

**STATE OF COLORADO**  
**457 DEFERRED COMPENSATION PLAN**  
**401(a) DEFINED CONTRIBUTION MATCH PLAN**  
**LOAN POLICY**

The State of Colorado Deferred Compensation Committee adopts the following loan policy pursuant to the terms of the State of Colorado Deferred Compensation Plan (also referred to as the Section 457 Plan and the State of Colorado Defined Contribution Match Plan (also referred to as the Section 401(a) Plan):

**1. Eligibility**

Any 457 and 401(a) Match Plan Participant who is currently employed by the State of Colorado may apply for a loan from the Plans. The Participant must have a minimum vested account balance of \$2,000 to allow for the minimum loan amount available under the Plan under which the loan is to be made.

**2. Minimum and Maximum Loan Amounts**

The minimum amount available to a Participant for a loan is \$1,000.

The maximum amount available in the aggregate for all plans is \$50,000.00 or 50% of the vested account balance on the date of loan approval, whichever is less. The \$50,000.00 maximum loan amount is reduced by the highest loan balance during the past 12 months minus any outstanding loan balance on the date a new loan is made. The vested account balance remaining after loan disbursement may not be reduced below the amount of the outstanding loan balance at any time by withdrawal or distribution, including hardship withdrawals. The vested account balance securing the outstanding loan amount is not available for hardship distribution.

**3. Number of Loans Permitted**

The maximum number of active loans available to any Participant at any given time is one (1) per Plan.

**4. Loan Fees**

Subject to change by the Committee from time to time, the following fees shall apply. A loan origination fee of \$50.00 shall be charged for each loan. The origination fee shall be deducted from the proceeds of the approved loan amount at the time of the disbursement to the Participant. An annual loan maintenance fee of \$25.00 (\$6.25 per quarter) will be deducted quarterly from the Participant's account balance.

**5. Loan Initiation**

Obtaining a loan requires Participant completion of the following two-step process:

- The Participant's first step is to initiate the loan on either the Keytalk® voice response system or the Website.

- The second step involves issuing a combined Promissory Note and Loan Check in one document, which avoids the necessity of having the Participant sign and return a Promissory Note prior to issuing the Loan Check. By endorsing the Check, the Participant agrees to the terms of the Promissory Note and the repayment obligation, authorizes the periodic payroll deduction for repayment, and acknowledges receipt of all required Truth In Lending and other disclosures. A “Loan Check” is drawn from the Participant’s account held at the administrator’s private commercial financial institution and is not a Warrant or other financial obligation of the State of Colorado.

## **6. Distribution of Loan Amount**

- Loan distribution amounts will be prorated across all available investment options in the Participant’s portfolio from which the loan is made.
- Loan proceeds will be disbursed only to the Participant and as soon as administratively practicable after all requirements have been satisfied and the loan has been approved.

## **7. Types of Loans Available**

There are two different loans available to a Participant:

- General Purpose Loan-This loan has a duration of one to five (1-5) years. The Participant is not required to provide any reason or documentation for the loan other than the signed Promissory Note terms included with the Loan Check.
- Principal Residence Loan-This loan has duration of one to fifteen (1-15) years. This loan must be utilized for the purchase of a primary residence only. Refinancing an existing principal residence loan is excluded. The Participant shall submit with the application such supporting documentation as may reasonably be requested by the plan administrator.

## **8. Interest**

The interest rate for either a General Purpose Loan or a Principal Residence Loan is fixed for the life of the loan. Subject to change by the Committee from time to time, the rate is one percent (1%) over the Prime Rate published in the Wall Street Journal on the first business day of the month in which the loan is approved. The previous sentence notwithstanding, in no event shall the rate of interest exceed twelve percent (12%) Annual Percentage Rate (APR), or such higher or lower rate permitted for non-“supervised loans” under the Colorado Uniform Consumer Credit Code, Colorado Revised Statutes, Title 5, Articles 1-9, as amended.

## **9. Payment Requirements**

Loan repayments will be made by means of periodic payroll deductions in equal installments sufficient in amount to fully amortize the loan over the repayment period. The payroll deduction authorization shall be irrevocable until the loan is repaid in full. Loans must be repaid in full and loan payments may not be stopped due to financial hardship or bankruptcy.

Loan repayments will be allocated to the Participant’s account according to the current allocation instructions on file for regular contributions. Once a new loan has been initiated the appropriate payroll department will be sent a report to begin loan payments.

