Thrift Savings Plan

LOANS

July 2004

Sources of Loan Information

TSP Web site, www.tsp.gov, offers:

- General information about the loan program
- Forms and publications
- Loan calculator to estimate loan payments and term
- Examples of documentation required for a residential loan

In the Account Access section (using your SSN and TSP PIN) you can:

- Learn the amount available for you to borrow
- Obtain the current loan interest rate
- Estimate the amount or term of your loan payments
- Start (and possibly complete) a loan request
- Check the status of your request
- Reamortize your loan
- Find out your outstanding loan balance
- Get prepayment information

TSP ThriftLine, 1-TSP-YOU-FRST* (1-877-968-3778)

Using your SSN and your TSP PIN to access your account, you can:

- Learn the amount available for you to borrow
- Obtain the current loan interest rate
- Check the status of your request
- Get prepayment information

*Outside the U.S. and Canada, call 1-504-255-8777 (not toll free).

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Things to Consider Before You Borrow

The Thrift Savings Plan was designed to provide you with income after you retire. The amount you will have in your account depends on the decisions you make — how much you contribute, how you invest, and whether you take money out of your account before retirement.

The TSP loan program is an important benefit that allows participants access to the money in their accounts. However, taking a loan could result in less money for you at retirement. So, before you borrow from your account, consider the following:

- If your TSP investments earn higher rates of return than the interest rate on the loan, the loan interest you pay will not be equal to the earnings you would have received if the money had remained in your account. This means that your TSP account will be smaller than it would have been if you had not borrowed from it.
- If you are not able to contribute as much to the TSP because of the financial burden of your loan payments, your TSP account will not grow as quickly. If you are a FERS employee and you have to reduce your contribution rate to below 5%, you will also give up agency matching contributions.
- A TSP residential loan is not a mortgage. Therefore, the TSP loan interest payments are not tax deductible, as they might be for a mortgage or home equity loan.

Before you take a TSP loan, make sure you realize its potential effect on your retirement income and decide whether it makes more sense to borrow from another source.

Rules for Borrowing

You can borrow from your account if:

- You have ***at least* $1,000** of your own contributions and associated earnings in your account. Agency contributions (and earnings on that money) cannot be borrowed.
- You are ***currently employed*** as a Federal civilian employee or member of the uniformed services. (Separated and retired TSP participants are not eligible.)
- You are ***in pay status***. (Loan payments are deducted from your pay.)
- You have ***not repaid a* TSP *loan*** (of the same type) in full within the past 60 days.
- You have ***not had a taxable distribution*** on a loan within the past 12 months, unless the taxable distribution resulted from your separation from Federal service.

You can borrow from your TSP account even if you have stopped contributing your own money.

If you have both a civilian account and a uniformed services account, the eligibility requirements apply to the account from which you intend to borrow.

There are two types of loans:

- **General purpose loan** with a repayment period of 1 to 5 years. No documentation is required.
- **Residential loan** with a repayment period of 1 to 15 years. Documentation is required.

  A residential loan can be used only for the purchase or construction of a primary residence. The residence can be a house, condominium, shares in a cooperative housing corporation, or a townhouse, boat, mobile home, or recreational vehicle, but it must be used as your ***primary residence***. The residence must be purchased (in whole or in part) by you. You can obtain a residential loan for constructing a new residence or purchasing

an existing residence, but **not** for refinancing or prepaying an existing mortgage, for renovations, for buying out another person's share in your current residence, or for the purchase of land only.

You may have **only one general purpose loan and one residential loan** at any one time.

Minimum loan amount. The smallest amount you can borrow is $1,000.

