

The Tax-Deferred 403(b) Plan Loan Program

The Tax-Deferred 403(b) Plan Loan Program provides you with access to your 403(b) Plan money before retirement. And because the money is borrowed, rather than withdrawn, it isn't subject to income taxes or early distribution penalties.

Your loan is funded by reducing your 403(b) Plan balance by the amount you borrow and is secured by a promissory note between you and the University. (This isn't a collateral loan because you're borrowing your own money.) The borrowed money accrues no interest other than the interest you pay on your loan. As each repayment is credited back to your account, however, earnings accrue as usual.

Important Note—Remember that your decision to participate in the 403(b) Plan represents a conscious commitment to save for your retirement years, and you should borrow the money you've contributed only if it is absolutely necessary. Although you aren't penalized if you take a 403(b) Plan loan, you do risk the loss of earning potential.

Eligibility

You're eligible to borrow your 403(b) Plan money if you're currently an active UC employee with at least \$1,000 in the Plan. Money in the University of California Retirement Plan (UCRP accumulations and any Capital Accumulation Provision (CAP) balance) and in the Defined Contribution Plan cannot be borrowed.

Note: If you want to borrow 403(b) Plan money invested in Fidelity or Calvert mutual funds, you must transfer the money back to one (or more) of the UC-managed funds before applying for the loan. (Allow an additional four to six weeks for the transfer to be processed.)

Loan Terms and Borrowing Limits

Loans are generally granted for a term of five years or less (short-term loans). You may take a long-term loan (up to 15 years) **only** to purchase your principal residence. **Caution: the interest on 403(b) Plan loans is not deductible for income tax purposes.** Before you take a long-term loan to purchase a principal residence, we strongly recommend that you consult a tax advisor or accountant.

Depending on your 403(b) Plan account balance, you may borrow from \$1,000 to \$50,000 (in increments of \$50), as follows:

If your balance is:	You may borrow up to:
\$1,000–\$20,099	\$10,000, or 100% of your Plan balance if less than \$10,000 (minus any current loan balance).
\$20,100 & over	\$50,000, or 50% of your Plan balance, whichever is less (minus any current loan balance).

You may have one short-term loan and one long-term loan outstanding at any given time. Although Plan rules permit only one new loan in any 12-month

For the Loan Office to fund any long-term 403(b) Plan loan for the purchase of a principal residence, you must submit certain documentation to the Loan Office before you close escrow. (See "Long-Term Loans" on page 6.)

period, they do allow you to refinance an existing short-term loan within 12 months. Long-term loans cannot be refinanced. See “Refinancing” on page 7.

Your current 403(b) Plan account balance, minus the total principal amount of any outstanding loans, is the amount available for second loans or short-term loan refinances. (See example on page 7.)

To pay off an existing loan, you must remit the exact outstanding amount that is due. Call the Loan Office (1-800-239-4002, ext. 70747) for the exact payoff amount.

Interest Rates and Loan Servicing Fees

The interest rate on your loan is based on the most recent four-quarter average rate of return earned by the University’s Short-Term Investment Pool. You can get current rates for long- and short-term loans from your Benefits Office, the UC HR/Benefits Customer Service Center, or our website at www.ucop.edu/bencom. The rate is fixed when your loan is granted and remains the same throughout your loan term. The principal and interest you repay, minus a loan servicing fee (0.60% for short-term loans and 0.50% for long-term loans) are credited proportionately to the same investment fund or funds from which you borrowed the money.

A nonrefundable processing fee of \$50 will be deducted from your loan proceeds when it is funded. For example, if you request a loan for \$5,000, the Loan Office will automatically deduct the \$50 processing fee and issue you a check in the amount of \$4,950.

The Truth-in-Lending Act requires the \$50 processing fee to be treated as a finance charge. Therefore, the annual percentage rate on your loan is calculated on the net loan proceeds and is higher than the stated interest rate, which is based on the total loan amount. Your monthly repayment amount is calculated on the

\$50,000 is the maximum amount of principal that you may borrow or have outstanding during any 12-month period. The total amount of all outstanding loans within a 12-month period will affect the maximum amount you may borrow during that period, even if you have paid off all amounts owed. To borrow the maximum of \$50,000, you must have had no outstanding loan balance for 12 consecutive months.

total loan amount. Using the same example above, if you borrowed \$5,000 for 60 months at a stated interest rate of 6.85%, your loan repayments would be \$98.65 per month. However, after deducting the \$50 processing fee, the annual percentage rate on your net loan proceeds of \$4,950 would be 7.27%.

If you have any change in employment status that results in a break in pay status, you must notify the Loan Office. Failure to do so may result in loan default.

