

ARE YOU SURE ABOUT THAT?

Five things to consider before tapping into your 401(k)

1. **Did you know** money you borrow from your account loses out on opportunities for compounded growth?
 - No one can predict that history will repeat itself, but if you miss a few good years in the market, the difference could be difficult to make up. The interest rate on your loan is fixed; the return on your 401(k) investment options could be much higher.
 - The money you take out of your account misses out on any potential market gains. Although you are paying interest to off set this that money comes out of your own pocket.
2. **Did you know** the interest you repay is not tax deductible?
 - Unlike a home equity loan, the interest you pay on your 401(k) loan is not tax deductible.
3. **Did you know** if you leave your company, you have to repay your loan in full within 90 days?
 - If it is not repaid you must pay income taxes and penalties on the outstanding amount of your loan. This can be very difficult if you lose your job, considering this is usually when you need money the most.
4. **Did you know** you pay taxes on the interest twice?
 - The interest payments that you make are made with after tax dollars and you will pay taxes again when you withdraw the money for retirement.
 - So, let's say your monthly interest payment is \$300 and you're in the 28% tax bracket. You'll have to make \$416 in gross earnings to make the \$300 payment. Then, when you retire and take withdrawals, you pay taxes again.
5. **Did you know** your 401(k) should never be viewed as a savings account?
 - Remember this money is for retirement! Take a loan only as a last resort. If you need the money for an emergency borrowing may be your last resort. However, be sure you have exhausted all possibilities first.
 - If you have no other choice and have to tap into your 401(k), borrow as little as possible and repay the loan as quickly as you can

APPLICATION FOR PARTICIPANT LOAN

I hereby apply for a loan from **(employer name)** _____ 401(k) retirement plan.
I authorize the Plan Administrator to determine my creditworthiness and ability to repay the loan.

In applying for this loan, I acknowledge that I have read the provisions in the summary plan description governing plan loans and have been furnished with a copy of the most recent loan program guidelines established and adopted by the Plan.

Participant Name: _____

Social Security Number: _____

Email Address: _____

Phone Number: _____

MAIL CHECK TO (complete address): _____

New Address? **REASON FOR LOAN:** _____

I hereby apply for the loan described below to be secured by my account balance in the plan.

1. **Amount*:** The amount I desire to borrow is: \$ _____ **-OR-** **Maximum Available** (Check Box)

* I understand that in addition to my loan amount, a loan processing fee of \$75.00 for origination of the loan and \$75.00 each plan year the loan is outstanding will be deducted from my account. This fee will be reflected on my participant statement in the gain/loss column and will be taken proportionately from all of my employee funds. In addition, there will be a one time check fee (subject to change without notice).

2. **Term:** I would like to repay the loan over a period of _____ years. (5 year maximum)

I understand that the principal and interest of the loan must be paid in equal installments through after-tax payroll deductions over this period. I will sign and date the amortization schedule for my requested loan, as an indication that I agree to the terms of the loan and the monthly payment amounts. I understand I may have only one outstanding loan at a time and if I decide to apply for another loan, I must first pay off my outstanding loan balance. If the check that I send in is returned for insufficient funds I will be responsible for a \$35 returned check fee payable to Freedom One Retirement Services. I understand that I must fully execute a Promissory Note, Irrevocable Pledge & Assignment, Participant Assignment of Wages to Repay Loan and a Truth-In-Lending Disclosure Statement before I will receive my loan check.

3. **Payment Frequency:** What is the frequency of your **normal** pay period? If you are unsure, please check with your payroll department.

Weekly Bi-Weekly Semi-Monthly Monthly Other, please explain: _____

Participant Signature

Date

4. **Processing Authorization:** This authorization grants Freedom One Retirement Services the authority to take those actions needed to process the loan request and processing fee for the participant named above. All affected parties should comply with all written requests and directives as issued by Freedom One Retirement Services on this matter. Freedom One Retirement Services will be responsible for any applicable 1099R reporting and Federal Income Tax withholding and reporting.

Plan Administrator/Trustee Signature

Date

MARITAL STATUS: (This section must be completed to process your loan. If married, notary signature and stamp are required.)

I certify that I am not legally married at this time.

- OR -

I hereby consent to the loan described above and to the pledge of 50% of the Participant's vested interest under the Plan as collateral and security for the loan. I understand that if I am the beneficiary of the Participant, the amounts payable to me as such beneficiary will be reduced by the amount of any unpaid balance on the loan, plus interest, outstanding at the time of such payment.