Maximum loan amount. TSP and Internal Revenue Service (IRS) rules limit the amount you can borrow. The principal amount cannot exceed the *smallest* of the following:

(1) your contributions and their earnings in your civilian **or** uniformed services account (that is, the account from which you are taking the loan), not including any outstanding loan balance (the Contributions and Earnings Test);

(2) 50 percent of your total vested account balance (including any outstanding loan balance) or $10,000, whichever is greater, minus any outstanding loan balance (the IRS Vested Balance Test); or

(3) $50,000 minus your highest outstanding loan balance, if any, during the last 12 months (the IRS $50,000 Test).

> If you have a civilian and a uniformed services account, the combined account balances and loan balances will be used to calculate Items 2 and 3.

Your account balance is recalculated at the end of each business day based on the daily share prices. Therefore, your maximum loan amount may also change each day.

When you borrow from your TSP account, your account balance is *decreased* by the amount of your loan. If your loan account is invested in more than one fund, your loan is deducted on a proportional basis from the employee contributions (and earnings on those contributions) that you have in each fund.

When you repay your loan, your payments are invested in your TSP account according to your most recent contribution allocation.

The loan interest rate you pay for the life of the loan is the G Fund rate at the time your application is processed.

You must be in pay status to get a TSP loan because you must repay your loan with payroll deductions. Therefore, if you are not currently receiving pay, you will not be eligible for a TSP loan. The TSP refers to this status as "nonpay." (See Appendix I.)

- For ***civilian*** TSP participants, nonpay status includes leave without pay and furlough.
- Most ***uniformed services members*** will never be in a nonpay status. However, if you are a member of the Ready Reserve and your drilling intervals are irregular (that is, other than monthly) and therefore you do not receive pay each month, you are considered, for TSP purposes, to be in a nonpay status during the months you do not drill. When you return to pay status, you may apply for a TSP loan.

By law, your spouse has certain rights to your TSP account. Therefore, when you request a loan, you must indicate whether you are married, even if you are separated from your spouse. If you are married, the following rules apply:

- ***If you are a* FERS *participant or a member of the uniformed services,*** your spouse must consent to your TSP loan by signing the Loan Agreement that the TSP Service Office will send you (or that you print from the TSP Web site, if you request a loan on-line).
- ***If you are a* CSRS *participant,*** the TSP must notify your spouse when you apply for a loan.

Exceptions may be approved under very limited certain circumstances. For more information, refer to the Exception to Spousal Requirements form, which is available from the TSP Web site, or from your agency or service.

The TSP will pursue, and refer to the Department of Justice for prosecution, any person who attempts to deprive a spouse of his or her TSP rights by forging the spouse's signature, by lying about the participant's marital status, or by similar fraudulent actions.

If you have a court order against your account, you will not be able to get a loan. The TSP must honor certain orders, such as those that enforce payment of child support or alimony, or that award a portion of your account to a former spouse. When the TSP receives a court order, a hold is placed on your account. You cannot get a loan until the court order has been satisfied.

For more information about court orders, read the booklet Information About Court Orders, *available from the* TSP *Web site, your agency or service, or the* TSP *Service Office.*

Applying for a Loan

You can make your request in one of two ways:

- **Electronic Request** — TSP Web site, www.tsp.gov

  The Web site is the most efficient way to request a loan. In the secure Account Access section (using your SSN and your TSP PIN), you can complete the Loan Application. Depending upon your retirement system coverage (FERS, CSRS, or uniformed services), marital status, and type of loan, you will either be able to complete the process on-line, or you will be instructed to print out the partially completed Loan Agreement. Complete the form and mail it to the TSP Service Office (with any additional required information) before the expiration date at the top of the agreement.

- **Paper Request** — Loan Application Form

  Send your completed Loan Application to the TSP Service Office at the address on the form. Loan Applications are available from the Forms & Publications section of the TSP Web site, or from your agency or service. The TSP Service Office will then send you a Loan Agreement with the terms of the loan. Complete the form and return it to the TSP Service Office (with any additional required information) before the expiration date at the top of the agreement.

If you are requesting a ***residential loan***, you must also complete and submit the Residential Loan Documentation form to document the costs associated with the purchase or construction of a primary residence.

