

Frequently Asked Questions about 457(b) Plan Loans

Who is eligible for a plan loan?

Any full-time employee of the City of Costa Mesa who has an account balance of \$2,000 or more is eligible to apply for a loan.

How does taking out a loan impact my Plan investments?

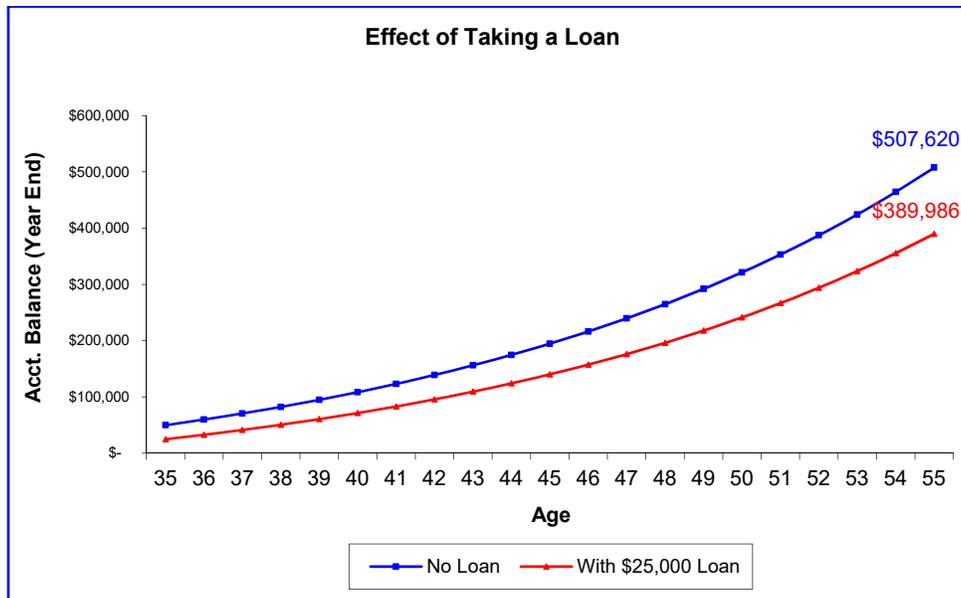
Your loan is funded directly from a cash-out of your pre-tax contributions in your 457(b) Plan account. The withdrawal will be deducted proportionately from all funds in your account.

When you repay your loan, your loan payment is in after-tax dollars and is applied to the interest and finally to the principal, thereby reducing the balance owed. Payments received on your loan will be directed to your current investment allocation in the applicable Plan and will be reflected on your statement.

How does taking out a loan impact my balance at retirement?

Before deciding to take a loan from your Deferred Compensation Plan account, make sure you understand how taking a loan can affect your retirement savings. Taking a loan from your Deferred Compensation Plan account can greatly impact your future account balance. Therefore, you should consider other ways to cover your unexpected expenses.

The following example illustrates how taking a \$25,000 loan from your Deferred Compensation Plan account can impact your future account balance over 20 years. According to the example below, taking a \$25,000 loan could cost you **\$117,634**.



Assumptions:

- Current account balance is \$50,000. The loan decreases beginning account balance to \$25,000. Annual account contributions are \$6,000.
- Annual rate of return is 8%. Borrowing rate is 7%.
- Annual loan repayment at 7% rate is \$5,940 for five years. In order to stay cash flow neutral, participant stops regular contributions for five years, then restarts regular annual contributions of \$6,000 for next 15 years.

What is the minimum amount of a loan?

The minimum loan amount available is \$1,000.

What is the Maximum Loan Amount I can borrow?

The Maximum Loan Amount a participant may obtain is the lesser of:

1. One-half of the account value in your 457(b) Plan reduced by the highest outstanding loan balance during the 1-year period ending on the day before the date on which such loan is going to be made; or
2. \$50,000 reduced by the highest outstanding loan balance during the 1-year period ending on the day before the date on which such loan is going to be made.

CA 457 shall not be liable for any adverse tax consequences. The participant is strongly advised to address any questions regarding the tax consequences of loans or loan limits to a qualified, independent tax advisor before submitting an application for a loan.

Do I have to put up collateral and qualify for a loan in the same way I would at a bank?

No, the remaining balance in your 457(b) account will serve as collateral.

How are loans treated for tax purposes?

