



Loan Default Administration

OVERVIEW

When participants take a loan from their retirement account, they are required to repay the loan amount plus accrued interest back to their retirement account. Loan payment amounts, schedules, and final maturity date are calculated based on the participant's requested loan amount and selected repayment term at the time the loan is processed.

Cure Period

When loan payments are missed or late, participants have a period of time to submit delinquent payments before the loan is defaulted. This period of time is referred to as the Cure Period. The standard Cure Period is quarterly.

If delinquent payments are not received by the end of the Plan's Cure Period, then the loan defaults.

Loan Defaults

When a loan defaults, the outstanding principal loan balance plus accrued interest is reported as a deemed distribution from the Plan. As a result:

- The loan remains an obligation of the participant and continues to accrue interest.
- The loan is subject to maintenance fees if applicable.
- The remaining unpaid loan balance, plus accrued interest, is reported as taxable income on an IRS Form 1099-R.

NOTE: Active loans, including those in a default status, are considered Plan assets for the purposes of Plan audits and year-end compliance testing when applicable.

The defaulted loan remains active until the participant takes one of the following actions:

- Repays the loan in full, including accrued interest.
- Experiences a qualifying event so the loan may be offset in accordance with the Plan's loan policy.

Loan Offset

Offsetting a loan permanently reduces the participant's vested account balance in the amount of the outstanding principal loan balance due, plus accrued interest. Qualifying events that allow for a loan offset are Plan-defined but examples may include separation of affiliation or termination of employment, Death, or Disability.

NOTE: Refer to the Plan's loan policy for a listing of qualifying events where the Plan allows for a loan offset.

Participants may initiate an offset request via the Loan Offset Request form. The form is available on the PSC, and the Plan Administrator must authorize the request before submitting to Empower.

Late Loan Reporting

Empower generates a Late Loan Payment Report which provides participant loan details, including late payment information. This report is generated on a frequency that coincides with the Plan's cure period and is posted to the Plan Service Center (PSC) for Plan Administrator review.

If participants listed on the Late Loan Report have severed affiliation/terminated employment or are on an approved Leave of Absence (LOA), then the Plan Administrator may be required to submit employment status updates on the next payroll/contribution or individual data submission to avoid default. Key information needed to correct late loan reporting for severed/terminated or LOA participants includes termination date, LOA start/end dates, and LOA type as applicable.

If utilized by the Plan, Plan Administrators may provide this information via the Loan Payment Change form. The Loan Payment Change Form is available on the PSC, and Plan Administrators must authorize the request before submitting to Empower.

Late Loan Notice

Participants who have any missed or late loan payments for the previous cure period are provided with a Loan Delinquency Notice that includes the following information:

- Amount of the delinquent loan payments, including accrued interest.
- Date by which the loan payments must be made current to avoid a default of the loan.

Failure to remit delinquent payments before the end of the Cure Period will result in a loan default.

Leave of Absence

Participants who receive Loan Delinquency Notice and are on an approved LOA may complete a Loan Payment Change Request form indicating their applicable LOA start date. Participants must obtain Plan Administrator authorization before submitting a Loan Payment Change Request form to Empower. Participants may download a copy of the Loan Payment Change Request form online or obtain by contacting an Empower Representative.

The non-discretionary recordkeeping and administrative services described in this Service Overview are general in nature and reflect the standard service offering. Service descriptions are not specific to any plan provision or administration practice. The recordkeeper may agree to provide an alternate service arrangement, as applicable, if separately requested by the Plan Sponsor. FOR ADVISOR/PLAN SPONSOR OR TPA USE ONLY. Not for use with Plan Participants