If you do not return all of the required documents by the expiration date, you will have to reapply.

The TSP will deduct a $50 fee from the proceeds of the loan to cover administrative costs. Therefore, your loan amount will be reduced by the amount of the fee. For example, if you requested a loan for $1,000, the TSP will deduct the $50 fee, and the amount paid to you will be $950.

You can request that your loan be sent directly to your financial institution by **electronic funds transfer (EFT)**. EFT is a safer method of payment than issuing a check. Please verify the routing number of your financial institution and your account number before you submit this information to the TSP. EFT payments can be made only to financial institutions in the United States.

If you do not request EFT, your loan will be paid to you by **check**. It will be mailed to the address in your TSP account record.

If your address is not correct, contact your agency or service to have your correct address submitted to the TSP ***before*** *you apply for a loan.*

Lost, stolen, damaged, or misdirected checks can take 6 weeks or longer to replace.

If you make your loan request on the Web site* AND *you are able to complete the process on-line, your loan will generally be disbursed from the TSP within 3 business days. It may take an additional 3 to 5 business days to receive the EFT. Mailed checks can take longer.

If you complete a paper Loan Agreement, it may take several weeks from the time the TSP record keeper receives your completed Loan Agreement until your loan is processed and you or your financial institution receives your loan.

Your loan may be less than the amount shown on your loan agreement. This can occur if the value of your account has declined. However, as long as the amount you can borrow is at least $1,000, you will still receive your loan in the smaller amount. If this occurs, the repayment period will be the same, but your loan payment amount will be reduced.

You will receive a written confirmation of the loan disbursement, which will show the correct payment amount.

Repaying a Loan

Loan payments are made through payroll deductions. When your loan is disbursed, the TSP Service Office will notify your payroll office immediately to begin deducting loan payments from your salary each pay period.

Check your earnings and leave statement to be sure that loan payments have started and that they are in the correct amount.

The TSP will report your loan transactions on your **quarterly participant statement**. Review your statement carefully and report any discrepancies to your agency or service.

You cannot suspend your loan payments. When you agree to the loan terms, you agree to repay the loan in full and you authorize payroll deductions. (If you are in nonpay status, please see Appendix I.)

If you are experiencing financial difficulties, you may be able to reamortize your loan to reduce the amount of each payment, but you cannot stop the payments.

Missed loan payments? At the end of each calendar quarter, the TSP will identify any loan account with missing payments. If your loan is identified, the TSP Service Office will send a notice to you indicating that you have until the end of the following calendar quarter to pay the missing amount.

You are responsible for ensuring that correct loan payments are submitted on time. It does not matter whether your agency or service was responsible for the missed loan payment. *You must pay the missed amount directly to the* TSP *Service Office using your own personal funds* in order to avoid a taxable distribution. Your payroll office cannot make up missed payments from your paycheck.

A **taxable distribution** will be declared on the unpaid balance (including any accrued interest) if you do not make up the missing amount. This means that the IRS will consider the unpaid balance of your loan to be taxable income. In addition, if you are under age 59½, you may have to pay a 10 percent early withdrawal penalty tax. Once a taxable distribution has been declared, the loan is closed and you will not be allowed to repay it.

> If your loan came from your uniformed services account and your account included **tax-exempt contributions** from pay earned while serving in a combat zone, you will not have to pay taxes on that portion of the distribution.

Consult the IRS or a tax advisor for information and advice if your loan is declared a taxable distribution.

A taxable distribution permanently reduces your TSP account. If the TSP declares a taxable distribution on your loan, *your final account balance at retirement will be less* than it otherwise would have been.

A taxable distribution will affect your eligibility for another loan. You cannot apply for another loan from that account within 12 months of the date of the distribution (unless the distribution was due to separation).