Repayment

You repay your loan through automatic after-tax payroll deduction. The minimum monthly payment is \$50, and the minimum repayment term is 12 months. The maximum repayment term is 60 months—or up to 180 months (15 years) if you use the money to buy your principal residence.

However, cash repayments are required if:

- you miss a payment before automatic payroll deductions begin;
- your net pay is insufficient to cover a payroll deduction for the full monthly payment;
- your salary is paid from an outside (non-University payroll) source;
- you go on approved leave without pay or furlough or are temporarily laid off; or
- you elect monthly retirement income from UCRP after taking a loan.

You may also make cash repayments if you want to prepay part or all of your outstanding loan balance—there are no prepayment penalties.

To make a cash payment, write a personal check payable to “The Regents of the University of California,” include your loan number on the check, and mail it directly to:

University of California Human Resources and Benefits
Benefits Administration Loan Office
300 Lakeside Drive, 4th Floor
Oakland, CA 94612

If you have an outstanding loan and encounter financial hardship, you cannot treat the outstanding loan balance as a hardship distribution.

If you retire under UCRP, you may either repay the outstanding loan principal or arrange to make monthly cash payments **within 90 days of your retirement date**. Also, if you want to begin receiving annuity income through the 403(b) Plan, you must first repay in full any outstanding loan principal. Any outstanding principal not repaid will be treated as a taxable distribution.

If you leave UC employment without retiring under UCRP or if you elect a **lump sum cashout** from UCRP, you forfeit the option to repay the loan through monthly cash payments. **You must repay the outstanding loan principal within 90 days of your separation date, or the loan will be considered in default.**

If you die before repaying your loan in full, the outstanding loan principal must be paid within 90 days of the date of your death or it will be reported as a taxable distribution.

Loan Defaults

Your loan will be considered in default in the following circumstances:

- If your monthly payment is not made when it is due. You will have 90 days from the date of the default to repay any overdue amount.
- If you leave UC employment or elect a lump sum cashout and do not repay the outstanding loan principal in full within 90 days of your separation date.
- If you go on approved leave without pay or furlough or are temporarily laid off and do not arrange to: (i) make monthly cash repayments, (ii) make full payment in advance for the period you will be off pay status, or (iii) repay the outstanding loan principal in full within 90 days after your last day on pay status.

Because defaults may cause the 403(b) Plan to lose its tax-deferred status under Internal Revenue Code provisions, the Plan reserves the right to sue to recover any amount in default.

For any circumstance in which either your loan payment or outstanding balance is not repaid within 90 days, the loan will be cancelled and any outstanding principal will be treated as a taxable distribution from the 403(b) Plan. You will be subject to ordinary income taxes and possibly to federal and state penalty taxes on early distributions (before age 59½). The penalty taxes are substantial—currently a 10% federal tax and a 2½% California state tax.

The University will issue a Form 1099-R reporting the amount of the distribution. Taxes and penalties, if applicable, will be assessed when you file your income tax returns.

Long-Term Loans

To qualify for a long-term loan, you must provide documentation showing that the total amount of loan proceeds you receive will be deposited into an escrow account established for the purchase of your principal residence.

Prior to funding a long-term loan, the Loan Office requires:

- a complete copy of the *Purchase Agreement and Initial Receipt of Deposit* (often referred to as “purchase agreement” or “purchase contract”).

You may submit this document when you first make your loan request if it’s available; in any event, you must submit the purchase agreement **before** you close escrow and before the loan can be funded.

Before your loan is funded, you will have to sign an affidavit certifying that the loan proceeds will be used to purchase your principal residence. By signing the affidavit you also certify that you will provide the Loan Office with:

- the final *HUD-1 Settlement Statement* issued by the escrow/title company.

Refinancing

You may refinance a short-term loan once during its term. The refinanced loan balance must be at least equal to the outstanding loan balance, and repayment must be completed within the original loan term. The interest rate on a refinanced loan is the quarterly rate in effect when the loan is refinanced. Also, refinancing an existing loan is considered taking a new loan, so if you refinance, you may not take out another loan for 12 months.

You may not refinance a long-term loan.

Calculating Maximum Refinance or Second Loan Amounts

The most you may borrow when you refinance or take a second loan is your **available loan amount** (based on your current 403(b) Plan balance—see page 2) **reduced by the balance of all outstanding loans**.

