City and County of
San Francisco
Deferred Compensation Plan

Loan Guidelines

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Deferred Compensation Plan

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Introduction

As an active employee and participant in the **San Francisco Deferred Compensation Plan (SFDCP)**, you may be able to access your funds through a loan from the Plan.

When you take a loan through the SFDCP, you are borrowing money from your own account and paying yourself back with after-tax money through automatic payroll deductions. While receiving a loan can seem like an attractive option, understand that doing so may affect the potential growth of your retirement account. Plus, if you fail to repay the loan (or default), you may have to pay substantial income taxes on the outstanding balance of the loan and you will not be allowed to take a loan from your account again.

To fund your loan, a portion of your investments will be cashed in (or liquidated) on your behalf. When liquidating investments in your account, you should be aware that:

- Tapping into your retirement savings today may undermine your financial security in the future.
- You miss any potential investment gains (including compounded earnings) that you might have earned had your money remained invested in the SFDCP.
- Depending on market conditions, you may be liquidating your investments at a lower share value than their purchase price, which can negatively affect the balance of your SFDCP account.

These Loan Guidelines contain a summary of the loan program and details its advantages and disadvantages, including the steps required to prevent your loan from defaulting if you go on a leave of absence or stop working for the City and County of San Francisco. Consider discussing any loan decision with your family and/or a financial advisor.

Quick Contact References

Web: **sfdcp.org** I Phone: **(888) SFDCP4U (888-733-2748), option 1**

Should You Borrow from Your SFDCP Account?

While planning for unexpected expenses can be difficult, before you decide to tap into your retirement savings, make sure you fully understand these ***possible consequences***:

- **You could be taxed twice on this money.** Loan payments are deducted from your paycheck on an after-tax basis. These are loan payments, not contributions to your account. Distributions from the Plan at retirement will be taxable, unless you have a Roth account and you meet the 5-year holding period and age requirement.
- **Your contributions may decrease.** Because you now have a loan payment, you might be tempted to reduce the amount you are contributing to the Plan, which could reduce your long-term retirement account balance.
- **Loan defaults can be harmful to your financial health.** If your loan is not fully repaid by the end of its term, the outstanding balance may be treated as a deemed distribution and reported as taxable income to the IRS.
- **You have no flexibility in changing the payment terms.** You may not refinance your loan and payment schedules may not be re-amortized except in limited circumstances.
- **Your loan cannot be transferred.** If you stop working for the City and County of San Francisco before your loan has been paid in full, you will not be able to continue payments through payroll deduction and the balance of your loan must be paid within 90 days.
- **Loan suspensions are not automatic and repayments could substantially increase.** If you go on an authorized leave without pay, you will need to contact SFDCP Staff both **before and after your leave** to make sure Prudential is notified to suspend and re-amortize your loan payments. Note that upon re-amortization, your loan payments could substantially increase.
- **Interest on the loan is not tax deductible, even if you borrow to purchase your primary residence.**
- **If you default on your loan, you can never take another loan again.**

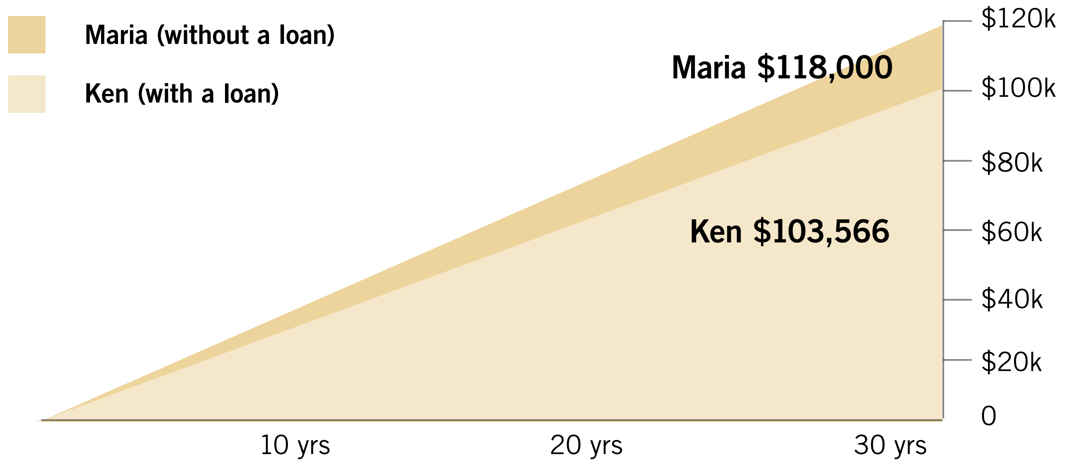
How a $3,500 Loan Could Cost you $15,000