If the taxable loan distribution was declared because you separated from Federal service, you may roll over (within 60 days) any or all of the taxable amount into a traditional IRA or an eligible employer plan using your personal funds. You thereby avoid taxes and penalties on that amount. Members of the uniformed services can also roll over tax-exempt amounts to an IRA, if the IRA will accept them.

The TSP Service Office will send you the appropriate tax form by January 31 of the year after the distribution.

In the event of bankruptcy, the obligation to repay your loan depends on whether you file for bankruptcy under chapter 7 or chapter 13. See the TSP Fact Sheet "Bankruptcy Information" for more details. The fact sheet is available from the TSP Web site or from your agency or service.

You can reamortize your loan at any time to change your payment amount or to shorten or lengthen your term, so long as you do not exceed the 5-year maximum term for a general purpose loan or the 15-year maximum term for a residential loan. There are no restrictions on the number of reamortizations that you can have during the life of a loan. You can reamortize your loan on the TSP Web site or by calling the TSP Service Office.

You cannot reamortize your loan if your loan is in default because of missed loan payments. Once you make up the missed payments, you can reamortize your loan.

If you change agencies or payroll offices — for example, when you transfer from one civilian agency to another, from one component of the uniformed services to another, or from active status to Ready Reserve status — you must inform your new agency or service that you have a TSP loan and instruct it to continue your TSP loan payments. If you transfer to an agency that has a *different pay cycle* from your current agency, you should reamortize your loan to avoid being in default.

> **Members of the Ready Reserve** whose drilling intervals are irregular (that is, other than monthly) and **civilians with intermittent pay schedules** should consult with their agencies or services before taking a loan from their TSP accounts so that they don't suffer taxable distributions due to missed payments. See Appendix I, How Nonpay Status Affects Your TSP Loan.

You can make additional loan payments to restore your account more quickly or to make up for missed payments. Payments can be made by personal check or money order. Make checks or money orders payable to the Thrift Savings Plan and include your loan number and Social Security number on the check. You will receive a notice confirming your payment. Please allow up to 2 weeks for processing.

You can also prepay your loan in full at any time without a prepayment penalty. The TSP Web site or the ThriftLine can provide you with the prepayment amount, which includes all unpaid principal and any unpaid interest.

The TSP will notify you and your payroll office when your loan has been paid in full. If payments continue, contact your payroll office immediately.

Send your payment with a Loan Payment Coupon. A *copy of the coupon is provided in* Appendix II, *or it can be downloaded from the* TSP Web site.

If you leave Federal service, your withdrawal request cannot be processed until your loan is closed by either payment in full or taxable distribution.

In the event of your death, the outstanding loan balance plus any unpaid interest is reported as a taxable distribution to your estate. Your loan cannot be repaid. The distribution *is not* subject to an early withdrawal penalty tax.

If you are a civilian employee who separated to perform military service and a taxable distribution was declared on the loan from your civilian account, you may be eligible to reverse the distribution when you return to Federal civilian service. Contact the TSP Service Office to determine your eligibility.

Appendix I

How Nonpay Status Affects Your TSP Loan

If you go into an approved nonpay status, loan payments can be suspended for the nonpay period, but only up to one year due to Internal Revenue Service (IRS) requirements. Interest will accrue while your payments are suspended.

When you return to pay status, your loan payments made by payroll deductions must resume. Your loan will be reamortized automatically when your agency or service informs the TSP that you have returned to pay status.

If your nonpay period exceeds one year, you must make payments from your personal funds to avoid being in default. This one-year limit does not apply if the nonpay status is due to military leave.

Your reamortized loan payments must repay your loan by the maximum time allowed. If your current loan payment amount will repay your loan within this time period, your loan payment amount will not be changed. However, if your current loan payment amount will **not** repay the reamortized loan in full within this time period, your loan payment amount will be increased.

