County of Los Angeles Loan Policy

The loan policy for the County of Los Angeles Deferred Compensation and Thrift Plan ("Horizons"), and Savings Plan (each referred to separately as the "Plan" and collectively as the "Plans") is outlined below. This policy replaces all previous loan policies and applies to all participants – with or without a current loan.

Eligibility

Only active County employees who participate in a Plan and have a vested minimum account balance of $2,500 or more may take out a loan.

Procedures Generally

Participants who wish to take a loan must apply for the loan online at the Plans' website at www.countyla.com or call the County of Los Angeles Service Center at 1-800-947-0845 (press "2" for loan information) and thereafter execute a promissory note providing for substantially equal periodic payments made through semi-monthly payroll deductions over the term of the loan and in accordance with the terms of this loan policy.

When a participant requests a loan from his or her vested account balance, the loan amount will be liquidated from the investment funds in which the participant's vested account balance is invested and transferred into the participant's special "loan fund". (To the extent possible, any rollover subaccount will be used last to satisfy the loan request.) The loan shall be made from and secured by this loan fund. Amounts transferred to the loan fund are not otherwise available for distribution or investment until loan amounts are repaid. When a participant makes a loan payment, that payment is first credited to the loan fund and then transferred to investment funds in accordance with the participant's current investment directions. If the loan is not repaid according to the promissory note, the outstanding loan balance (including principal and interest) will be defaulted as described below in the section titled "Payment Requirements." Loans shall be administered in accordance with Internal Revenue Code Section 72(p) and Treas. Reg. Sections 1.457-6(f), 1.457-7(b)(3) and 1.72(p)-1 and this loan policy.

Minimum and Maximum Loan Amounts

The minimum amount available to participants for a loan is $2,000.

The total amount of all loans under the Plan must not exceed (1) 50% of the participant's individual vested account balance if that vested account balance is at least $20,000, <u>or</u> (2) 80% of the participant's individual vested account balance or $10,000, whichever is less, if that vested account balance is less than $20,000. Moreover, when a loan is made, the aggregate amount of all loans from all the Plans must not exceed $50,000. When applying for a new loan, the $50,000 maximum is reduced by the highest outstanding loan balance over the last 12 months for all Plan loans.

Number of Loans Permitted

The maximum number of loans the participant may have outstanding is two (2) per Plan. If the participant has two loans outstanding and wishes to initiate another loan, the participant must first repay one of the current outstanding loans.

Types of Loans Available

General Purpose Loans have a duration of one to five (1-5) years. No reason or documentation is required other than a signed promissory note. The interest rate for this type of loan is fixed for the life of the loan. The interest rate is 1% over the Prime Rate published in the *Wall Street Journal* on the last business day of the month before the loan is originated.

Principal Residence Loans have a duration of one to fifteen (1-15) years. This loan must be utilized for the purchase of a primary residence ONLY. The participant must include a copy of his or her escrow or purchase agreement with the signed promissory note. Loan checks will be issued to the Escrow Company, F.B.O. Participant Name, and mailed to the participant's latest address on-file. The interest rate for this type of loan is fixed for the life of the loan. The interest rate is equal to the "Freddie Mac, 30-day note" published in the *Wall Street Journal* on the last business day of the month before the loan is originated.

Note: If the loan's stated interest rate is greater than 6%, the rate charged will be reduced to 6% during a military leave of absence.

Payment Requirements

Once you've taken a loan, you must make semi-monthly payments through payroll deductions, as agreed to in the promissory note. If you miss a payment for any reason, your loan will be considered delinquent and in arrears. You will receive a late loan notice the quarter after you miss a payment. If the missed payment(s) is (are) not received by Empower Retirement by the end of the quarter in which you receive the late notice, your loan **will** default. For example: If you miss a payment in March, you will receive a late notice in May. If the missed payment(s) is (are) not received by Empower at least two business days before the end of the quarter, the loan will default.

When a loan defaults, it is treated as a "deemed distribution" and may result in serious and unwelcome tax consequences. The outstanding loan balance, consisting of the missed payments plus the remaining principal is considered income to you and may push you into a higher income tax bracket. The "deemed distribution" will be reported to the Internal Revenue Service (IRS) as income on tax Form 1099-R for the year in which the "deemed distribution" occurs. Any "deemed distribution" that is reported to the IRS may also be subject to the 10% early distribution tax under Internal Revenue Code Section 72(t). In addition, if you default on a loan, your application for another loan from the Plan will be denied unless you repay the outstanding balance of the defaulted loan and receive authorization from the Plan Administration Committee (PAC).

If you initiate a loan but do not see any deductions for it on your paycheck, you are still responsible for paying the missed loan payments. It is important that you review your paychecks to ensure deductions are accurate and started in a timely manner. To make up any missing loan payments and bring your loan up to date, immediately contact Empower at 1-800-947-0845.