Loans are in arrears and delinquent when any payment is missed. A late loan payment notice will be issued at the end of the calendar month in which the payment is delinquent. If the late loan is

not paid up-to-date by a lump sum payment by the end of the calendar quarter after the calendar quarter in which a payment is first delinquent (“Grace Period”), the loan will be in default and considered a “deemed distribution”, at which time the outstanding loan balance, consisting of the missed payments plus the remaining principal, will be reported to the IRS as income on a 1099R for the year in which the loan default occurs.

Despite any grace periods permitted with respect to late loan 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. Thereafter no further efforts will be made at collection or accrual of interest liability. The Participant’s outstanding loan balance will be offset against any type of distribution after separation of service. As required by tax regulations, the defaulted loan of a Participant will remain on the books until a qualifying event occurs, even though tax income has been reported to the IRS. Participants may not voluntarily elect to stop loan payments and treat an outstanding loan as a “deemed distribution” until separation from service.

If a Participant has a plan loan that defaulted at any time in the past, he or she is not eligible for a new loan.

Loans may not be refinanced.

Upon the Participant’s separation from State service, as provided by the terms of the Plan(s), any unpaid loan balance shall be accelerated and become immediately due and payable. A former Participant, who separates from service, or a named beneficiary in the event of the Participant’s death, may avoid treatment of an unpaid loan as a “deemed distribution” to the Participant and reporting of income to the IRS by paying the loan balance plus any additional accrued interest on delinquent payments by the end of the Grace Period. Non-payment will force a “deemed distribution” and reporting of income for the year the “deemed distribution” occurs.

Any payment made for the purpose of bringing a delinquent loan current or paying in full an accelerated loan shall be made by cashiers check or money order only. Payments will be applied first to all accrued interest due and then to principal.

## **10. Early Loan Payoff**

A loan can be prepaid, in part or in full, at any time and without penalty, by means of a cashiers check, or money order, or a Participant’s personal check, provided that a \$25.00 charge shall be assessed if the Participant’s check is not honored by his or her bank. Partial payments to reduce the principal balance of the loan must be so designated as principal reduction and are permitted only if all required loan payments are current (without regard to any grace period). Partial payments for principal reduction will not alter the due date or amount of any subsequent payments, but will shorten the life of the loan and pay it off earlier. A Participant may obtain a loan payoff quote via KeyTalk®. The loan payoff quote is valid for 15 days from the date the payoff quote is requested.

## **11. Security**

The only acceptable security that can be used by a Participant to secure a loan is with an irrevocable pledge and assignment of up to 50% of his or her nonforfeitable account balance to the extent the value of the Participant’s account balance equals the outstanding balance on the loan. Any outstanding loan will be a first lien against the Participant’s account and the amount of

any unpaid principal and interest due shall be deducted from the account in determining the remaining balance available for any distribution or withdrawal under the Plan(s).

## **12. Military Service or Disability**

If a Participant separates from service (or takes a leave of absence) from the State because of service in the military and does not receive a distribution of his/her account balances, the Plans will suspend loan repayments until after the conclusion of the period of military service. In accordance with the federal Soldiers' & Sailors' Relief Act, interest will accrue during the period of suspended payments at the original loan rate or at the rate of six percent (6%), whichever is less.

In accordance with Internal Revenue Code § 72 p and associated Treasury Regulations at § 1.72(p)-1, the Plans will suspend payments for up to twelve (12) months for non-military leaves of absence if the Participant is on a bona fide leave of absence and the leave is either without pay or the Participant's after-tax pay is less than the installment payment amount under the terms of the loan. When payments resume, installment payments may not be less than the amount required under the terms of the original loan. In no event may the term of the loan be extended beyond its original due date; except upon express approval of the hardship committee. Therefore, the participant must seek a revised amortization schedule and pay higher monthly payments or continue the original payment schedule and make one or more additional payments before the end of the loan term in sufficient amounts to pay the loan in full when due. For purposes of this paragraph, "bone fide leave of absence," means leave that would qualify for job protection under the federal Family and Medical Leave Act.

## **13. Intent of the Plans**

The Plans' intend that this loan program not place other Participants at risk with respect to their interests to the Plans. In this regard, the Plans will administer any Participant loan as a Participant directed investment of that portion of the Participant's vested account balance equal to the outstanding principal balance of the loan. The Plans will credit the portion of the Participant's account with the interest earned on the note and with principal payments received from the Participant. The Plans will also charge that portion of the Participant's account balance with the expense directly related to the initiation, maintenance and collection of the Promissory Note. Plan loans are for the convenience of the Participant and are not a recommended investment vehicle.