Ken and Maria each contribute $1,500 annually to their account for 30 years. However, in the fifth year, Ken borrows $3,500, which he must repay over the next five years.

Account Activity	Ken (with a loan)	Maria (without a loan)
Annual Contribution Years 1–4	$1,500/year	$1,500/year
Loan in Year 5	- $3,500	- $0
Account Balance in Year 5	**$4,956**	**$8,456**
Loan Payment Years 5–9	$808/year	$0
Annual Contribution Years 5–9	$692/year	$1,500/year
Account Balance in Year 9	**$12,818**	**$17,237**
Annual Contribution Years 10–30	$1,500/year	$1,500/year
Total Account Balance After 30 Years	**$103,566**	**$118,587**

After saving for 30 years, Ken has approximately $15,000 less than Maria who did not take a loan. Why? For five years, more than half Ken's contributions went to repaying his loan. Besides missing out on savings, he also missed out on compounding (the potential earnings on his earnings).

The Long-Term Effect of Borrowing



Assumes a 6% rate of return compounded annually and a five-year loan with a 5% interest rate. This compounding concept is hypothetical, for illustration only and not intended to represent performance of any specific investment, which may fluctuate. No taxes are considered. Generally, withdrawals are taxable at ordinary rates. **You can lose money by investing in securities.**

Important Questions to Ask Yourself Before Taking a Loan

- How much can I afford to borrow?
- How much will my payments be?
- Can I afford to make these loan payments and my regular contributions each pay period?
- Do I have enough time to repay the loan before I retire?
- How long do I plan to stay employed with the City and County of San Francisco?

Who is Eligible for a Plan Loan?

You may be able to take a loan if you:

- Are an active City & County employee participating in the SFDCP.
- Have an account balance of at least $2,050 ($2,000 account balance minimum + $50 loan application fee).
- Do not already have two outstanding loans with the SFDCP.
- Do not have more than $50,000 in outstanding loan balances for the last 12 months with the SFDCP.
- Have not previously defaulted on a loan with the SFDCP.
- Are not currently on an unpaid leave of absence when you apply.
- Do not have a restriction due to a pending qualified domestic relations order (divorce).

How Much can I Borrow?

You may borrow up to:	$50,000 or 50% of your account balance, whichever is less.[1]
Your plan allows you to take:	One loan every 12 months; up to two loans outstanding at a time.
Set-up fee:	$50 for each loan.
Annual maintenance fee:	$25/year for each loan ($6.25 per quarter).
Method of repayment:	Payroll deduction.
Tax consequences:	If a loan defaults, it will be treated as a deemed distribution and reported as taxable income in that year.
Prepayment available:	Yes—only to pay the loan amount in full.

[1]The maximum amount available to be borrowed is the lesser of a) $50,000 (reduced by the difference between the participant's highest outstanding balance of loans from the Plan during the one-year period ending on the day before the date on which such loans is made, or the participant's outstanding balance of loans from the Plan on the date such loan is made) or b) 50% of your account balance.

