

Loan Maintenance Report – Corrective Action Guide

This guide should be used in conjunction with the Loan Maintenance Report (LMR). The LMR is scheduled to run prior to each calendar quarter end to give you time to address any issues prior to the [cure period end](#). You will receive an email when it is ready or you may download the most current report from your plan website at any time. It can be found under **Reports > Reports Menu** along with the Corrective Action Guide, Sample Participant Letter, and QP/401(k) Loan Deem/Offset Request Form. Please print or have the report available so that you can use this Corrective Action Guide to help you make decisions about how to correct participant loans in your retirement plan.

The key to an accurate LMR is to have correct and complete participant statuses.

Your Client Service Team is available to assist with any of the report sections detailed below.

Summary Section

Description: This section contains a summary of the number of loans reported in each category of the report.

Delinquent Loans within the Cure Period Section

Description: This section contains loans that are behind in payments and within their [cure period](#).

How do I fix issues in this section?

Options exist for correcting the delinquency.

1. Send all missed payments before the cure period end date.
2. Refinance the loan prior to the cure period end date. Under certain circumstances, if your plan allows for refinancing, this may be an option.

Delinquent Loans Past the Cure Period Section

Description: This section contains loans behind in payments and past their [cure period end date](#).

How do I fix issues in this section?

The loan must be [deemed distributed](#) as soon as possible. The loan will be taxable for the year in which it's deemed and the participant will receive a tax Form 1099-R including accrued interest on the loan. If the loan should have been deemed in a prior tax year and wasn't, you will need to correct the situation using one of the methods prescribed under the IRS Employee Plans Compliance Resolution System. The loan will remain open on the recordkeeping system as an asset of the plan until repaid or offset as the result of a distribution triggering event. **The legal obligation to repay the loan continues.**

Next Steps

You can complete the QP/401(k) Loan Deem/Offset Request Form (available on the plan website) and submit it to us for processing using the instructions on the form.

Terminated Section

Description: This section contains participants with a termination date.

How do I fix issues in this section?

The loan must be [offset](#) when a participant has reached a distribution triggering event and the loan balance is brought to zero. The participant will receive a tax Form 1099-R. There is no longer a legal obligation to repay the loan.

Next Steps

You can complete the QP/401(k) Loan Deem/Offset Request Form and submit it to us for processing using the instructions on the form.

Leave of Absence (LOA) Section

Description: This section contains participants whose status is [Leave of Absence](#).

How do I fix issues in this section?

Arrangements must be made for the loan to be brought up-to-date when the participant returns to work. Once they return to work, update the participant's census information. Additional detail regarding Leave of Absence options is available in the [Loan Glossary of Terms](#).

Deemed Loans with a Balance Section

Description: This section contains loans previously deemed distributed and not paid off. For active employees, the legal obligation to repay a deemed loan continues. However, if a participant reaches a distribution triggering event prior to the loan being paid off, the loan will automatically be offset.

Loan Glossary of Terms

Amount Delinquent: The amount required to bring the loan up-to-date and back into accordance with the amortization schedule at the time the report was run. Please take into account any additional loan repayments that have been withheld and additional interest that may have accrued. This amount includes interest due.

Amount Deemed: Total loan amount reported to the participant as a taxable distribution.

Cure Period: The maximum timeframe a participant has to make up a missed payment before the outstanding loan balance is considered to be in default. The maximum statutory cure period is the end of the calendar quarter following the quarter in which the first payment was missed. The last day of the cure period is the cure date. Your plan's cure period may be defined in the loan's promissory note, the loan policy, or the plan document.

Cure Period End Date: The last day of the cure period for this loan. The Loan Maintenance Report assumes the maximum statutory cure period.

Date Deemed: The date the loan was deemed distributed.

Deemed Distribution: A loan is deemed distributed when the outstanding loan balance becomes taxable to the participant, as if it had been distributed, even though the participant has not reached a distribution triggering event. A deemed distribution does not eliminate the participant's obligation to repay the loan.

Delinquent Loan: A loan is considered delinquent when a participant has missed a scheduled payment, unless the participant is on a leave of absence. Generally, a delinquent loan will enter into default unless it has been remedied by the end of the cure period.

Expected Payoff Date: The final scheduled payment date per the loan's amortization schedule.

Frequency: The schedule by which payments should be made to the loan.

Last Payroll Invested Date: The date of the most recent payroll file that included a payment for the loan.

Loan Default: A loan is defaulted when the terms of the loan agreement have been breached, or when the participant reaches an event specified as a default in the plan's loan policy. Depending on whether the participant has a triggering event, a defaulted loan will be classified as one of these two types of taxable events: either a deemed distribution or an offset.

Loan Refinance: The process to change the terms of an existing loan (i.e., the length of the repayment period and/or the amount of the loan installment payments). When there have been missed payments, a loan may be refinanced if it is still within its cure period provided the plan allows loan refinancing.

Offset: Upon the participant reaching a distribution triggering event, the outstanding loan balance is treated as an actual distribution and is taxable to the participant in the year it is offset (unless the loan was previously deemed distributed). A loan offset eliminates the loan obligation.

Original Balance: The amount borrowed.

Outstanding Balance – Actual: The current amount of principal owed on the loan.

Outstanding Balance – Expected: The balance of the loan if all scheduled payments have been made as of the date of the report.

Payment Amount: The loan's scheduled payment amount according to the amortization schedule.

Payments Applied After Deemed Date: Total of all payments applied to the loan after the deemed date.

Suspensions/Leave of Absence: A leave of absence occurs when a participant is on leave-without-pay or where their rate of pay (after income and employment tax withholding) during the leave period is less than the amount of loan repayments.

The plan's loan policy may govern the ability to suspend loan payments during a leave of absence of up to one year. If a participant takes an unpaid leave of absence or is paid during the leave at a rate that is less than the amount of the required loan payments, a plan sponsor may suspend loan repayments for up to one year (longer for military leaves). Interest continues to accrue on the loan. Reasons for a leave of absence/suspension could be a medical condition, disability, military service, or layoff. If the participant must be continuously employed, they can't be laid off. The participant must be continuously employed.

The loan suspension may continue if a participant returns to work on a part-time basis, provided the participant's pay, after income taxes, employment taxes and deductions have been withheld, is less than the loan payment amount.

If a participant returns to work on a part-time basis and the participant's pay is sufficient for withholding, deductions and the loan payment, then the loan payment must recommence.

Once the leave is over, payments must resume and the participant must repay the loan (and accrued interest) by the end of the scheduled loan term. The participant has the following options:

- The participant may make a lump sum payment equal to the missed loan payments plus accrued interest. Then, regularly scheduled loan payments resume.
- The participant may make a balloon payment, repaying the amount missed during loan suspension at the end of the loan term. Note: The loan will continue to appear as delinquent until the balloon payment is made.
- The participant may make higher loan payments over the remaining term of the loan. Note: The loan will continue to appear delinquent. Payments must be made in even multiples of the expected amount. If the participant has more than one outstanding loan, extra payments will need to be made for each loan, or the extra payments will need to be made outside of the payroll process to insure the payments are applied to the correct loan.
- The loan may be refinanced if the plan allows for refinancing; however, the loan cannot be extended beyond the maximum loan term, unless the participant took a military leave.