A special rule applies if you enter nonpay status to perform military service. In that case, you will be permitted to suspend payments on your loan until you return to pay status, even if this is longer than one year. (You cannot repay your civilian TSP loan by making loan deductions from your uniformed services pay.) If you (or your agency) do not provide proper notice of your period of military service, the suspension in loan payments cannot exceed the one-year period described above. (See the Fact Sheet, "Effect of Nonpay Status on TSP Participation," available from the Web site or your agency or service.)

If your agency reports you as separated from civilian service to perform military service, you will be required to repay your loan in full within 90 days. If it is not, the outstanding loan balance and any unpaid interest will be reported to the IRS as a taxable distribution.

(However, you may be eligible to have your loan reinstated when you return to Federal civilian service. Contact the TSP Service Office.)

When you begin your period of nonpay status, you must submit documentation to the TSP. If applicable, please indicate whether your nonpay status is due to military service. Documentation consists of:

- ❑ Form TSP-41 (for civilians) or Form TSP-U-41 (for uniformed services), Notification to TSP of Nonpay Status; or
- ❑ Form SF-50, Notification of Personnel Action; or
- ❑ A letter on agency or service letterhead, signed by an appropriate agency official, or your commander or adjutant, and containing your name, date of birth, and Social Security number; the beginning date of the nonpay status; and the signature and title of the agency or service representative providing the information.

When you return from nonpay status, you must notify the TSP of your date of return. You can use any type of documentation described above.

> **Note to members of the Ready Reserve:** If you have a loan from your *civilian* account and you are called to active military duty, you may elect to reduce the interest rate on your TSP loan to 6 percent for the period of your military duty, subject to the Service Members Civil Relief Act (50 U.S.C. App. § 501). Write or call the TSP Service Office for more information.

If you are on approved leave without pay to work full time for an employee organization under which your TSP contributions may continue, or if you are on an Intergovernmental Personnel Act (IPA) assignment, you are eligible to apply for a TSP loan. If you already have a loan when you begin your period of approved leave without pay, your loan payments must continue. Contact the TSP Service Office for instructions.

If you are in nonpay status (either as a civilian or as a member of the uniformed services) and want to continue making payments, you can do so by sending a personal check or money order to the TSP record keeper. Use the Loan Payment Coupon when you send in your payments. (See Appendix II or the TSP Web site.)

Any loan payments received by the TSP during the nonpay period will be taken into account when the loan is reamortized.

Appendix II

Checklist for Making Loan Payments

✓ Please print ***all*** information on the coupon including your ***complete*** Social Security number. Otherwise, your payment will be returned to you.

✓ You may make your payment with a personal check, cashier's check, or money order made payable to the ***Thrift Savings Plan***.

✓ Write your complete Social Security number and your loan number on your check or money order. If you do not know your loan number, check your account on the TSP Web site (www.tsp.gov) or call the TSP Service Office (1-877-968-3778).

✓ Sign your check. Do not send cash.

✓ If you want to make payments for more than one loan, send a separate check (or money order) and coupon for each loan.

✓ The TSP will return your check to you if you do not have sufficient funds to cover the amount of your payment.

✓ Do not send correspondence or other TSP forms with this coupon or the processing of your check will be delayed.

✓ Mail this coupon and your check to:

Thrift Savings Plan
P.O. Box 979004
St. Louis, MO 63197-9000

Send overnight deliveries to: U.S. Bank, Box 9004, Government Lockbox SL-MO-C2GL, 1005 Convention Plaza, St. Louis, MO 63101

cut here

THRIFT SAVINGS PLAN
LOAN PAYMENT COUPON

Type or print using black or dark blue ink. See checklist above.

Check Number

Date of Check (mm/dd/yyyy) / / 20

Check Code: **CHK**

Last Name

First Name

Middle Name

Social Security Number – –

Loan Number – Letter

$, . Payment Amount

General correspondence (other than loan payments) should be mailed to:

TSP Service Office
P.O. Box 61500
New Orleans, LA 70161-1500

Federal Retirement Thrift Investment Board

FPI-PET

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EDITIONS PRIOR TO 5/04 OBSOLETE