

FASCore Documentation

FUNCTIONAL PROCESS: Loans

PROCEDURE: Loan Setup and Loan Initiation for Account Reduction Loans

DATE: August, 2008

Overview

These procedures cover establishing the loan parameters for account reductions loans on the FASCore system (ISIS) and the process of initiating a new loan.

Procedure

- I. Establish Loan Parameters for Plan
 - A. MetLife creates the Loan Policy and completes the Implementation Worksheet (IWS) and all addendums attached at account setup.
 - B. Responsibility for collecting the following on conversions:
 - a. Collecting notes on existing loans (FASCore)
 - b. Reviewing notes (if received from prior) (FASCore)
 - c. Assuring amortization schedules match with data received by FASCore or getting new notes signed (FASCore)
- II. FASCore establishes loan parameters based on the IWS and other pre-determined procedures as follows:
 - A. Minimum loan amount
 1. Defined in the IWS
 2. Minimum amount of loan is \$1,000
 - B. Maximum loan amount
 1. Defined by regulations as lesser of \$50,000 or 50% of individual's vested account balance
 2. \$50,000 maximum loan amount reduced by highest outstanding loan balance during past 12 months, less existing loan balance on the date the new loan is made
 - C. Duration
 1. General purpose loans must be repaid within five (5) years. The standard is 1-5 years
 2. Loans for purpose of building or purchasing principal residence may extend to 30 years. The standard is 6-30 years.
 - D. Collateral - Individual's vested account balance is the only collateral accepted
 - E. Interest rate
 1. New loans
 - a. Interest rate fixed for life of loan
 - b. Prime plus 1% is the standard but may vary depending on plan provision
 - c. Prime is determined on the first business day of each month, based on the Prime Rate in the Wall Street journal in its Money Rates column (rate applies to all loans, general purpose and home.

- d. FAScore is responsible for determining and changing interest rate each month
 - e. The interest rate honored will be the rate in effect at the initiation of the loan
- 2. Existing loans - the interest rate remains the same
- F. Source/Application of
 - 1. Loan disbursement is made on a prorated basis from each investment option and each money source with a balance, unless otherwise provided in the IWS
 - 2. Sources of money to be allowed for the determination of the amount available and the funding of a loan are defined on the IWS. Additionally, a hierarchy of money types can be specified.
- G. Payments
 - 1. Due each pay period via payroll deduction
 - 2. Plan Sponsor remits to the Service Provider based on the payroll frequency, and authorizes use of payroll repayment
 - 3. Payroll frequency may be weekly, bi-weekly, semi-monthly, or monthly
 - 4. Amortization schedule is faxed to the company's payroll office for processing at the time the loan is established or payment information is provided on the next electronic loan file.
 - a. A detailed amortization schedule is faxed for plans not using the electronic loan file feed.
 - b. For plans using the electronic loan file feed, the loan payment, start date and payment amount will be provided in the electronic file.
 - 5. In cases where participants change divisions with different payroll frequency, FAScore should be notified. FAScore will reamortize the loan and adjust the loan payment amount based on the new payroll frequency.
 - 6. Once participants separate from service (subject to the Plan provisions) the loan is due and payable in full via:
 - a. Cashier's check
 - b. Money order purchased from a Bank
 - c. Offset to account balance
 - 7. If the account balance is not withdrawn, participant may (subject to Plan provisions) continue to pay by sending a check to the Plan Sponsor, who forwards the payment with payroll.
 - 8. Payments including interest are invested in accordance with participants' contribution allocations at time payments are received. Payments do not affect the individual rate of return on the participants' account.
- H. Payoffs
 - 1. A loan can be paid in full via completing all payroll deductions, as part of the final distribution made to the participant or by completing an advanced loan payoff.
 - 2. Loan may be paid in full at any time in the form of a cashier's check or money order purchased from a bank
 - 3. A participant may call the Voice Response System (VRS) and receive a loan payoff quote, which is valid for 15 days.
 - 4. Loan payoff information is also available via the participant website
 - 5. A Loan Payoff Letter and a Loan Payoff Request Form are sent to the participant

