**City of Seattle Voluntary Deferred Compensation Plan and Trust**
**Loan Policy**
**May 26, 2021**

The Trust Committee of the City of Seattle Voluntary Deferred Compensation Plan and Trust ("Plan") adopts this Loan Policy pursuant to the terms of the Plan effective for loans made on or after May 26, 2021.

*1.* ***ELIGIBILITY.*** A Plan loan is available only to a participant who: (i) is actively employed by the City of Seattle (on paid status) or has terminated employment with the City of Seattle, (ii) has a Plan account balance of at least $2,000 (not counting amounts held in a self-directed brokerage account), and (iii) has not previously defaulted on a Plan loan (excluding previously defaulted loans that have been repaid or offset).

*2.* ***LOAN APPLICATION.*** The Trust Committee has appointed its recordkeeper to process Plan loan applications and otherwise assist the Trust Committee in administering this Loan Policy. Participants may request a loan by phone or via the internet. Personal assistance is available during the recordkeeper's normal business hours.

*3.* ***LOAN APPROVAL.*** Each loan application will be reviewed and approved only to the extent that the loan requested complies with the requirements of this Loan Policy. If a loan application is denied, the participant will be informed of the reason(s) for the denial.

If a loan is approved, the participant will be informed of the maximum amount that may be borrowed, the applicable interest rate, the payment amount and the number of payments required to repay the loan. A participant who directs that a loan be made on the terms described will receive a loan agreement and disclosure statement (collectively, "loan documents"), along with the loan proceeds. The loan documents constitute the terms of the Plan loan.

*4.* ***LOAN AMOUNT.***

*(a)* The minimum loan amount is $1,000.

*(b)* The maximum loan amount is the least of:

- 50% of the participant's vested Plan account balance (including any amounts held in a self-directed brokerage account);
- 100% of the participant's vested Plan account balance (<u>not</u> including any amounts held in a self-directed brokerage account); or
- $50,000, reduced by the highest outstanding aggregate loan balance during the 12-month period ending on the date of this loan (including any loans from another plan maintained by the City of Seattle).

*5.* ***LIMIT ON NUMBER OF LOANS.*** Participants are limited to one (1) outstanding Plan loan at a time.

*6.* ***PURPOSE OF LOAN.*** Loans are permitted for any lawful purpose.

## 7. *LOAN TERMS.*

(a) ***Payment Amount.*** Each loan payment will consist of interest and a portion of the outstanding principal and will be calculated under a level amortization schedule.

(b) ***Interest Rate.*** Loans will provide for a fixed rate of interest equal to one percent (1%) above the prime interest rate as published in the Wall Street Journal fourteen (14) calendar days prior to the first day of the quarter in which the loan (or the refinancing of an existing Plan loan) is requested. However, while a participant is on active duty with the United States military for a period of more than thirty (30) days, the interest rate may not exceed six percent (6%), compounded annually.

(c) ***Payment Method.*** Payments will commence as soon as administratively possible following loan approval. Except in the case of a participant who has terminated employment with the City of Seattle or who is on an approved leave of absence (as described in Section 8 below), loans must be repaid via payroll deduction. If the participant has terminated employment or is on an approved leave of absence, loan repayments can be made using any payment method acceptable to the Trust Committee and the Plan's recordkeeper. Participants are responsible for making certain that proper loan payments have been withheld or otherwise made. If the correct loan payment is not withheld or otherwise made, the participant must notify the Plan and arrange for a make-up loan payment(s) by the end of the cure period described in Section 9 below.

(d) ***Payment Period.*** The maximum repayment period of any loan is five (5) years, except that a loan used to acquire a principal residence of the participant ("home loan") may have a repayment period of up to fifteen (15) years.

(e) ***Refinancing.*** Loans, other than home loans, may be refinanced at any time. However, no new funds may be borrowed in connection with the refinancing of a loan and the repayment period may not be extended beyond the maximum repayment period that applied to the original loan (*i.e.,* five (5) years from the date of the original loan). The Trust Committee may charge a separate application fee each time a loan is refinanced.

