# QUALIFIED PLAN LOAN POLICIES AND PROCEDURES

Plan Loan Policies and Procedures: This document must be prepared by the Plan Administrator based on the actual policies which will be followed. A copy of the Plan Loan Policies and Procedures Statement should be included with the Summary Plan Description and distributed to all participants.

Loan Forms: The following forms which may be used to administer a loan program are included:
Plan Loan Application
Plan Loan Note and Security Agreement

These plan loan documents may be completed and modified as necessary. While all documents should be reviewed by legal counsel before use, the loan forms should be subjected to critical review to make sure that they meet the requirements of appropriate state law.

Please note that if either credit worthiness or financial need is a factor to be considered in deciding whether a loan will be made, the Plan Loan Application should be modified to request detailed financial information.

# PLAN LOAN POLICIES AND PROCEDURES

## Part 1: GENERAL PLAN INFORMATION

| | |
|---|---|
| Employer Information | Employer Name: |
| | Address: |
| | Phone: |
| | Employer Identification Number: |
| Plan Information | Plan Name: |
| | Name of Plan Administrator: |
| | Address: |
| | Phone: |
| | Contact Person: |
| | Email: |

## Part 2: ELIGIBILITY FOR LOANS

Each person who is a party-in-interest with respect to the Plan and Trust as defined in '3(14) of ERISA is eligible to receive a participant loan. This includes active participants, and:

☐ (a) Beneficiaries;
☐ (b) Former Participants; or
☐ (c) Employees who have not met eligibility requirements to enter the plan but have rollover and/or transfer accounts.

Loans will be made without regard to race, color, religion, sex, age, or national origin.

Participants are permitted to have outstanding loans.

## Part 3: LOAN APPLICATION PROCEDURE

Any person who is a party-in-interest with respect to the Plan and Trust may apply for a loan (subject to restriction in Part II above) by completing and submitting a loan application to the Plan Administrator on a form available from the Plan Administrator. The Plan Administrator will review the loan application and return it to the individual if it has not been properly completed.

Once the loan application is completed, the plan administrator will review the application and determine whether the individual satisfies the participant loan criteria. If the individual meets the criteria, the loan will be approved. If the criteria are not met, the loan will be denied, and the Plan Administrator will notify the individual in writing of the denial and the reasons for such denial.

## Part 4: BASIS ON WHICH LOANS WILL BE GRANTED OR DENIED

Loans will be made to all eligible participants and beneficiaries on a reasonably equivalent basis. In making loans, consideration will be given only to those factors which would be considered in a normal commercial setting by an entity in the business of making similar types of loans. The following factors will be considered:

☐ Credit worthiness.
☐ Financial Need
☐ Other (specify): _____

| Part 5: LOAN TERMS | | |
|---|---|---|
| Minimum Amount of Loan | Select One of the following: | |
| | ☐ | Each loan shall be for a minimum amount of $_____ (may not exceed $1,000). |
| | ☐ | Not Applicable. There is no minimum loan amount. |
| Maximum Amount of Loan | Generally, if no other plan loans exist (including a defaulted loan), a participant may borrow up to 1/2 of his or her vested account balance, not to exceed $50,000. The following chart outlines how this maximum limit works:<br><br><u>Vested Account Balance</u> — <u>Maximum Loan Amount</u><br>Less than $100,000 — 50% of vested account balance<br>Over $100,000 — $50,000<br><br>However, if the borrower has an outstanding balance on one or more other loans from the plan, then the above limits are reduced by the sum of the outstanding loan balances on the date the new loan is made.<br><br>In addition, to prevent borrowers from using "bridge loans," the $50,000 limit must be further reduced by the excess of:<br>• The highest outstanding balance of all loans during the 1 year period ending on the date of the loan, over<br>• The outstanding balance of all loans (including any "defaulted loan" amounts, plus accrued interest) from the plan on the date the loan is made.<br><br>For example, a participant or beneficiary with a vested account balance of $200,000 borrows $30,000 from his plan on January 1, 2014. On November 1, 2014 he wishes to borrow an additional amount without triggering a taxable distribution. On November 1, the outstanding loan balance is $20,000. How much more can he borrow from the plan? The answer is $20,000, calculated as follows:<br><br>$50,000 (loan limit) - ($30,000[1] - $20,000[2]) - $20,000[3] = $20,000<br><br>The Loan Worksheet (Exhibit A) may be used to compute your maximum loan limitation. | |
| | If multiple loans (2 or more) have been made during the one-year period, then the highest outstanding balance will be determined as follows (choose one): | |
| | ☐ <u>General Rule</u>: $50,000 reduced by the highest outstanding aggregate loan balance of all loans during the one-year period ending the day before the loans, and then reduced by the outstanding balance on the date of the new loan; or | |
| | ☐ Alternative Rule: $50,000 reduced by the single highest outstanding loan balance during the one-year period | |
| | For example, a participant borrowed $30,000 in February 2017 which was fully repaid in April 2017. In May 2017, the participant borrows the maximum of $20,000 and repays that loan in July 2017. In December 2017, the participant requests a third loan: | |