Funds borrowed from the Plan under these conditions are not treated as distributions, provided they are repaid in accordance with the terms of the loan. Therefore, no taxes are withheld or due when a loan is received.

May I deduct the interest I pay on the loan from my taxable income if I itemize deductions?

No. Under federal tax law, no deduction is permitted for interest paid on a loan from the plan, regardless of the purpose of loan.

How is the interest rate determined for Plan loans?

The interest rates for Plan loans will be based on the Prime Rate + 1.00%. The Prime Rate shall be the prime rate published by The Wall Street Journal two weeks prior to the end of the most recent calendar quarter. CA 457 may adjust the loan interest rate for suspended loans to participants entering active duty in the military services as may be required by law.

What are the loan initiation and processing fees?

A loan origination fee in the amount of \$50.00 shall be deducted from the participant's account at time of the application and a quarterly maintenance fee of \$12.50 shall be deducted from the participant's account at the end of each calendar quarter.

What are the loan repayment rules?

You are required to repay your loan in full. Loans are due and payable upon the expiration of the loan term or your severance from employment with the City, whichever occurs first. When you sign your loan documents, you agree to

a loan term up to five years in length. While you are actively employed, regular loan repayments must be made from your personal checking or saving account held at a financial institution.

Your repayments will begin in the month following the month in which you receive the loan proceeds. If you wish to prepay your loan, it must be paid in full (no partial prepayments). Contact CA 457 prior to submitting any prepayment to confirm address and the total amount due.

What if I take a leave of absence?

Participants who take a leave of absence without pay must continue to make loan payments, in accordance with the original loan repayment schedule. A loan may be suspended only for participants who have entered active duty in the military services as required by law. In these cases, you must contact CA 457 to apply for suspension.

What if I fail to make a required loan payment?

A participant's loan shall be delinquent if any loan payment is not made on the date it is due and CA 457 does not receive the payment by the last day of the calendar quarter in which it was due.

If the loan is delinquent, CA 457 will send the participant a Loan Late Letter (the "Late Letter") notifying him or her of the delinquency and the ability to cure the delinquency and avoid default. To cure the delinquency, the participant must submit the amount due, via personal check, bank check or money order, directly, to the Charles Schwab Trust Company in accordance with the cure period as set forth in the Late Letter.

What are the consequences of a loan default?

If CA 457 has not received the delinquent loan payment(s) by the date set forth in the Late Letter (see definition in the answer to the question above), the loan is defaulted and the participant shall receive a Loan Defaulted Letter (the "Default Letter"). The Default Letter is a confirmation to the participant that CA 457 did not receive the past due loan payment(s) to cure the default by the specified date and, therefore, the following have taken place:

- The entire outstanding balance of the loan, including accrued, but unpaid, interest up to the date of default will be a taxable distribution and reported on Form 1099-R. That amount will be included in the participant's gross income for the calendar year in which the cure period ended.
- The defaulted loan will continue to exist and interest will continue to accrue until the defaulted loan is fully repaid or the participant experiences a distributable event.
- The participant will be precluded from applying for future loans from his or her 457(b) account, even if the defaulted loan is fully paid off.

Note: The defaulted loan (including unpaid interest accrued after default) is considered outstanding and is applied to determine the available loan amount from all qualified employer plans of the same employer.

May I take more than one loan from my 457(b) account?

No. A participant may have only one outstanding loan at a time. Participants must repay any outstanding loan before applying for a new one. There can be no more than two loan applications in any 12-month period.

How can I get a loan repayment estimate?

Your loan repayment amount is available by logging into the Plan's Web site at www.ca457.com and clicking the OPENGATEONLINE link. Your current loan balance is located below your vested investments on the website. You may also contact CA 457 directly at 800-770-0457, option 1.

How do I apply for a loan?

To apply for a loan, complete a Loan Application available in the forms section of www.ca457.com and submit to the CA 457.

What is the sequence of events in the loan process?

1. A completed loan application is received by CA 457;
2. CA 457 verifies the participant's eligibility for a loan and the amount of the loan;
3. If verified, a promissory note and Irrevocable Pledge and Agreement are sent to the participant for signature.
4. Participant signs and returns original documentation to CA 457.
5. CA 457 directs the Charles Schwab Trust Company to issue a loan distribution by wire or check (checks are mailed approximately one week after the participant has submitted the application to CA457 Office);
6. Approximately one month following the month the loan was taken, the first loan payment is due.

How do I get more information?

Feel free to contact CA 457 at 800-770-0457.