Spouse's Signature

Date

Notary Public (STAMP OR SEAL REQUIRED):

Subscribed and sworn to before this _____ **day of** _____ **20** _____

Notary Signature

County

State



PARTICIPANT LOAN GUIDELINES

The **(employer name)** _____ 401(k) retirement plan authorizes the Trustee(s) to make loans to Participants. Before any loan is made, the plan requires that a written loan program be established which sets forth the guidelines for making loans. This document shall serve as such program. The Plan Administrator may use this document to notify Participants of the loan program.

1. The Plan Administrator is authorized to administer the loan program. All applications for loans shall be made to the Plan Administrator on forms, which shall be made available to Participants.
2. The Participant will be charged a \$75.00 origination fee to process a loan request and \$75.00 each plan year that the loan is outstanding. In addition, there is a one time check fee (subject to change without notice). These fees will be automatically deducted from the Participant's account.
3. A loan application shall be approved or declined by the Plan Administrator within 10 business days after being submitted.
4. The Plan Administrator shall determine whether a Participant qualifies for a loan and shall apply such criteria as a commercial lender of funds would apply in similar circumstances. Such criteria shall include ability to repay the loan, the length of employment, whether adequate security has been provided for the loan, and whether the Participant agrees to make loan repayments through after-tax payroll deductions. Loans will only be granted to active participants. **No loans will be granted unless you agree to make loan repayments through after-tax payroll deductions.**
5. No loan of less than \$1,000 or more than \$50,000 may be made. Only one loan may be outstanding at a time, which cannot exceed 50% of the current vested account balance. In addition, the available loan amount cannot exceed a **cumulative** total of \$50,000 in any consecutive 12-month period. If the Participant decides to apply for another loan, the outstanding loan balance must first be paid off. **All loan payoff checks must be a personal check.**
6. A loan shall be considered to be a directed investment from the account of the Participant and all payments of principal and interest shall be credited only to this account.
7. All loans shall bear a reasonable rate of interest. In determining such rate, the plan shall require an interest rate comparable to the prevailing rate charged in the plan's geographic locale for similar commercial loans made under like circumstances by persons in the business of lending money as determined by the Plan Administrator's reasonable and prudent inquiry. The Plan Administrator may consider factors relevant to the opportunity for gain and risk of loss that a professional lender would consider in a similar arms-length transaction.
8. Upon approval, loans must be repaid by an assignment of wages sufficient enough to repay the loan and accumulated interest within five (5) years from the date the loan is made. All loans must be repaid on or before the Participant reaches Normal Retirement Date. If the Participant otherwise stops working for the company, the loan must be repaid in full within thirty (30) days or the balance of the loan will be considered a taxable distribution and the Participant will become responsible for any taxes and penalties due as a result of this distribution.
9. A default shall occur upon the failure of a Participant to remit timely loan payments when due. In this event, the Trustee(s) shall take whatever action a prudent fiduciary in similar circumstances would take to preserve the plan assets, including foreclosing on the loan account and commencing such other legal action, as the Trustee(s) shall deem appropriate. If the default is not cured within ninety (90) days, the loan may be deemed a taxable distribution and distributed from the plan. The participant will become responsible for any taxes and penalties due as a result of this distribution.
10. When a Participant satisfies the loan criteria, the Plan Administrator shall inform the Trustee(s). The Trustee(s) shall review the Plan Administrator's decision including, specifically, the interest rate, and if they determine that such loan would be a prudent investment for the plan, the Trustee(s) may consider the liquidity and general availability of plan assets for making loans.
11. The Employer, with the consent of the Plan Administrator, may amend this loan program at any time.
12. Please note: Upon approval of the Plan Administrator, and receipt of this application, the Participant's loan will be processed in the order in which received. At that time, investments will be sold as necessary and loan documents will be delivered for signature. Once the signed loan documents are received, the check will be mailed. If the Participant wishes to cancel the loan, the request must be submitted in writing. Freedom One is not responsible for any market gains or losses that result from a loan being cancelled.
13. Married Participants will be required to secure written spousal approval before any loan can be permitted.

IN WITNESS WHEREOF, the Employer, with the consent of the Plan Administrator, has adopted these loan guidelines this _____ Day of _____, 20_____.

Participant Signature: _____ Plan Administrator/Trustee Signature: _____

Type or print name: _____ Type or print name: _____