Types of Loans

There are two types of loans:

General purpose loan

Interest rate:	Prime + 1%[2]
Minimum loan:	$1,000
Maximum loan:	$50,000[1]
Repayment period:	0 to 5 years[3]

Primary residence loan

Interest rate:	Prime + 1%[2]
Minimum loan:	$1,000
Maximum loan:	$50,000[1]
Repayment period:	0 to 15 years[3]

Loan Payments

When applying for a loan, **your bi-weekly loan repayment amount should not exceed more than 50% of your current take-home pay**. If your proposed loan would result in a payment that is greater than 50% of your net paycheck amount, you should choose a longer payment period or a lower loan amount. See repayment examples below for more information.

Here is an example of what the payment would be for a $25,000 general purpose loan repaid over five years and for a $50,000 primary residence loan repaid over 15 years.

	General purpose loan over 5 years	Primary residence loan over 15 years
Loan principal	$25,000	$50,000
Actual loan amount received	$25,000 (Loan initiation $50 fee is deducted separately from your account)	$50,000 (Loan initiation $50 fee is deducted separately from your account)
Annual effective interest rate	4.5%[4]	4.5%[4]
Payments per year	26	26
Term of loan (years)	5	15
Bi-weekly fixed payment:	**$214.92**	**$176.41**

[2]Interest is paid back to participant's account.

[3]Loan payments may be suspended for a participant who is on an approved unpaid or partially paid leave of absence. You must contact SFDCP Staff at **415-487-7500** or **team.sfdcp@sfgov.org** to inform them of your start date and provide a copy of your approved "Request for Leave and Leave Protections" form.

[4]Interest rate is for illustration purposes only.

Consequences of Missing Payments

Once you've taken a loan, you must make bi-weekly payments via payroll deductions as agreed to in the promissory note (signing the loan check is agreeing to the promissory note). If you miss a payment for any reason, your loan will be considered delinquent and in arrears. A loan warning letter will be mailed 30 days before your loan is to default. Loans that default are treated as a deemed distribution. (See “Tax Consequences of Default: Deemed Distributions” on page 12 for more information.)

If the missed payment(s) is not received and applied to your loan by Prudential within 90 days of any delinquent payment, your loan will default. For example, if you stop making payments starting with the payment due on February 1, you will receive a loan warning letter around April 1. If the missed payment(s) is not received and applied to your loan by Prudential by May 1 (the end of the 90-day grace period), the loan will default. **Please note the grace periods that apply to missed payments do not extend the term of your loan.**

If you miss a payment due to insufficient funds from your paycheck, contact Prudential immediately at 888-733-2748 and select option 1, to make arrangements to make up any missed payments to avoid default. Missed payments must be paid by certified check or money order.

If you are on an unpaid leave of absence and are not receiving pay to make your loan payments, your loan payments may be temporarily suspended for up to 12 months, or longer if you are on military leave. Contact SFDCP Staff to ensure Prudential is notified of your leave start date, so that your loan payments can be suspended.

The loan can only be suspended for the period you are out on unpaid leave and cannot be extended past the original loan terms, except for military leave. (See “Unpaid or Partially Paid Leave of Absence” on page 9.)

Did you know?

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 that they begin in a timely manner.

To make up any missing loan payments and to bring your loan payments up to date, immediately contact Prudential at **888-SFDCP4U (888-733-2748), option 1**.

Pre-payments

If you want to pay off your loan early, you can make a single lump-sum payment for the total outstanding loan balance. You must call Prudential directly at **888-733-2748** and select **option 1,** to pay the loan amount in full with a certified check or a money order.

Partial lump-sum loan repayments are not permitted unless they are to make up missed loan payments. Missed loan payments can be paid directly to Prudential with a certified check or a money order. (See “Consequences of Missing Payments” above.)