Early Loan Payoff

A loan can be paid in full at any time. You may obtain a loan payoff quote on the Plans' website www.countyla.com or by calling the County of Los Angeles Service Center at 1-800-947-0845. The loan payoff quote is valid for 15 calendar days from the date it is obtained. If a payment is made by any means other than a bank issued cashier's check or bank issued money order, then subsequent loans and distributions will be held for 15 calendar days following the receipt of the payment.

Principal Reduction

Your Plan offers a Principal Reduction Feature. This feature allows you to prepay principal on the loan and shorten the maturity date. You must complete the Loan Prepayment Request Form and submit it to Empower Retirement along with your payment, payable to LA County Plans.

Partial payments will first be applied to the principal and interest of any payment amount due and any future payment due within 30 days. Thereafter, any additional payment amount will be applied to principal. The scheduled semimonthly repayment amount will not change, but the loan will be paid off faster, which means you will save on interest. When you use principal reduction to reduce the amount of your outstanding loan, you will receive a revised loan amortization schedule showing the new, accelerated maturity date.

Partial lump sum loan repayments also are permitted to catch up on a past-due amount.

Pay Ahead

Your Plan offers a Pay Ahead Feature. This feature allows you to pay ahead any loan payments that you determine may be missed in the future – for example, while on a leave of absence (LOA).

The Pay Ahead option can be used when you are on or anticipate being on a LOA and want to pay the semimonthly loan payments ahead of their due date. With the Pay Ahead option you are able to send pre-payments to Empower Retirement to be applied to future loan payments, not to exceed 12 pay periods. You must complete the Loan Prepayment Request Form and submit it to Empower Retirement along with your payment, payable to LA County Plans. The loan is not re-amortized and interest due is not reduced; the maturity date and payment schedule stay the same.

The pay head option is not exclusive to going out on leave and can be utilized even while active and not anticipating any missed loan payments in the future. Using the Pay Ahead option in a non-LOA circumstance puts the loan on a rolling paid ahead status, and *may* shorten the length of maturity. Length of maturity is shortened at the end of the payment schedule, based on how many "pay ahead" pre-payments you have chosen to make (and whether you have missed any other scheduled semimonthly payments). **Unlike the Principal Reduction option, however, this option does not result in any interest savings.**

Unpaid or Partially Paid Leave of Absence

When you take a leave of absence for maternity leave, extended sick leave, industrial accident, military leave, etc., your payroll deductions for your loan will continue if you receive sufficient pay through the County's payroll system to cover the loan payment amount. However, if you are on an unpaid or partially paid leave, your paycheck may not be sufficient to deduct your loan payments through the payroll system. While on leave, you may either mail payments to Empower Retirement or you may be eligible to temporarily suspend making loan payments for up to 12 months, longer if on military leave, by completing a Loan Payment Change Form.

If you go on a LOA, including Military LOA, you may be eligible to delay your loan payments if:

You are not receiving sufficient pay through the payroll system to cover the amount of the installment payments required under the terms of the loan. To temporarily suspend payments while on a paid or unpaid leave of absence, you must submit a Loan Payment Change Form to Empower Retirement at the **beginning** of your leave. This form can be obtained online at www.countyla.com or by calling Empower Retirement at 1-800-947-0845.

By signing the Loan Payment Change Form you are agreeing to a two (2) part process:

1) <u>Temporarily</u> suspend the payment obligation if you do not have sufficient payroll to cover the semi-monthly loan payment while on an approved unpaid or partially paid leave of absence for up to 12 months, or longer for military leaves (see below for more details). The purpose of the Loan Payment Change Request form is to protect your loan from defaulting for up to twelve (12) months (longer if on Military Leave of Absence) while on a leave of absence where sufficient payroll dollars are not generated to allow for the loan payment to be deducted under your current loan repayment plan. Upon receipt of a properly and timely executed Loan Payment Change Form, the 12 month temporary suspension period begins, and

2) Submit another Loan Payment Change Form when you return from leave in order to elect how you want to make up the missed loan payments (if applicable). Please note that loan payments will continue while you are on a leave of absence so long as there is sufficient pay to cover the loan payment amount. If there is not sufficient pay to cover your loan amount and you miss any payments, you must arrange to make up the missed loan payments when you return to work by the original loan maturity date by:

   - Re-amortizing the missing loan payments over the remaining term of the loan. By choosing this option, the loan payment amount is recalculated and, as a result, your loan payment amount (the amount that is deducted from your semi-monthly paychecks) will likely increase, or
   - Resuming regular semi-monthly payments for the original loan payment amount and making up the missed loan payments by mailing a lump-sum payment before the maturity date to Empower. The lump-sum payment can be made with a bank issued cashier's check or bank issued money order

Please note, both Loan Payment Change forms (the one you submit at the beginning of your leave and the one you submit when your leave ends) must be signed by your Departmental Personnel Officer, verifying your approved leave of absence start and end dates and the date of your last loan payment.

