Loan Information

Are loans allowed? Participant loans may be requested from plans that allow for loans. Not all retirement plans allow for loans. For loan provisions allowed by your retirement plan, please check the Loan Policy of your document. Generally, loans are allowed for up to 50% of the participant's vested balance or up to a $50,000 (an IRS maximum that cannot be exceeded) whichever is less. Normally, a minimum loan amount of $1,000 is required to obtain a loan. (Please check your plan as some plans have a different minimum loan amount.)

How do I request a loan? In order for a participant to take a loan, a PBS, Inc. loan application form must be completed. The most current version of the Loan Application form can be printed off our website at www.profben.com or you may call our office and we will email or mail you a copy. Please note that only current versions of the Loan Application form will be accepted. **There is a $75 fee to process a loan**. Once completed by the participant and signed by the trustee, the loan application can be faxed, mailed or emailed as an attachment to PBS, Inc.

What happens next? Once the loan application is received, PBS will check that the form is complete. Incomplete forms will be sent back and will delay the process. PBS will then:

- Complete the appropriate paperwork to be sent to the investment company
- Prepare a loan note to send to the employer
- Prepare an amortization schedule to send to the employer

How do I get my check? Once the investment company receives the request, they will cut a check to the participant and send it to the trustee at the company address. The employer will have the participant sign the loan note and then give them the check. IRS requires that the loan note be signed by the participant. Please make sure that PBS, Inc. receives a copy of the signed loan note, whether or not our office processes the loan for you, before you issue the check.

How is the loan paid back?

- Participant loan payments must be payroll deducted on a post tax basis according to the amortization schedule.
- Loan payment deposits are subject to the same timing rules as for 401(k) deferrals.
- Missed loan payments can result in a loan default making the ENTIRE amount of the loan balance a TAXABLE event. If missed loan payments are not made up by the end of the following calendar quarter, the amount of the loan balance becomes taxable. At that time it is necessary to issue a 1099 for the balance AND the remaining payments must still be made. It is the participant's responsibility to make sure the loan payments are coming out of their payroll check.
- If the missed loan payments are for loans to company owners, the missed payments may be considered by IRS to be a prohibited transaction. Prohibited transactions may result in the disqualification of the plan.

Keep good records! Lack of sufficient loan documentation has resulted in penalties upon audit by the IRS. Any problem loans are a potential audit issue. The IRS and DOL are prepared to audit regarding what they consider "certain important" issues. Loans are on the list of important issues with respect to auditing retirement plans. As noted above, insufficient loan documentation has resulted in penalties for some companies.