[1] Highest outstanding loan balance during previous 12 months
[2] Loan balance on date new loan is desired
[3] Loan balance on date new loan is desired.

| | | |
|---|---|---|
| | If Box 1 is checked, then no loan is available, because \$50,000 - \$30,000 - \$20,000 = \$0.<br>If Box 2 is checked, an additional loan is permitted, because \$50,000 - \$30,000 (the highest outstanding loan balance) = \$20,000. | |
| Maximum Loan Term | Generally a plan loan must be paid within 5 years. However, a longer term is permitted if the loan is made to acquire the borrower's principal residence. In such a case the loan must be paid within: | |
| | ☐ | 10 years |
| | ☐ | Other (Specify, must be a "reasonable" period of time): |
| Repayment Schedule | Loan payments must be made in level amortized payments and must be made at least quarterly. The Plan Administrator may require that loan payments be made by payroll deduction. Loan payments may be made (check all that apply): | |
| | ☐ | By Payroll deduction |
| | ☐ | ACH |
| | ☐ | By check to the Plan Administrator. |
| Suspension of Loan Payments | During periods of military service, loan payments ☐ will ☐ will not be suspended under this plan as permitted under section 414(u)(4) of the Code. | |
| | During any participant's leave of absence, as defined in section 72(p) of the Code, loan payments ☐ will ☐ will not be suspended for a period not to exceed one year. | |
| Security for Loan | As security for the payment of the loan note, the Participant hereby grants the lesser of a 50% security interest in the Participant's account balance, or the loan outstanding principal balance(s), as collateral for the loan. The Plan Administrator may, in its sole discretion, require additional collateral. | |

## Part 6: DEFAULTING ON LOANS

If a borrower does not make a loan payment when due (i.e., the borrower defaults on the loan), the borrower will have the following period of time to cure the default:

| | |
|---|---|
| ☐ | Until the end of the calendar quarter following the quarter that the loan payment was due; or |
| ☐ | ______ days after such loan payment is due. |

If a borrower fails to make the loan payment by the end of the cure period (specified above) then the following procedure(s) shall apply (check all that apply to this plan):

| | |
|---|---|
| ☐ | If permitted under the maximum loan limits, a new loan will be created in the amount of the default amount. |
| ☐ | The defaulted amount will be reported as a deemed distribution for the tax year in which the cure period ends. |

The amount of any defaulted loan plus accrued interest will continue to reduce the amount allowable as a subsequent loan.

## Part 7: DETERMINING THE LOAN'S INTEREST RATE

The interest rate to be paid by the borrower on the loan must be "reasonable." "Reasonable" is defined to be a rate commensurate with the interest rate charged by persons in the business of lending money for loans which would be made under similar circumstances.

| The Plan Administrator shall determine a reasonable rate of interest by: | |
|---|---|
| ☐ | Ascertaining the rates being charged for similar loans by at least two financial institutions or other firms in the same geographic area who are in the business of lending money; |
| ☐ | Using the Prime Rate plus % |
| ☐ | Other (Describe): |

This process shall be used in determining rates on each day a plan loan is granted. If the loan is renewed, extended, or renegotiated, the interest rate charged for the renewal period must be "reasonable" under the economic conditions prevailing at the time of the renewal.

The interest rate used shall be compounded . .