(f) ***Prepayment.*** Loans may be prepaid (in part or in full) at any time without penalty by any method acceptable to the Trust Committee and the Plan's recordkeeper.

## 8. *LEAVE OF ABSENCE/SUSPENSION OF PAYMENT.*

(a) ***Non-military Leave.*** A participant's obligation to make loan repayments will be suspended for a period not exceeding one (1) year during an approved leave of absence either without pay or at a rate of pay (after applicable employment tax withholdings) that is less than the amount of the loan repayments required under the terms of the loan.

(b) ***Military Leave.*** If a participant terminates employment because of service in the uniformed services or takes a leave of absence from the City of Seattle because of service in the uniformed services and does not receive a distribution of his or her Plan account, the participant's obligation to make loan repayments will be suspended until the participant completes the military service.

(c) ***Resumption of Payments.*** When loan payments resume following a payment suspension in connection with an authorized leave of absence as described above, the participant must select one of the following methods to repay the loan, including interest that accrued during the payment suspension period:

- Increase the amount of the required installments to an amount sufficient to amortize the remaining balance of the loan, including accrued interest, over the remaining original term of the loan;

- Commence loan repayments in an installment amount not less than the amount required under the terms of the original loan, with a balloon payment of the remaining unpaid principal and interest due at the conclusion of the original term of the loan; or
- Extend the repayment period and re-amortize the payments over the revised term of the loan. In the case of a non-military leave of absence, the revised term of the loan may not exceed the maximum term permitted under Section 7 above. In the case of a military leave of absence, the revised term of the loan may not exceed the maximum term permitted under Section 7, extended by the period the participant's repayment obligation was suspended under Section 8(b) above.

*9.* ***DEFAULT/OFFSET.*** A loan is considered to be in default if any scheduled payment remains unpaid beyond the last day of the calendar quarter following the calendar quarter in which the scheduled payment was missed. A defaulted loan will be treated as a deemed distribution and reported to the IRS as such. However, a loan default will not extinguish the repayment obligation, and interest will continue to accrue until the loan is repaid or offset. Pending final disposition of the loan, the participant remains obligated for any unpaid principal and accrued interest.

In general, if a participant takes a distribution (other than an unforeseeable emergency withdrawal) while he or she has an outstanding loan balance, the participant's vested account balance will be offset (reduced) by the amount of any outstanding loan balance. The loan will be treated as repaid to the extent of the offset. A defaulted loan which was previously reported to the IRS as a deemed distribution will not be reported as a taxable distribution at the time of offset.

*10.* ***PARTICIPANT-DIRECTED INVESTMENT/SOURCE OF LOAN PROCEEDS.*** The Trust Committee will administer each loan as a participant directed-investment of that portion of a participant's Plan account equal to the outstanding principal balance of the loan. Loan proceeds will be deducted pro rata from all of the contribution sources (both pre-tax and Roth) in the participant's Plan account (except that no amount will be taken from a participant's self-directed brokerage account).

*11.* ***FEES.*** The Trust Committee may charge a loan application fee (currently, $25 for new loans and $50 to refinance an existing loan). In addition, the Trust Committee may charge an annual loan administration fee (currently, $50 per year) which will be deducted from a participant's account no more frequently than quarterly. Additional fees may apply to a participant who defaults on a Plan loan.

*12.* ***LOAN CORRECTION.*** In the event a loan correction becomes necessary, at the Trust Committee's direction, the recordkeeper may undertake methods prescribed by the Internal Revenue Service (IRS) or through any IRS correction program to facilitate the necessary correction.

*13.* ***AMENDMENT AND INTERPRETATION OF POLICY.*** The Trust Committee may amend this Policy from time to time and may terminate the ability to request Plan loans altogether. The Trust Committee has discretion to interpret the provisions of this Loan Policy, and its decisions regarding the application or interpretation of this Loan Policy are final and binding on participants.