For example, if your total 403(b) Plan balance is \$16,000 and the outstanding balance of your short-term loan is \$6,000, the maximum amount you may borrow is \$4,000:

$$\begin{array}{r} \$10,000 \text{ (maximum available loan amount)} \\ - \$6,000 \text{ (current balance of outstanding loan)} \\ \hline \$4,000 \text{ (maximum refinance or second loan amount)} \end{array}$$

To Request a Loan

Requests for 403(b) Plan loans are processed through UC's interactive telephone service, bencom.fone. Dialing from any touch-tone telephone, participants can request a loan using this automated system at any time, 24 hours a day, seven days a week. The process is fast and easy, and built into the "Loan Line" menu is a modeling feature that allows you to try different loan scenarios.

Before you call, the Loan Office recommends that you first:

Decide how much you want to borrow (at least \$1,000, increasing in increments of \$50 only; remember that the \$50 loan processing fee will be deducted from this amount): \$ _____

Determine your monthly repayment period: _____ months
(Short-term = 12–60 months)
(Long-term = 61–180 months)

Choose the UC-managed fund(s) from which the loan will be funded (use whole dollar amounts only):

Savings _____

Equity _____

Bond _____

ICC _____

Money Market _____

Multi-Asset _____

Total: _____

(Total must equal how much you want to borrow, from above.)

Then, to request your loan:

- Call bencom.fone at 1-800-888-8267, and press 1.
- From the entry menu, press 1.
- Enter your Social Security number and your Benefits PIN. (If you've lost your PIN, contact your Benefits Office to reset one.)
- From the main menu, press 3 for the Loan Line, and proceed as instructed by the prompts.

Loan requests must be made on the Loan Line by the last day of any given month for that month's valuation of your 403(b) Plan balance. Loan checks are issued during the last week of the following month; therefore, please allow three to eight weeks for your loan request to be processed.

Funding Process

The Loan Office will send an acknowledgment of your loan request to your home address on the next business day following your request, verifying that you have sufficient money in the 403(b) Plan to meet your loan request, including the \$50 loan processing fee. Separate checks to cover the processing fee will not be accepted.

The Loan Office will send you the loan documents within seven business days after your request is approved. The loan documents include a combined promissory note/truth-in-lending disclosure and a payroll deduction authorization for repayment (plus a home purchaser affidavit if you are requesting a long-term loan). After you sign and return the documents, the Loan Office will mail the check to your home.

Note: Remember that financial market fluctuations may affect the value of Equity, Bond, and Multi-Asset Fund accounts. Your 403(b) Plan balance isn't "locked in" on the day of your loan request. The Loan Office may not be able to provide the committed loan amount if the value of your 403(b) Plan balance decreases between the time your loan request is approved and the time your check is issued. Plan balances may also decline because of transfers in progress, which may affect your 403(b) Plan balance. The Loan Office will notify you if this occurs.

Loan Program policies and guidelines conform to applicable Internal Revenue Code provisions and are subject to change or termination by the 403(b) Plan Administrator and various governing authorities without prior notice.

If you want to know more about the Loan Program, contact your Benefits Office or the Benefits Administration Loan Office. The toll-free number for the Loan Office is 1-800-239-4002, extension 70747. You can reach the Loan Office on e-mail—the address is LOANHELP@ucop.edu.

Neither The Regents of the University of California nor any officer or affiliated officer of the University makes any recommendation to participants for building supplemental retirement savings, and the various options available for contributions should not be construed in any respect as judgment regarding the prudence or advisability of such investments or as tax advice.

By authority of The Regents, University of California Human Resources and Benefits, located in Oakland, administers all benefit plans in accordance with applicable plan documents and regulations, custodial agreements, University of California Group Insurance Regulations, group insurance contracts, and state and federal laws. No person is authorized to provide benefits information not contained in these source documents, and information not contained in these source documents cannot be relied upon as having been authorized by The Regents. Source documents are available for inspection upon request to University of California Human Resources and Benefits (1-800-888-8267). What is written here does not constitute a guarantee of plan coverage or benefits—particular rules and eligibility requirements must be met before benefits can be received. The University of California intends to continue the benefits described here indefinitely; however, the benefits of all employees, annuitants, and plan beneficiaries are subject to change or termination at the time of contract renewal or at any other time by the University or other governing authorities. The University also reserves the right to determine new premiums and employer contributions at any time. Health and welfare benefits are subject to legislative appropriation and are not accrued or vested benefit entitlements. If you belong to an exclusively represented bargaining unit, some of your benefits may differ from the ones described here. Contact your Human Resources Office for more information.

In conformance with applicable law and University policy, the University is an affirmative action/equal opportunity employer.

Inquiries regarding the University's affirmative action and equal opportunity policies may be directed to Ellen Switkes—Academic Affairs at 510-987-9479 (for academic employee-related matters) or to Mattie L. Williams—Business and Finance at 510-987-0865 (for staff employee-related matters).

Website address: www.ucop.edu/bencom