## Part 8: MISCELLANEOUS

| | | |
|---|---|---|
| Prepayment | The loan may be prepaid in full without penalty at any time. Partial prepayments are also acceptable. Partial prepayments will be credited to principal, and installments shall continue as scheduled. In the event of a partial prepayment, no reamortization of the loan shall occur. | |
| Loan Expenses | Any expenses incurred in the making, administering or maintaining a participant's loan shall be: (check one) | |
| | ☐ | deducted from such Participant's Account under the Plan; |
| | ☐ | paid by the Participant. |
| Refinancing of Loans | Refinanced loans ☐ are ☐ are not permitted. | |
| Death of Borrower | In the event the Borrower dies, unless otherwise directed in writing by the Borrower, the loan note shall be treated as an asset of the plan. A Beneficiary shall therefore be responsible for the remaining loan payments, and shall be treated as the Borrower with respect to all of the rules and policies hereunder. The Beneficiary may “disclaim” the portion of the assets attributable to the loan, by providing a Qualified Disclaimer described in section 2518 of the Code. In such a case, the loan note, or if less, any portion of the loan disclaimed, shall be treated as an asset of the Participant's estate. | |

| EXHIBIT A: Qualified Plan Loan Worksheet | |
|---|---|
| 1. $50,000 | $50,000 |
| 2. Enter the highest outstanding loan balance during previous 1 year period | $ |
| 3. Enter the amount of any unpaid defaulted loans plus accrued interest | $ |
| 4. Add lines (2) and (3), enter sum. | $ |
| 5. Enter current outstanding loan balance on date new loan is requested. | $ |
| 6. Subtract line (5) from line (4) | $ |
| 7. Enter current outstanding loan balance on date new loan is requested. | $ |
| 8. Add Lines (6) and (7), enter sum | $ |
| 9. Subtract line (8) from line (1), enter result | $ |
| 10. Enter total vested account balance, including the value of any outstanding loans | $ |
| 11. Enter 50% of Participant's vested plan balance (50% of line 10) | $ |
| 12. Subtract line (5) from line (11), enter result. | $ |
| 13. Enter lesser of line (9) or line (12) | $ |
| **Amount from Line 13: THIS IS THE ALLOWABLE LOAN AMOUNT AVAILABLE TO PARTICIPANT, WITHOUT TRIGGERING A TAXABLE DISTRIBUTION.** | $ |

Notes:

- Lines 2, 3 and 7 include the value of deemed distributions of defaulted loans.
- The 1 year period referred to in Line 2 ends on the day before the new loan is to be made.
- Refinanced Loans that extend the original loan due date are treated as new loans and must satisfy the rules outlined on this worksheet.

| EXHIBIT B: Loan Worksheet – Alternative Rule | |
|---|---|
| 1. $50,000 | $50,000 |
| 2. Enter the single highest outstanding loan balance during previous 1 year period | $ |
| 3. Enter the amount of any unpaid defaulted loans plus accrued interest | $ |
| 4. Add lines (2) and (3), enter sum. | $ |
| 5. Enter current outstanding loan balance on date new loan is requested. | $ |
| 6. Subtract line (5) from line (4) | $ |
| 7. Enter current outstanding loan balance on date new loan is requested. | $ |
| 8. Add Lines (6) and (7), enter sum | $ |
| 9. Subtract line (8) from line (1), enter result | $ |
| 10. Enter total vested account balance, including the value of any outstanding loans | $ |
| 11. Enter 50% of Participant's vested plan balance (50% of line 10) | $ |
| 12. Subtract line (5) from line (11), enter result. | $ |
| 13. Enter lesser of line (9) or line (12) | $ |
| **Amount from Line 13:**<br>**THIS IS THE ALLOWABLE LOAN AMOUNT AVAILABLE TO PARTICIPANT, WITHOUT TRIGGERING A TAXABLE DISTRIBUTION.** | $ |

Notes:

- Lines 2, 3 and 7 include the value of deemed distributions of defaulted loans.
- The 1 year period referred to in Line 2 ends on the day before the new loan is to be made.
- Refinanced Loans that extend the original loan due date are treated as new loans and must satisfy the rules outlined on this worksheet.

