date

**SPOUSAL CONSENT IS REQUIRED TO BE WITNESSED BY:**

**Employer's Plan Representative** Signature of Spouse witnessed this ___ day of ___, ___

___
**Employer's Plan Representative**

**OR**

**Notary Public** Subscribed and sworn before me this ___ day of ___, ___

___ My commission expires ___
**Notary Public**
SEAL

## 6 Authorized Signature

___ **Employer Approval Signature** ___ **Date**

___ **Employer Contact Name (please print)** ___ **Contact Phone Number**

**IMPORTANT-REMEMBER TO PRINT LEGIBLY IN BLACK OR BLUE INK**



**1st Copy** - *ICMA Retirement Corporation's Copy* **2nd Copy** - *Employer's Copy* **3rd Copy** - *Participant's Copy*

# INSTRUCTIONS

ICMA Retirement Corporation
Attn.: Records Management Unit
P.O. Box 98150
Washington, DC 20090-8150

VP

**1. Participant Information**
You must currently be an employee in this employer's plan to request a new loan or refinance an existing loan. Please complete all participant information to avoid a delay in processing. Select either a new loan or loan refinance by checking the appropriate box. Availability is subject to the frequency restrictions stated in the Loan Guidelines.

**2. New Loan Information**
Complete this section to request a new loan. The loan amount requested cannot exceed the dollar amount restrictions contained in the Loan Guidelines. The amount you actually receive may be adjusted due to changes in your account balance on the day the loan is made.

The loan term requested is the number of months for the life of the loan. To assist you:

| | |
|---|---|
| 12 months = 1 year | 60 months - 5 years |
| 24 months = 2 years | 120 months = 10 years |
| 36 months = 3 years | 240 months = 20 years |
| 48 months = 4 years | 360 months = 30 years |

The maximum allowable term for a nonresidential loan is five years and the maximum allowable term for a primary residence loan is variable by plan, but may not exceed 30 years. Check with your employer for the maximum loan term for primary residence loans for your plan.

RC will convert the term of your loan to the number of required payments based upon the frequency of your employer's payroll. The repayment frequency must match your employer's payroll cycle in order to ensure proper crediting of your account.

A primary residence loan is allowed only for a purchase of a primary residence. Proof of intent to purchase a primary residence must be attached to the loan application. Proof of intent may include a contract to buy/sell real estate including signatures of **BOTH** buyer and seller.

**3. Loan Refinance Information**
Complete this section to refinance an existing loan. An application for a loan refinance is allowed for a participant who has only one outstanding loan and who wishes to borrow an additional amount. If you do not wish to borrow an additional amount, use the 401 Loan Reamortization Form. A loan for a primary residence cannot be refinanced, but may be reamortized.

The loan amount requested refers to the additional loan amount desired.

The loan term requested is the number of months over which you wish to repay the loan. This may not exceed the maximum allowable term according to your employer's Loan Guidelines. For example, you want to refinance a two-year, nonresidential loan you were issued on January 1, 1999. You may extend the loan term repayment period, but not beyond January 1, 2004, the maximum allowable term of the original loan. Special rules may apply to the term of a refinanced loan.

A loan refinance is subject to the same restrictions as a new loan.

The repayment frequency must match your employer's payroll cycle in order to ensure proper crediting of your account.

**4. Participant Signature**
Sign this application and submit it for approval to your employer.

**5. Spousal Consent**
Have your spouse complete this section if required by your plan. Spousal consent is required for all married money purchase plan participants. Participants in profit-sharing/ 401(k) plans should check with their employer to determine if spousal consent is required.

**6. Authorized Signature**
Once you have completed and signed this form, submit it for your employer's approval.

**Special Instructions**
The interest rate on new and refinanced loans is determined by using the prevailing rate as specified in the Loan Guidelines. Loan Guidelines are available from your employer.

Loan documents and checks will be mailed daily to your employer for signature and distribution. Repayments will be scheduled to begin following the issuance of the loan as determined by your employer's payroll cycle.

While you remain employed, your employer will make payroll deductions for loan repayments and remit them directly to the VantageTrust Company.

**Employer:** In order for RC to synchronize the participant's amortization schedule with your payroll cycle, we need to know a date in your payroll cycle. Please complete the box in Section 2 of the Loan Reamortization Form. This will enable RC to set the first payment date (approximately one month from issue) to coincide with your payroll.