Taking Loans Can Be Costly

Where can you turn if you need cash in an emergency? Some people turn to their 401(k) retirement plans. You are borrowing your own money and paying it back to yourself with interest. Having the ability to take a loan from your retirement plan account gives you a good deal of flexibility if you need to access cash. If you are taking out your loan to purchase your primary residence, you may have more time to repay it than you would for a loan taken for any other reason.

But remember this: When you borrow money from your retirement account, you are borrowing money from yourself—and from your financial future. Before you decide whether a plan loan may be right for you, be sure to review the advantages and disadvantages outlined below.

Advantages & Disadvantages of Retirement Plan Loans with the ABC 401(k) Plan

The advantages	The disadvantages
These are the primary advantages of taking a loan from your plan account: • *There is no credit check since the money in your retirement account serves as collateral for your loan.* • *You will generally be able to borrow up to half of your vested plan balance, capped at $25,000 minus the difference between the highest outstanding balance of loans in the past 12 months and the outstanding balance of loans from the Plan on the date the loan is made.* • *You will be able to repay the principal and interest to your plan account through automatic payroll deduction.* • *You may be able to borrow at a reasonable (or even competitive) interest rate—and you will repay the loan interest to your own retirement account.* • *Taking a loan from your plan may be easier and faster than getting a loan from a traditional financial institution.*	*These are the primary disadvantages of taking a loan from your plan account:* • *$100 Loan Origination Fee* • *The money you borrow will no longer be in your account benefiting from tax-deferred growth.* • *When you take a loan, the money you have borrowed "earns" only the interest rate you pay (which is determined at the time you take out your loan). This may be less than what your money could have earned if you had left it in your account. (From an investment standpoint, this may make a 401(k) plan loan far costlier than any other type of loan.)* • *If you leave your organization or retire before you have repaid your loan, the amount of your outstanding loan balance is considered a taxable distribution by the IRS—and it will become subject to income tax and may be subject to a 10% early withdrawal penalty if you're under age 59½ at the time your unpaid loan balance is classified as a distribution.*

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Loan Details

Procedure for Applying for a Loan If you are an active Participant in the ABC 401(k) plan, you may apply for a loan from the Plan. To request a loan, please log in to the Start Right website at startright.bokf.com.

- **Maximum Number of Loans:** The maximum number of loans outstanding at any time is one (1).
- **Minimum Loan Amount** The minimum loan amount is $1,000.
- **Maximum Amount of Loan** A loan cannot be greater than 50% of your vested account balance under the Plan.
- **Interest Rate** According to U.S. Department of Labor Regulations, the interest rate for a participant loan from a retirement plan must be comparable to the current interest rates charged by financial institutions for similar loans. The interest that will apply on your loan will be National Prime Interest Rate plus two percent (2%) per year.
- **Collateral** Your vested account balance under the Plan will serve as collateral for the loan. However, a maximum of 50% of your vested account balance may be used as collateral.
- **Repayment** Loans must be fully repaid within five years from the date the loan is issued. Repayments will be deducted each pay period according to the established repayment schedule. You may also choose to repay the loan in full at any time without penalty. If your employment ends, the outstanding loan balance will become immediately due in full.
- **Payroll Deduction** Payments will be made through payroll deduction every pay period. You are responsible for making certain that the employer is withholding the proper loan payments. If you determine that a loan payment has not been withheld, you must notify the employer and arrange for a make-up loan payment(s) by the end of the loan cure period (see “Default” below). If you do not make the missed loan payment(s) by the close of the cure period, the loan will be in default, and you will be subject to adverse income tax consequences.
- **Fees** The Plan charges an initial loan processing fee of $100.00. This fee will be deducted from the proceeds of the loan.
- **Default** Your loan will be in default if a scheduled payment is not made by the end of the "cure period." The "cure period" is the repayment period allowed by the Plan Administrator which will not extend beyond the last day of the calendar quarter following the calendar quarter during which the last scheduled installment payment was due and not paid. Upon default, the entire balance of the loan will be immediately due, and the entire balance will be treated as a taxable distribution to you. Interest on the loan, however, will continue to accrue until you have a distributable event for purposes of determining any future loan availability. In addition, your vested account balance may be reduced by the amount of the outstanding principal and interest on the loan. In other cases, this offset will not occur until you are entitled to receive benefits (for example, upon your termination of employment).

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Hardship Withdrawals: The high price you'll pay

Keep in mind that when you take a hardship withdrawal from your retirement account, you are withdrawing money that you originally set aside for your retirement. There are several drawbacks to taking this type of withdrawal:

- Unlike a plan loan, the amount of money that you withdraw cannot be re-deposited at any time into your retirement account.
- Your hardship withdrawal amount will be subject to federal (and, if applicable, state) income tax—as well as a 10% federal income tax penalty for early withdrawal if you are underage 59½ at the time of withdrawal.
- You will lose out on the potential growth that your withdrawn dollars could have earned if they had remained in your account until retirement.

Need Help Deciding?

Before you take a loan or withdrawal from your retirement account, be sure to consider all your financial options carefully. Chances are, you have other sources of funds that could help you meet your immediate need for cash—and still enable you to keep your retirement dreams on track. Reach out to your bank or credit union for alternative options.

When it comes to loans and withdrawals, the bottom line is this: Your retirement account is intended for your long-term financial security. If you are looking to tap into your account before you retire, proceed carefully. Your retirement income may depend on it.

The availability of loans and withdrawals is subject to your plan provisions. For details, visit www.startright.bokf.com or check with your plan administrator.

Start Right App

Start Right Website

Impact of a Loan

Impact of Taking a Loan

For assistance contact Participant Services Group at **1.800.876.9557.**

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