# LOAN FORMS

Note: You should check with your legal counsel to make sure that these documents are complete and accurate in your situation.

If either credit worthiness or financial need is a factor to be considered in determining whether to make loans, then the Plan Loan Application must be modified to request detailed financial information.

# QUALIFIED LOAN APPLICATION

| PLAN INFORMATION |
|---|
| Employer Name |
| Name of Plan |
| Participates in other plan ☐ Yes; or ☐ No. If Yes, name of other plan |

| PARTICIPANT INFORMATION | |
|---|---|
| Name of Participant | Social Security Number |
| Address | |
| Business Phone | Phone |
| Email | Date of Birth |

| REQUEST FOR LOAN |
|---|
| I hereby apply for a loan in the amount of $_____ from the current vested value in the above referenced qualified plan. |
| If multiple accounts or investments are involved, please specify the accounts or investments from which this loan amount should be taken:<br>_____<br>_____<br>_____ |
| PLEASE NOTE: If the balance in your account has decreased between the date on the paperwork and the date returned, the amount you receive may be less than requested. |

| PURPOSE OF LOAN | |
|---|---|
| Select one: | |
| ☐ | Principal Residence Purchase (Repayment period will not exceed _____ years). |
| ☐ | Other (Repayment period may not exceed 5 years). |
| If Principal Residence Purchase is selected for the purpose of the loan, then the following condition must be met if loan repayment period is to exceed 5 years. The proceeds of the loan must be applied toward acquiring or constructing any house, apartment, condominium, or mobile home (not used on a transient basis) which is used or is to be used within a reasonable time as a principal residence of the participant. The determination as to whether a dwelling is to be used as a principal residence of the participant is to be determined at the time the loan is entered into. | |

| REPAYMENT OF LOAN | |
|---|---|
| Select one: | |
| ☐ | My loan is to be repaid in _____ payments; |
| ☐ | Please deduct $_____ per ☐ pay period; ☐ other: _____ , until my loan principal and interest is repaid. |

| | | |
|---|---|---|
| Highly Compensated | ☐ Yes | ☐ No |
| Key-Employee | ☐ Yes | ☐ No |
| Job Category | ☐ Hourly (non-exempt) | ☐ Salaried (exempt) |
| | ☐ Sales | ☐ Other (specify) |

## BORROWER'S ACKNOWLEDGEMENT

I, the undersigned borrower, certify that I have read and understood the Participant Loan Rules outlined in the Employer's Loan Policies and Procedures. I assume all responsibilities for tax consequences if monthly payments are not made on a timely basis.

| | |
|---|---|
| Signature of Participant | Date: |

## SPOUSAL CONSENT

I hereby consent to the making of a loan by the Plan to my spouse and to my spouse's pledge and assignment of a portion of his/her vested account balance as security for the loan by signing the foregoing Plan Loan Note and Security Agreement. I hereby acknowledge that I understand that the effect of my consent may be to forfeit benefits that I might otherwise be entitled to receive, and that this consent is irrevocable.

| | |
|---|---|
| Signature of Spouse | Date |
| Plan Representative or Notary Public | Date |

## ADMINISTRATOR APPROVAL

| | |
|---|---|
| | Date |

## PLAN LOAN NOTE AND SECURITY AGREEMENT

| LOAN INFORMATION |
|---|
| Date: |
| Name of Plan: |
| Employer Name: |
| Name of Borrower: |
| Loan Number: |
| Principal Amount: $ |

FOR VALUE RECEIVED, the undersigned hereby promises to pay to the order of the Trustee of the above referenced plan (the "Plan"), the principal amount of _____DOLLARS ($_____), plus interest at the rate of _____% per ☐ annum; ☐ other _____, on the unpaid principal balance, subject to the following conditions:

1. The principal and interest shall be payable in _____ consecutive, equal installments of principal and interest of $_____ beginning on_____, _____ and continuing thereafter until paid.
2. All payments on this note shall be applied first to the payment of interest due hereunder and second to the unpaid principal amount hereof.
3. This agreement is being made pursuant to and shall be governed by the terms of the above referenced Plan, and the written Plan Loan Policies and Procedures, which are hereby incorporated herein by reference, and the determination of whether a failure to pay any installment of the principal and interest when due in accordance with the terms of this Agreement constitutes a default shall be determined according to the terms of the Plan.
4. Notwithstanding any provision of this Agreement to the contrary, the unpaid balance of principal and interest of this Agreement shall become immediately due and payable on the earlier of (a):