6. Cashier's check or bank money orders are mailed to the MetLife Lock Box at:
MetLife C/O FASCore, LLC
P.O. Box 824417
Philadelphia, PA 19182-4417
 7. No partial repayments are allowed, unless processed via the Principal Reduction process.
 8. A Payoff confirmation letter is faxed to the Plan Sponsor within two business days after the loan has been paid in full or payoff information is provided on the next electronic loan file.
 - a. This will occur when the loan is paid in full through payroll deduction.
 - b. This will also occur when the participant has sent a payoff request through the lockbox.
 9. A Payoff confirmation letter is sent to the participant within 60 days after the loan has been paid in full.
 10. Loans are due and payable when participants begin periodic distribution, unless contrary to the Plan document and loan policy.
- I. Loan Offsets
1. If a loan is offset and the participant is also receiving a lump sum distribution, 20% is withheld on the entire amount. If the offset is for another qualified reason other than a full distribution, the 20% is not withheld by the loan department.
 2. If a loan is offset and there are no funds being paid to the participant, the 20% cannot be withheld and the entire loan becomes a taxable transaction. This will be reflected on the 1099R. If a loan is offset and funds are being rolled over, 20% is not withheld on the loan prior to the rollover of funds. The entire account balance will be rolled over, the loan will be offset and there will be no withholding.
- J. Fee schedule
1. Loan maintenance fee of \$50/year (\$12.50 deducted from participants accounts on a quarterly basis)
 2. An origination fee of \$75 will apply. The origination fee is paid by the participant and will be deducted from the loan proceeds.
- K. The standard number of outstanding loans that a participant can have at any given time is 1, however, the Plan can elect in the IWS the number they want to allow.

III. Processing

A. Loan application procedure

1. The participant website, or VRU can provide available loan amounts
2. Loan modeling available through VRU, the participant website or a Retirement Plan Specialist (RPS).
3. For Plans not using the Signatureless loan feature:
 - a. Participants can obtain loan applications from the participant website
 - b. If spousal consent is required, it is included on the Loan Application Form
 - c. Participants complete the loan application and return to the Plan Administrator
 - d. The Plan Administrator verifies the information, approves the loan, and forwards the application to:
 - (1.) Service Provider
P.O. Box 173768
Denver, CO 80217-3768
or fax to 1-866-745-5766
4. For Plans using the Signatureless loan feature, the participant initiates the loan request through the participant website or VRU .

B. FASCore's loan department reviews for the following:

1. Loan permitted by the Plan
2. Completeness of the application
3. Outstanding loans
4. Requirement for spousal consent (required only if the Plan is subject to joint and survivorship)
5. Minimum/maximum loan amounts
6. Number of loans permitted by the Plan for each participant
7. Term of loan limited to five (5) full years (60 months) unless purchase of principal residence.
8. Participants' eligibility for the loan
 - a. Loans available to current employees participating in the Plan.
 - b. Loans available to participants who have previously defaulted, if approved by the Plan Administrator via a paper application, payments must be payroll deduct.

C. If the application is incomplete or participants do not qualify for the amount requested, FASCore contacts the Plan Administrator to resolve the issue.

1. One-step loans are processed for all plans.
 - a. The note, Reg Z disclosures and loan check are one document.
 - b. When the participant signs the loan check they are agreeing to the terms of the note.

IV. Default

A. General procedures

1. Definition of default:

If sum of payments in the quarter are not received when due, and payment is not received by the end of the following calendar quarter pursuant to IRC rules and regulations, the loan is declared in default and the entire outstanding loan balance plus accrued but unpaid interest is deemed distributed and will be tax reported to participants

2. FASCore tracks defaulted loan amounts (principal and interest) taxed to participants for basis in participants' accounts

- a. Entire amount included in participants' gross income in calendar year of default
- b. IRS premature withdrawal penalty may also apply
- c. Even in the event of default, the loan must be repaid
- d. Interest continues to accrue on the outstanding loan balance from the date of default until the loan is paid in full, but will not be reported as taxable to participants

V. Maturity of Loans

A. A maturity letter is faxed to the loan contact approximately 30 days prior to the maturity date.

B. If the participant pays the loan off early, this letter is not generated. The letter will list all of the outstanding payments that are due before the loan matures. This will include any amounts past due. If a balance remains after maturity, a participant letter will continue to be mailed and faxed to the loan contact after each payment is applied to the loan.