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# 457 Loan Application

## For MERS 457 Supplemental Retirement Program

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### Frequently Asked Questions

#### **Am I eligible for a loan?**

Employers who have adopted Loans in their plan have agreed to allow employees to borrow against the vested amount in their account. If you are unsure if your municipality allows for loans, contact your employer or the MERS Service Center. If loans are allowed, you must be actively working (receiving a paycheck from your employer). Employees who are on an unpaid leave of absence (including military leave), former employees, and beneficiaries may not take a loan.

#### **Must I have my spouse's consent to obtain a loan?**

No.

#### **How many loans can I take out?**

Loans can be initiated once in a 12-month period. No more than two outstanding loans are allowed at a given time.

#### **What are the minimum and maximum amounts that I can borrow?**

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

The maximum loan is 50% of your vested account balance, up to \$50,000. This amount is also reduced by the highest outstanding loan balance(s) over the past 12 months. If you are active in multiple plans at once, the \$50,000 maximum is based on all plans combined. Please see the Maximum Loan Amount Table (Section 2) to estimate your maximum loan amount. The actual amount that may be borrowed will be calculated using your account balance on the day the loan is made.

#### **Do I have to be experiencing a financial hardship to receive a loan?**

A loan may be obtained for any purpose, for a period of up to 5 years. A loan is not the same as an unforeseeable emergency withdrawal. For more information regarding unforeseeable emergency withdrawals, please refer to MERS Form MD-412.

#### **Are loans eligible from Roth funds?**

No.

#### **Do I have to put up collateral and qualify for a loan in the same way I would at a bank?**

No.

#### **How are loans treated for tax purposes?**

Funds borrowed from the program are not treated as distributions, provided they are repaid in accordance with the terms of the loan. Therefore, no taxes are withheld or due when a loan is received.

#### **May I deduct the interest I pay on the loan from my taxable income if I itemize deductions?**

No. Under federal tax law, deductions are not permitted for interest paid on a loan from the plan.

#### **How is the interest rate determined for program loans?**

The interest rate for loans will be based on the prime rate published in The Wall Street Journal (or any successor thereto) plus 2.00%, and this rate is fixed for the life of the loan.

The interest rate will be the established rate in effect on the date the loan application becomes effective and is approved by MERS. Any loan interest charged on your loan will be deposited into your 457 account to your credit as it is repaid. Interest payments on the loans by participants are not deducted for tax purposes.

#### **What are the loan processing fees?**

There is a \$150 processing fee taken from your MERS 457 account for each executed loan.

#### **How does a loan affect the investment of my accounts?**

The loan is taken from the fund or funds in the same manner which your assets are allocated.

#### **What are the loan repayment rules?**

Loan repayments will begin within 30 days using after-tax dollars. Your loan must be repaid through payroll deductions in substantially level payments on each payroll date over the period of the loan. If the scheduled payment amount is greater than your pay on that date, the shortfall will be taken out of your next paycheck. If it cannot be taken out, you must repay it promptly to your employer by check or other negotiable instrument (not cash) payable to your employer.

Repayment is due in full when the loan term expires or at the time when you leave employment, whichever occurs first.

*Please note:* Alerus will accept additional payments beyond what is required, however, these will only be accepted in payments equal to the amount expected and will not adjust the schedule provided herein. For example, if the loan payment is \$100, additional payments of \$200, or \$300, and so on, are acceptable.

## MERS Loan Guide (For 457 Program)

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### **May I pay less than my required loan payment amount?**

No. Your loan payment amount is deducted by your employer; this amount may not change.

### **How is my loan repayment invested?**

Once you make repayments to your account, each repayment is added back against the balance of your loan and is invested back into your account according to your investment directives for new contributions at the time of each repayment.

### **May I pay off my outstanding loan ahead of schedule?**

Yes. You may pay the entire outstanding balance of your loan and accrued interest at any time, without penalty. Prepayments must be made by check or other negotiable instrument (not cash) to your employer. Contact MERS for your loan payoff amount.

### **Are there tax breaks on making a loan repayment?**

No. Loan repayments to your account could actually be taxed twice. Loans are repaid with after-tax dollars and will also be taxed when withdrawn.

### **May I re-finance an outstanding loan?**

No. However, you may take out a second loan if you are eligible.

### **May I receive a loan while in the process of filing for a divorce?**

No. You may not receive a loan while the program administrator is determining the qualified status of a domestic relations order affecting your account.

### **May I suspend loan repayments during an unpaid leave of absence?**

Subject to certain limitations, you may suspend your loan repayments for up to one year while on an approved unpaid leave of absence. The suspension may not extend the loan beyond its original term, and any suspended payments (and accrued interest) will become due and payable not later than the end of the original loan term. If you choose to continue loan repayments during an approved unpaid leave of absence, your payments must be made by check or other negotiable instrument (not cash) payable to your employer.

### **May I suspend loan repayments during a leave for protected military service?**

If you take a leave of absence for military service protected by federal law, you may elect to suspend loan payments during that period. When you complete your military leave, you must resume making loan repayments

in an amount not less than the original repayment amount and in installments not less frequent than required under the terms of the original loan. The loan must be repaid in full (including interest that accrues during the period of military service) by the end of a period equal to the original term of the loan plus the period of military service. Any balance due and payable at the end of such adjusted loan term must be paid in one payment to your employer.

### **When does a loan default?**

Continuous payments made timely avoid a default of your loan. If you request a distribution or if you terminate employment while a loan is outstanding, you will default your loan. If the unpaid portion is paid immediately, a default may be avoided. If the amount to pay off your loan is not received and there is still an amount owed at that time, the defaulted amount is treated as taxable income, reported to you on a 1099 in January of the following calendar year. If you are under age 59½, you may be subject to a 10% penalty.

