

State of Illinois Deferred Compensation Plan
Loan Program Policy

The purpose of the Loan Program Policy (“Policy”) is to establish a loan program for the Participants of the State of Illinois Deferred Compensation Plan (“Plan”). This Policy may be modified, in whole or in part, by the Illinois State Board of Investment (“Board”) at any point in time. The Policy shall be administered by the Department of Central Management Services (“Department”) subject to the general supervision of the Board. The assets of the Plan shall be maintained in compliance with all applicable laws governing the operation of the Plan. Capitalized terms not defined herein are defined by the Illinois Administrative Code (80 Ill. Adm. § 2700.200).

This Policy constitutes the Plan’s written Loan Program Policy and should be reviewed in conjunction with all Loan Provisions set out in the Illinois Administrative Code (80 Ill. Adm. § 2700). This Policy is incorporated into the Plan by reference.

I. Loan Application and Initiation

- a. A Plan Participant, who is an active Employee, may apply for a loan from the Plan. Beneficiaries and alternate payees are not eligible for a loan. Loans are available on a uniform and non-discriminatory basis.
- b. A loan may be made for any purpose. However, a Participant should seek independent tax advice prior to initiating a loan to fully understand the potential negative tax consequences in the event of a loan default.
- c. A Participant can have only one outstanding loan at a time across all qualified Employer plans (e.g. 403(b) and other Deferred Compensation plans) and may not apply for a second loan until 30 days after the first loan is paid in full. The Recordkeeper shall notify all Participants of the one-loan limitation prior to processing a loan.
- d. A Participant may initiate a loan via telephone, online, or a paper form with the Recordkeeper. If a Participant meets the Plan requirements for eligibility and certifies that he or she has no other outstanding loans across all qualified Employer plans (including any deemed loan), then the Participant may initiate a loan. In order to initiate a loan, a Participant will be required to provide banking information to allow for ACH Debit and agree to the terms and conditions of the Recordkeeper’s ACH Debit set up.
- e. The Recordkeeper will verify a Participant’s banking information through a pre-note process. If the pre-note is rejected, the Participant will be notified that action must be taken in order for loan payments to be completed via ACH per the loan repayment requirement.
- f. If the loan initiation is confirmed prior to the close of the New York Stock Exchange, the loan will process from the Participant’s account the same day. If the loan initiation is confirmed in good order after market close, the loan will process from the Participant’s account the following business day.

- g. The loan proceeds may be sent to the Participant via ACH or check. Upon request, a check may be mailed via expedited mail, at the cost of the Participant. Delivery will be based upon the selections made by the Participant during the request of their loan.

II. Loan Limitations

- a. A loan must be for a minimum of \$1,000.
- b. The maximum amount of any loan may not exceed the lesser of \$50,000 or 50% of the Participant's vested Account Balance under the Plan on the date the loan is made.
 - (i) The \$50,000 maximum loan amount must be reduced by the highest outstanding balance of all other loans during the one-year period ending on the day before the loan is made.
 - (ii) Unless it has been repaid by the Participant or offset from the Participant's Account Balance, a loan that has been deemed distributed to a Participant (including interest accruing on the loan) is considered as an outstanding loan.
- c. Any amount in an account established by a Participant for a Beneficiary or an alternate payee shall be excluded from the Participant's Account Balance in determining the amount available for purposes of this Section II.

III. Loan Fees

To cover the added administrative costs associated with initiating and maintaining a loan, a \$75.00 loan origination fee is charged when the loan is processed and will be deducted from the loan proceeds. Additionally, a \$25.00 loan maintenance fee will be deducted quarterly (\$6.25) from the Participant's account.

IV. Evidence and Terms of a Loan

- a. Once a loan is approved by the Recordkeeper, the Participant shall execute a promissory note in the form prescribed by the Recordkeeper. A copy of the promissory note is included with the loan proceeds if delivered by check and mailed to the Participant's address of record. The promissory note may be requested from the Recordkeeper.
- b. All loans shall provide a fixed rate of interest of one percent (1%) above the prime interest rate as published in the Wall Street Journal on the first business day of the month in which the loan was originated.
- c. The interest rate of an outstanding loan shall remain fixed throughout the life of the loan; a loan may not be refinanced for any reason.

- d. A participant may choose the term of a loan. The minimum repayment term is 12-months up to a maximum of five years from the date the loan is processed.
- e. All loan disbursements, along with any fees, shall be debited according to the hierarchy for money sources allowed by the Plan in effect on the distribution date and pro rata from all investment sources within the Participant's account.
- f. A loan is deemed to be a Participant-directed investment of that portion of the Participant's vested Account Balance equal to the outstanding principal balance of the loan.