   ☐ 5 years; or
   ☐ Other (Specify term): _____

   from the date of this Agreement, or (b) the date on which the undersigned ceases to be employed by the Employer as defined in the above referenced Plan.
5. The borrower hereby authorizes the Employer to deduct from his/her paycheck an amount not exceeding the installment payment stipulated in item (1) above beginning with the payroll period following receipt of the loan. If the Borrower's pay period changes, the Plan Administrator may, at his option, adjust the amount deducted accordingly so that proper repayment of the loan occurs; however, the Plan Administrator may, at its option reamortize the loan over the remaining term and adjust the amount withheld accordingly. The Employer may allow for loan payments to be made directly by the Participant in lieu of payroll deduction pursuant to the Employer's Loan Policies and Procedures.
6. In the event that the Borrower begins an approved leave of absence which does not last more than 12 months or any periodic payment is not made due to a temporary reduction in the amount payable to the Borrower for a payroll period, the Plan Administrator may waive any payments due during such leave of absence to the payment on the loan for such payroll period and reamortize the loan over its remaining term. Borrower hereby authorizes the Employer to adjust the amount to be deducted from his/her paychecks accordingly.

7. The outstanding loan amount including any unpaid interest due on this loan may be prepaid in full or in part at any time without incurring a prepayment penalty or charge. Partial prepayments will be credited to principal, and installments shall continue as scheduled. In the event of a partial prepayment, no reamortization of the loan shall occur.

8. In order to secure the prompt payment of this loan when it is due, either at its stated maturity date or by acceleration as a result of a default of the loan, the Borrower hereby pledges and grants a security interest (hereinafter referred to as "collateral") in his or her accrued nonforfeitable benefit under the Plan, plus all accruals and earnings thereon. The Plan's security interest in Borrower's accrued nonforfeitable benefit under the Plan shall at all times be equal to 100% of the unpaid principal balance of the loan together with interest accrued thereon, but no more than 50% of the nonforfeitable balance in the Participant's account. Upon payment in full of the loan, the Plan's security interest shall terminate without necessity of further authorization, approval, confirmation or consent.

9. In the event the Borrower fails to make an installment loan payment; dies; is no longer a party-in-interest; requests a distribution from the plan which would result in the amount of the outstanding loan balance exceeding the Borrower's nonforfeitable account balance under the Plan; the loan is not repaid at the maturity date of the loan; or any other reason that would cause the Plan Administrator to determine that the loan is otherwise in default, the Borrower shall have:

   ☐ until the end of the calendar quarter following the calendar quarter that the loan payment was due:
   ☐ ______ days; or
   ☐ Other: _____;

   to cure the default.

   If the Borrower fails to cure the default within such period, then the following procedure(s) shall apply (check all that apply under this plan):

   ☐ If permitted under the maximum loan limits, a new loan will be created in the amount of the default amount.
   ☐ The default amount will be reported as a deemed distribution for the tax year in which the cure period ends.

10. This Agreement shall be governed by, construed under, and enforced in accordance with the laws of _____ to the extent not preempted by applicable federal law.

11. The undersigned hereby assigns to the Trustee of the Plan, as collateral to secure the payment of principal and interest due under this Note and Security Agreement his or her entire right, title and interest in and to such Plan not to exceed the security limitations.

| BORROWER'S SIGNATURE | |
|---|---|
| Signature of Participant | Date |

| SPOUSAL CONSENT | |
|---|---|
| I hereby consent to the making of a loan by the Plan to my spouse and to my spouse's pledge and assignment of a portion of his/her vested account balance as security for the loan by signing the foregoing Plan Loan Note and Security Agreement. I hereby acknowledge that I understand that the effect of my consent may be to forfeit benefits that I might otherwise be entitled to receive, and that this consent is irrevocable. | |
| Signature Of Spouse | Date |
| Plan Representative or Notary Public | Date |