Unpaid or Partially Paid Leave of Absence

When you take a leave of absence, payroll deductions for your loan will continue via the City & County's payroll system as long as you receive sufficient pay 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. In this case, you may either make loan payments to Prudential directly, or temporarily suspend loan payments by payroll deduction for up to 12 months—longer if on military leave. **Loan payments are not suspended automatically and can only be suspended for the time of actual leave.**

Suspending your loan payments is a multi-step process:

Step 1

Contact SFDCP Staff to inform them of your leave start date and provide a copy of your approved "Request for Leave and Leave Protections" form. SFDCP will notify Prudential of your leave start date so that your loan payments can be suspended. You may obtain the "Request for Leave and Leave Protections" form from your Department Personnel Officer or at **sfdhr.org/forms-and-documents**.

Step 2

When you return from leave, contact SFDCP Staff to inform them of your leave end date. SFDCP will notify Prudential of your leave end date so that your loan payments can be re-amortized within the original loan terms. Please note that upon re-amortization, you may have to make substantially larger payments to pay off the loan within the original loan terms.

Step 3

Once Prudential is informed of your return to work date, the loan suspension will be lifted. Check your paycheck to ensure your re-amortized loan payments are being deducted. Any missed re-amortized payments could result in a loan default. (See "Consequences of Missing Payments" on page 8.)

SFDCP STAFF Phone **415-487-7500** | Email **team.sfdcp@sfgov.org**

Remember, a loan suspension does not extend your loan and will result in larger loan payments upon return (unless you are on military leave). An alternative to suspending loan payments would be to make direct payments to Prudential if you are on leave and have insufficient funds through payroll deduction. You can make direct payments for any missed loan payments by calling Prudential at **888-733-2748, option 1**.

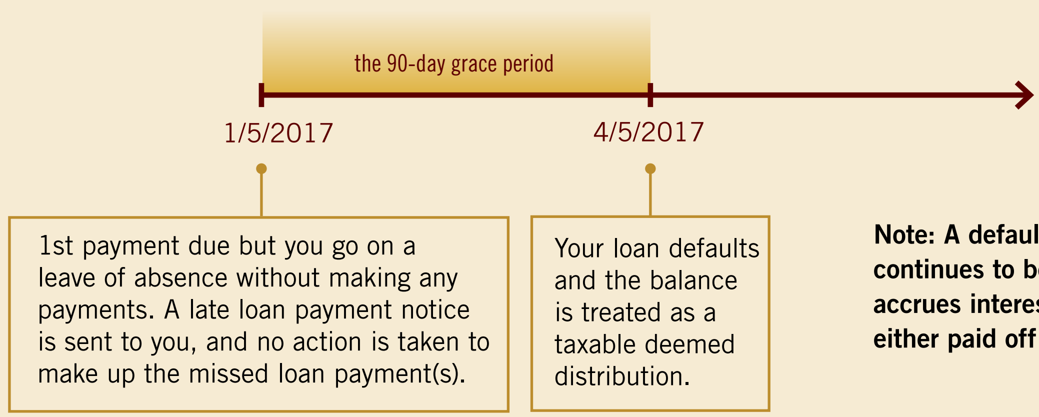
REMINDER

To temporarily suspend loan payments, you must contact SFDCP Staff to inform them of your leave start date and provide a copy of your approved "Request for Leave and Leave Protections" form. When you return, contact SFDCP Staff to inform them of your leave end date so that your loan can be re-amortized by Prudential. Please note that upon re-amortization, you may have to make substantially larger payments to pay off the loan within the original loan terms.

Your loan balance will be in default and treated as a deemed distribution if one of the following occurs:

- You do not contact SFDCP Staff to ensure Prudential is informed of your leave start date to suspend loan payments while you are out on an unpaid or partially paid leave of absence.
- You are no longer on a leave of absence and any missed payment(s) is not received and applied to your loan by Prudential within 90 days of the delinquent payment(s).
- You extend your nonmilitary leave beyond 12 months (plus the 90-day grace period) and you do not contact SFDCP Staff to ensure Prudential is informed to re-amortize your loan so that loan payments can restart and you do not resume loan payments by the end of the grace period. (See "Tax Consequences of Default: Deemed Distributions" on page 12 for more information.)