For more detailed information regarding the taxability of your loan(s), please read your loan application carefully. You may wish to consult with a tax advisor or an accountant before applying for a loan.

### **Submitting this form:**

When you have completed this form, please mail it to MERS' recordkeeper at:

**Alerus Retirement Solutions**  
P.O. Box 64535  
St. Paul, MN 55164

**Questions?** Please contact MERS Service Center at 800.767.MERS (6377)

*If you have speech or hearing difficulties and need assistance completing this form, contact the Michigan Relay Center at 800.649.3777.*



## 457 Loan Application Form

Please print clearly • Retain a copy for your records

### Employer verification - *To be filled out by your employer*

Name of employer\*

Municipality number\*

Division number (6 digits)\*

### 1. Information about you

Last name\*

First name\*

Social Security number\*

Phone number (with area code)\*

Mailing address\*

City\*

State\*

Zip code\*

Email address

Citizenship\*

☐ U.S. Citizen

☐ U.S. Resident

☐ Non-resident alien (submit IRS Form W-8BEN)

Marital status\*

☐ Single

☐ Married

**Have you been divorced at any time following your date of employment with this employer?\***

☐ No

☐ Yes – If yes, you must submit a copy of your Judgment of Divorce to MERS before your distribution can be processed.

Ex-spouse(s) name(s):

**Next pay date** (Date selected must be at least 2 (mm/dd/yy) weeks out from date Loan Application was submitted):

### Reporting frequency

Your payroll schedule may not align with your reporting frequency to MERS. If this is the case, you need to adjust your payments with your employer accordingly so that equal payments are withheld from each paycheck. The amortization and repayment schedule provided will be based on the reporting frequency on file with MERS.

### 2. Amount of loan

You must be an active employee in order to take out a loan from your 457 program. You may not apply for a loan any more frequently than once per rolling 12-month period. You may not have more than two outstanding loans at any one time. You must not have defaulted on any previous loans with this employer.

To estimate the maximum amount of a loan for which you may be eligible, calculate each step and select the lesser of the total of Step 1 or Step 2

Step 1	A. \$50,000 is the maximum	\$50,000
	B. Enter the highest outstanding loan balance(s) during the previous 12 months including any unpaid defaulted amounts from any retirement plan including 457, 401, or 403(b)	
	Subtract Line B from Line A	
	Step 1 Total	
Step 2	C. Enter 50% of your present vested account balance	
	D. Enter any current outstanding plan loan balance(s) including any unpaid defaulted amounts from any retirement plan including 457, 401, or 403(b)	
	Subtract Line D from Line C	
	Step 2 Total	
Step 3	Maximum loan amount, enter the lesser of Step 1 or Step 2 totals	
<b>Amount of loan requested</b> (can be any amount less than or equal to the maximum amount above)		▶

There is a \$150 per loan processing fee. This amount will be deducted from the remaining balance in your account.

Note: If the amount requested exceeds the available funds, the loan will be processed for the maximum amount available.

## 457 Loan Application Form

### 3. Repayment Schedule

Choose repayment term (not less than one year, not to exceed five years):

☐ 1 year ☐ 2 years ☐ 3 years ☐ 4 years ☐ 5 years OR \_\_\_\_\_ months OR \_\_\_\_\_ payments

### 4. Delivery process

Check made payable to you will be mailed to your address on file along with loan verification documents. Information will also be mailed to your employer. You will then have the option to accept the check and the terms of the loan agreement or deny the loan and return the check to Alerus Retirement Solutions.

☐ **Overnight check delivery:** You may request overnight shipping of checks for a fee of \$35 (taken from remaining account balance if available, or from distribution amount). Please allow up to two business days for processing.

**Note:** Checks are issued from *Alerus Financial*, MERS' recordkeeper.

### 5. Your signature

My signature acknowledges that I have received, read, understand, and agree to all pages of this *457 Loan Application Form*. I certify that all information, including the **outstanding loan amounts provided in Section 2 are correct**.

I understand that the final loan details will be calculated when this form is received and processed by MERS staff, and that the final loan details will be provided when the loan is disbursed, and that I accept the terms of the loan once I have received the payment. If I do not accept the loan terms, I must return the loan amount before loan repayments begin.

If I fail to complete the terms of the loan, the remaining loan balance will be considered in default. The IRS will treat any amount in default as though received by me. To the extent I have not previously paid income taxes on the defaulted amount, it will be treated as ordinary income and I will be taxed accordingly, as required by law. This taxable amount may also be subject to an IRS 10% early withdrawal penalty.

MERS assumes no responsibility for any adverse tax consequences of defaults on loan repayments. MERS makes no representations or guarantees as to the effect the loan may have on your tax liability.

Participant signature\*

Date (mm/dd/yyyy)\*

Participant name\* (please print clearly)

Social Security number\*

### 6. Employer signature (REQUIRED for submission)

As the fiduciary of the loan program, the employer is responsible for following the terms of the loan program as outlined in the MERS Loan Addendum. I certify that the participant in Section 1 is an active employee.

Employer signature\*

Date (mm/dd/yyyy)\*

Employer representative name (please print clearly)\*

\* Required field

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P.O. Box 64535  
St. Paul, MN 55164

#### Questions?

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**You can submit this form online!**



If you already have a myMERS account, you can also upload this form online. Look for the **File Upload** feature in the top navigation to easily and securely submit completed forms.