V. Loan Repayment

- a. The loan shall be repaid monthly in substantially equal installments of principal and accrued interest under a level amortization schedule. Loan repayments are made on an after-tax basis.
- b. Loans shall be repaid via ACH Debit on the date established when the loan is initiated, hereinafter, "Due Date." The payment will be processed and posted to the Participant's account effective on the Due Date.
- c. Principal repayments and interest payments will be reinvested in the Participant's account in accordance with the Participant's investment elections in effect on the Due Date.
- d. Principal repayments and interest payments will be deposited into the same money source the principal was distributed from.
- e. The Participant may pay off the entire loan balance before its due date by contacting the Recordkeeper and requesting the loan's payoff amount, which shall include unpaid principal and accrued interest. Such payoff may be made via ACH Debit, certified check, cashier's check or money order and shall be a single payment. Upon payoff, the Recordkeeper will provide confirmation to the Participant.
 - (i) If the amount of payment submitted by a Participant to the Recordkeeper to satisfy the entire loan balance is greater than the Participant's payoff amount, the Recordkeeper shall return the overage to the Participant in the form of a check.
- f. The Plan does not permit partial pre-payment or partial advance payment of future loan payments. If a payment is received by the Recordkeeper that is over the monthly loan payment amount, or amount needed to fund an underfunded payment, the additional proceeds will be returned to the Participant as a check.
- g. Generally, the terms of outstanding loans are not subject to renegotiations. However, under the following exceptions, loans may be re-amortized (although under no

circumstances may the loan extend beyond the terms allowed pursuant to IRS requirements):

- (i) the Participant is on military leave, as set forth in Section VII of this Policy;
 - (ii) the Participant's repayment of a loan is delayed through no fault of their own and the loan payment has not yet been entered into the ACH Debit system; or
 - (iii) the Participant's repayment of a loan fails to be taken due to an ACH Debit system error.
- h. The Participant is responsible for notifying the Recordkeeper of any failure of loan repayments to be initiated or otherwise made in accordance with the terms of the loan.

VI. Loan Default/Risk of Loss

- a. Pending final disposition of the promissory note evidencing the loan, the Participant remains obligated for any unpaid principal and accrued interest.
- b. If a scheduled loan payment is not received, the loan becomes delinquent. The Recordkeeper will notify the Participant of a missed payment. Partial prepayments are also considered delinquent payments. The Participant will have until the end of the Cure Period to take one of the following actions to bring the loan current:
 - (i) pay the total amount of all rejected loan payments via check;
 - (ii) pay off the entire loan balance in full.
- c. The Cure Period begins on the date of the first missed scheduled payment (based upon the amortization schedule on file with the Recordkeeper) and ends on the earlier of:
 - (i) The last business day of the calendar quarter following the calendar quarter that includes the first missed scheduled payment date; or
 - (ii) The date the benefits are distributed to a terminated Participant either through a total distribution, partial distribution, or election of installment payments.
- d. If all delinquent payments are not received by the Cure Period end date, the loan will be defaulted but remain active as of the end of the Cure Period.
- e. If the Recordkeeper determines that a Participant made a material misrepresentation or statement to the Plan or Recordkeeper on the Participant's loan application, the Recordkeeper shall deem the transaction to be a deemed distribution instead of a bona fide loan.

- f. If the loan is defaulted or otherwise fails to satisfy the requirements for a non-taxable loan under Code section 72(p):
- (i) The entire unpaid loan balance (including accrued interest) will be deemed a distribution from the Plan for tax purposes. A deemed distribution will be reported to the Internal Revenue Service as a taxable Plan distribution on Form 1099-R and will result in recognition of income by the Participant. A 10% excise tax may also apply for early payment.
 - (ii) A loan that has been deemed distributed and that has not been repaid or offset against a Participant's Plan Account Balance is considered as an outstanding loan for purposes of applying the terms of this Policy. A deemed distribution will not relieve the Participant's obligation to repay the loan. Interest on the loan will continue to accrue until a distributable event occurs under the terms of the Plan. The additional interest, however, is not treated as an additional loan.
 - (iii) When a distributable event occurs, the Participant's Plan Account Balance is reduced (offset) by the outstanding balance of the loan (not including interest accrued after the deemed distribution) to repay the loan. A distributable event occurs either when the participant requests a distribution from the Plan or the Participant's Plan Account Balance is cashed out pursuant to the terms of the Plan.
 - (iv) If a Participant (or beneficiary following the death of the Participant) repays the loan after a deemed distribution, the Participant's tax basis under the Plan increases by the amount of the repayment. However, loan repayments are not treated as after-tax contributions for other purposes of the Plan.
- g. A Participant who has defaulted on a loan made under the Plan, or any other qualified Employer plan, which is not repaid, shall not be eligible to obtain a future loan under this Policy.