EXAMPLE



Note: A defaulted loan continues to be active and accrues interest until it's either paid off or offset.

Did you know?

If you are on a leave of absence and receive pay outside the City & 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 City & County's workers' compensation claims administrator), loan payments will not be deducted from your pay because all payroll deductions cease. If you are on leave and no longer receive pay from the City & County payroll system and the maximum period for suspending your loan payments has ended, you must contact Prudential immediately to make loan payment arrangements. If you do not make payment arrangements, you risk a loan default.

Military Leave of Absence

Military leave is similar to a regular approved leave of absence. Therefore, you must contact SFDCP Staff to ensure Prudential is notified when you begin your military leave so that your loan payments can be suspended and avoid a default. (See "Unpaid or Partially Paid Leave of Absence" on page 9.)

When you return from military leave, you must contact SFDCP Staff to ensure Prudential is informed of your leave end date and to restart your loan payments. The maturity date of your loan shall be extended by the length of your military service. Prudential will re-amortize the missing loan payments over the extended term of the loan (plus any interest accrued during the suspension), which may result in a different bi-weekly loan payment amount. The maximum interest rate on the loan during the qualified military service shall be 6%.

Late Loan Payment Notice

If you are behind on payments, you will receive a late loan payment notice 30 days before the scheduled loan default date. You must take immediate action to prevent the loan from defaulting.

If you are still employed with the City & County, you should contact Prudential immediately at **888-733-2748, option 1** to make arrangements to make up the missing loan payments. Or, if you are on an unpaid Leave of Absence, contact SFDCP Staff. SFDCP will then notify Prudential of your leave start date to temporarily suspend your loan payments by the deadline indicated on the notice. (See "Unpaid or Partially Paid Leave of Absence" on page 9.)

If you are no longer employed with the City & County, you may make arrangements to either pay off or offset the balance of your loan(s) to avoid loan default. Keep in mind, if your loan defaults and you become re-employed by the City and County, you will not be eligible to obtain another loan.

For more information about offsetting your outstanding loan balance, refer to "Offset Against Your Account Balance" on page 12 for more information.

Loan Defaults

Tax Consequences of Default: Deemed Distributions

In the event you default on your loan as described previously (i.e., you do not make arrangements to make up missed payments by the end of your grace period), your outstanding loan balance, including the remaining principal and any missed payments, will be treated as a deemed distribution as required by the IRS. This could have serious and unwelcome tax consequences for you.

- You will receive tax Form 1099-R and Prudential will report the outstanding loan balance to the IRS as income in the year of the deemed distribution.
- You will owe regular federal income taxes and may owe state income taxes on the amount of the deemed distribution.
- The increased income may even push you into a higher federal income tax bracket.
- Additionally, loans that are deemed distributed due to default continue to accrue interest until the loan is paid off or offset.

Offset Against Your SFDCP Account Balance

If you separate from City & County service with an outstanding loan balance, you may be able to offset the balance (instead of repaying the loan with a certified check or money order). This means the outstanding loan balance will be reclassified as an actual distribution. The tax consequences for deemed distributions, as previously described, also apply to loan offsets. However, with an offset, the promissory note is satisfied and your obligation to repay the Plan ends.

Frequently Asked Questions

Q: Do I still have to repay the loan even if it is distributed/defaulted?

A: Yes. According to the IRS, **the loan continues to be active and accrues interest until the loan is fully repaid.** If you have severed employment or retired, you may offset the loan. (See "Offset Against Your SFDCP Account Balance" above for more information.)

Q: Do I have any recourse in having the default reversed?

A: No. Due to the nature of the IRS regulations, defaults cannot be reversed. Once you have defaulted on a loan within the Plan you may not take another loan.

Q: What happens to my loan in the event of my death?

A: All outstanding loan principal and accrued interest shall be treated as an offset amount on the date of death. The loan cannot be transferred to, or assumed by, your beneficiary(ies). The amount of the outstanding loan will be reported as a distribution to your estate.