You will have a grace period that lasts through the end of the calendar quarter following: (1) the quarter in which your leave ends or, (2) if earlier, the quarter in which the maximum 12-month suspension period ends, to resume making your loan payments. If you are on a military leave, you have until the end of the quarter following the quarter you return from military leave to resume making loan payments.

Your loan balance will be in default and treated as a "deemed distribution" if:

- You do not meet the requirements described on the loan payment change form, or
- You extend your non-military leave beyond 12 months (plus the grace period) and do not arrange with Empower to make the required loan payments described earlier and you do not resume loan payments by the end of the grace period.

If you are on a leave of absence and receive pay *outside* the County's payroll system (for example, if you are a safety officer on an industrial accident leave for longer than 12 months, and you receive pay from the County's worker's compensation claims administrator), loan payments will not be deducted from your pay. When employees are paid outside the County's payroll system, all deductions (including loan payments) cease. If you are on leave and no longer receiving pay from the County payroll system, and the maximum period for suspending your loan payments has ended, you must contact Empower immediately to make payment arrangements, or risk a loan default.

Military Leave of Absence

Military leave is similar to a regular approved leave of absence. If you go on a LOA, including Military LOA, you may be eligible to delay your loan payments if you are not receiving sufficient pay through the payroll system to cover the amount of the installment payments required under the terms of the loan.

Therefore, you must complete and submit a Loan Payment Change Form to Empower when you begin your military leave, to suspend your loan payments and to avoid a default.

When you return from military leave, you must submit another Loan Payment Change Form to elect one of the following options to make up your missed loan payments:

- Re-amortize the missed loan payments over the remaining term of the loan. By choosing this option, the loan payment amount is recalculated and, as a result, your loan payment amount (the amount that is deducted from your semi-monthly paychecks) will likely increase, or
- Extend the maturity date of your loan by the length of your military service and re-amortize the missing loan payments over the extended term of the loan, which may result in different semi-monthly loan payments, or
- Resume regular semi-monthly payments for the original payment amount and make up the missed payments by mailing a lump-sum payment to Empower before the extended maturity date. The lump-sum payment can be made with a bank issued cashier's check or bank issued money order.

Remember, the Loan Payment Change forms are important. You must complete one at the beginning of your leave of absence and another one at the end of your leave. You must complete two forms.

Payment Requirement Continued

Despite any grace periods permitted with respect to delinquent payments, if a loan has not been fully repaid by the end of its term, the outstanding balance will be treated as a "deemed distribution" and reported to the IRS as income on tax Form 1099-R in the year the "deemed distribution" occurs.

Participants who leave service prior to the end of the loan term will be required to pay off the loan at separation from service as required by the Plan. If the loan is not repaid, the outstanding loan balance will be defaulted, treated as a "deemed distribution," deducted from the vested account balance being distributed, and reported as income to the IRS on tax Form 1099-R for the year the "deemed distribution" occurs. A participant leaving service may avoid default by submitting a request to offset the outstanding loan balance (which offset will be treated as a taxable distribution) or by paying the outstanding loan balance before receiving a distribution from the Plan and by no later than the end of the "grace period," which lasts until the end of the calendar quarter following the calendar quarter in which the participant separated from service. A bank issued cashier's check or bank issued money order to pay the total outstanding balance is permitted.

As required by tax regulations, the defaulted loans of a participant will remain on the books (even after it is reported to the IRS as a "deemed distribution") until it is repaid or otherwise "offset" or deducted from the participant's vested account balance. Payroll deductions will continue to be taken to pay a defaulted loan until it is fully repaid. Additionally, the participant's outstanding defaulted loan balance will be deducted from the participant's vested account balance before receiving a distribution following separation from service, or upon request for distribution to the extent the distribution includes the vested account balance securing the loan or, upon the death of the participant.

Please note that once a loan has defaulted and a deemed distribution has been reported to the IRS on tax Form 1099-R, the default status and tax reporting cannot be reversed. To avoid default, please make your loan payments on time and in accordance with the Loan Policy and Promissory Note.

Once a loan from a Plan is in default, **no additional loans from that Plan will be granted without full repayment of the outstanding loan balance and authorization by the Plan Administrative Committee.**

Agreement to Policy and Future Tax Law Requirements

By executing a promissory note and receiving a loan under a Plan in accordance with this loan policy, a participant agrees to the terms of this loan policy and further agrees that any future Plan loan requirement(s) imposed under the Internal Revenue Code or by the Department of the Treasury or IRS in Treasury Regulations or other guidance may be incorporated into this loan policy as it applies to that participant and may be deemed a part of that participant's promissory note.

Enforcement

The Third Party Administrator, Empower Retirement, is required to enforce these rules.