VII. Special Provisions During Qualified Military Service

- a. The interest rate on a Participant loan cannot be greater than 6% per year during the period that a Participant is in military service pursuant to the Servicemembers Civil Relief Act, Pub. L. 108-189 ("SCRA"). An interest rate reduced under SCRA must meet the following requirements:
- (i) Eligible Loan. The reduced interest rate applies only to Participant loan obligations incurred before the period of military service started.
 - (ii) Notice Requirement. To qualify for a reduced interest rate, the Participant must provide the Recordkeeper with a written notice and a copy of the orders calling the Participant to military service (and any orders further extending military

service) not later than 180 days after the Participant's termination or release from military service.

- (iii) Applicable Period. If the Participant complies with the Notice Requirement contained in (ii) above, the reduced interest rate will be effective for the entire period of military service beginning on the date the Participant is called under orders to military service and ending on the date the Participant is released from military service, or dies in military service.
 - (iv) Forgiven Excess Interest. Interest at a rate in excess of 6% per year is forgiven and will not be added to the principal amount due on a Participant's loan. The amount of the Participant's periodic loan payment will be reduced by the amount of any interest due that is in excess of 6%.
 - (v) Waiver of Rights. A Participant may waive the right to a reduced interest rate pursuant to SCRA. The waiver of rights is not effective unless the Participant and the Plan execute a written agreement during or after the Participant's period of military service. The written agreement must specifically reference the note executed by the Participant with respect to the loan.
 - (vi) Court Petition. In accordance with SCRA, the Plan may petition a court to retain a higher rate if active duty in military service does not materially affect the Participant's ability to pay a higher rate.
- b. If a Participant is on a leave of absence due to military service pursuant to Internal Revenue Code section 414(u), the Participant may request to suspend loan repayments during such leave. It is the Participant's responsibility to notify the Recordkeeper when a suspension of loan payments is requested during a qualified military leave of absence and confirm that the ACH information has been removed from the account at the Recordkeeper. Upon the Participant's completion of such military service, the Participant must choose one of the following methods to repay the loan: (a) re-amortize the remaining loan balance; (b) repay all suspended loan payments in one check at the end of the leave; or (c) continue payments under the prior rate and make a balloon payment at the end of the loan term. The Participant may request that the Recordkeeper extend the repayment period by the total length of the Participant's qualified military leave, provided the repayment period does not exceed the latest permissible term of the loan. The latest permissible term of the loan is the latest date permitted for the loan term under Section IV(d) above, plus the period during which the loan was suspended. For those participants who elect to suspend their loan repayments during military service, the recalculation of the interest rate for the suspended loan period will not be higher than 6% per year as provided under this Section VII.
- c. Military service for purposes of this Policy includes active duty in the Army, Navy, Air Force, Marine Corps or Coast Guard; active service of a commissioned officer of the Public Health Service or the National Oceanic and Atmospheric Administration; National Guard active service authorized by the President or Secretary of Defense for

a period of more than 30 consecutive days in response to a national emergency; and certain periods of lawful absence from duty.

VIII. General Policies and Procedures

- a. A Plan loan must be secured with an irrevocable pledge and assignment, evidenced by a promissory note, of up to 50% of the borrowing Participant's vested Plan Account Balance. No other collateral will be required or accepted.
- b. Prior to submitting an unforeseeable emergency distribution request, the Participant may be required to apply for a loan under this Policy. The Plan reserves the right to approve a hardship distribution request without requiring the Participant to first apply for a loan under this Policy. If the Participant has an outstanding loan under this Policy, any amount of the outstanding loan shall not be considered for purposes of an unforeseeable emergency distribution.
- c. If a terminated Participant with an outstanding loan balance seeks a rollover to an IRA or another supplemental retirement plan (i.e., 401(k) or 403(b)) the Board will require an offset of the outstanding loan balance with assets from the Participant's account before sending the remaining assets to the successor custodian/trustee.
- d. The Plan will not accept an incoming rollover of assets from another supplemental retirement plan or an IRA that has an outstanding loan balance counted as an asset. All loan balances in a prospective rollover must be paid in full to the originating plan or IRA before an incoming rollover will be accepted by the Plan.
- e. In the event a Participant dies with an outstanding loan, the Participant's loan request shall be void as of the date of death and the proceeds shall not be disbursed, so long as the Recordkeeper is notified of the Participant's death prior to the disbursement of the proceeds.
- f. Qualified Domestic Relations Order ("QDRO"). A loan requested after the Recordkeeper is on notice that a QDRO may be applicable to a Participant's account will be subject to the Plan's QDRO procedures.

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