If You Leave City & County Employment

If you have an outstanding SFDCP loan balance when you leave City & County employment, the full remaining balance on the loan is due within 90 days of separation from employment. If you do not pay the remaining loan balance within 90 days, the loan will be in default. To pay your loan balance within this 90 day window, you may choose one of the following options:

- Pay off your outstanding loan balance with a certified check or a money order, or
- Offset your outstanding loan balance against your SFDCP account

To pay off your loan balance, log in to your account online at sfdcp.org to view your loan payoff quotes. Next, call Prudential at **888-733-2748, option 1**, to lock in your payoff amount (valid for 14 days). Prudential will send you an invoice with payoff instructions.

If you fail to pay off the balance of the loan by the end of the 90 day grace period, the loan will be in default and treated as a deemed distribution. Defaulted loans still accrue interest until paid back or offset. (See "Offset Against Your Account Balance" on page 12.)

How do I Take Out a Loan?

1. **Log in to your account at sfdcp.org.** Select "Loans" in the "Go To..." box under the plan name. You may also contact a Service Center Representative at **888-733-2748, option 1**, for assistance.

2. **Determine your available loan amount and obtain an estimate of your bi-weekly payments.** Your bi-weekly loan repayment amount should not exceed more than 50% of your current net (take-home) pay. Review your last paycheck to confirm your net pay at **sfgov.org/sfc/employee-gateway.**

    - Alternatively, if you know how much you want to pay back each pay period, you can select the "Fixed Payment Calculator" tab to determine the total amount and length of the loan.

3. If you are requesting a primary residence loan, you will need to download and complete the "Primary Residence Form" (available online) and include the required documentation to be submitted to Prudential before your loan will be approved.

    - A copy of the sales agreement signed by you and the seller within the last 90 days is required.
    - All documentation must be provided within the 90-day loan pending period. After 90 days, the loan request will be canceled.

4. **When your loan is processed, the proceeds will come from a portion of your core investment funds,** liquidated on a pro rata basis in the following order to meet your loan request:

    - **First**, your pre-tax contributions
    - **Second**, your rollover contribution(s), if any
    - **Finally**, your Roth (after-tax) contributions and rollovers, if any

5. **A loan check, loan confirmation, loan amortization schedule and promissory note will be mailed to you at your address of record.** Please allow for mail time. Loan documents are attached with your loan check. Review the promissory note and loan documents that you receive in the mail carefully; you may also wish to consult your legal, tax and/or accounting professional. Also, please note the following:

    - The loan check represents the promissory note. By signing the loan check, you are agreeing to make bi-weekly after-tax payments via payroll deductions for the duration of the loan and to abide by IRS regulations and SFDCP Loan Policy.
    - Primary residence loan checks will only be mailed to you at your address of record. Prudential will not issue checks directly to the escrow company.

6. **Bi-weekly loan payments (including interest) will be deducted from your paychecks on an after-tax basis** starting no later than 60 days from when the loan is issued. When you make a payment, the entire payment amount will be invested according to your current investment allocation.

7. Your outstanding loan balance will be reflected in the loan section on your quarterly statements. Loan maintenance fees of $6.25 are deducted every quarter.

REMINDER

If you are on a leave of absence during your employment, there are special rules applicable to your loan. See page 9 for more information.

Did you know?

You might wonder why you have to pay interest on money you are borrowing from yourself. Federal law requires that the SFDCP charge you a reasonable rate of interest on the use of your money.

Questions?

If you need help understanding the loan documents or requesting a loan, call **888-733-2748, option 1**. Participant Service Representatives are available from 5 a.m.—6 p.m. PT, Monday through Friday. Please note that a loan request can only be made online through your account.

You may also set up an appointment with an SFDCP Retirement Counselor by visiting **sfdcp.org** or by calling **888-733-2748, option 2**.

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