Thrift Savings Plan

Loan Program

April 1997

Federal Retirement
Thrift Investment Board

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To help make your loan application go smoothly:

- ❑ Apply only if you have at least $1,000 of your own contributions and their earnings in your account.
- ❑ Use Appendix 3 or call the ThriftLine at (504) 255-8777 to estimate the maximum loan for which you are eligible.
- ❑ Obtain Form TSP-20, Loan Application, from your agency personnel office or from the TSP Web site at http://www.tsp.gov.
- ❑ Complete and sign your Loan Application and send it to the TSP Service Office.
- ❑ When you receive your Loan Agreement Package:
    - Verify that all the information in it is correct.
    - Sign all necessary forms and return them to the TSP Service Office.
    - If you are applying for a residential loan, submit *copies* of required documentation with your Loan Agreement/Promissory Note to the TSP Service Office.
- ❑ Keep copies of your application materials for your records.
- ❑ To check on the status of your loan, call the ThriftLine.
- ❑ Notify your agency immediately if there is a change in your address.

Table of Contents

The Thrift Savings Plan Loan Program

This booklet explains the features of the Thrift Savings Plan (TSP) Loan Program, how it works, and your responsibilities when you borrow from your TSP account.

If after reading this booklet you have questions about the loan program which your employing agency cannot answer, you may write to the TSP Service Office, or call Monday through Friday, 7:45 a.m. to 4:15 p.m. central time:

Thrift Savings Plan Service Office
National Finance Center
P. O. Box 61500
New Orleans, LA 70161-1500
(504) 255-6000   TDD (504) 255-5113

The following sources of TSP information are available 24 hours a day, 7 days a week:

TSP ThriftLine
(504) 255-8777

TSP Web site
http://www.tsp.gov

I. Understanding TSP Loans

This chapter contains information about your eligibility for a TSP loan and the effect of a loan on your account.

A. Eligibility for a TSP Loan

TSP participants can borrow from their own accounts while they are employed by the Federal Government. You can apply for a loan if:

- ❑ you are a current employee (separated and retired TSP participants are not eligible), and
- ❑ you are in active pay status (loans are repaid through payroll allotments), and
- ❑ you have *at least $1,000* of your own contributions and their earnings in your TSP account.

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

B. The Effect of a Loan on Your TSP Account

When you borrow from your TSP account, the balance in your account is decreased by the amount of your loan. If you are invested in more than one fund (i.e., the Government Securities Investment (G) Fund, the Common Stock Index Investment (C) Fund, and/or the Fixed Income Index Investment (F) Fund), your loan is deducted *pro rata* from the employee contributions (and earnings on those contributions) that you have in each fund.

Loan payments, including principal and interest, are deducted by your agency from your pay each pay period until the loan is repaid in full. As you repay the loan, your loan payments are credited to your account in proportion to the total current balances in your investment funds (G, C, and F), and you receive earnings on these amounts. However, although funds are being restored to your account during the life of your loan, borrowing from your account will affect the final account balance available for your retirement, as discussed below.

What is the interest rate on a TSP loan?

The loan interest rate you pay for the life of your TSP loan is the latest available interest rate for the G Fund at the time your application is received.

How does a TSP loan affect my final account balance?

Historically, the three funds have had different rates of return. Because of the difference between the interest you pay on your loan (that is, the G Fund rate at the time your application was received) and the rates of return in the three investment funds over the life of the loan, the earnings in your account when your loan is fully repaid are likely to be different from what your earnings would have been if you had not taken the loan.

Therefore, even though you pay back your loan with interest, *you may have less money in your account at retirement* than if you had not borrowed from it. So, first determine whether you really need to borrow at all. If you must borrow, you should compare the costs of borrowing from your TSP account to the costs of borrowing from other sources, such as a bank or mortgage company. See Appendix 1, "The Cost of TSP Loans," for an explanation and examples of how to make this comparison; it is *not* enough simply to compare loan interest rates. The cost of borrowing from your TSP account is the difference between your net earnings when you borrow from a bank (or other lending source) and your net earnings when you borrow from your TSP account. When you make the comparison correctly, you may well find that it is less costly to borrow elsewhere than from your TSP account.

II. Rules for Borrowing

For what purposes can I get a loan?

There are two types of TSP loans:

- ❑ A general purpose loan, which does not require you to document or specify the purpose of your loan.
- ❑ A residential loan, which is *only* for the purchase of a primary residence.

For a residential loan, your 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. Your primary residence must be purchased (in whole or in part) by you. You may 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.

The amount that you request for a residential loan must be documented, but you do not put up property or security (collateral) for your loan. The requirements for documenting a residential loan are described in Appendix 2.

If you have expenses related to your residence which do not qualify as a purchase of a primary residence, you may finance them with a general purpose loan from your TSP account.

How much can I borrow?

You may borrow only from your own contributions and their earnings. You can learn the amount you have available to borrow by calling the ThriftLine at (504) 255-8777 or by completing the worksheet in Appendix 3.

Minimum loan amount. The smallest amount you can borrow is $1,000. Therefore, you must have at least $1,000 of your own contributions and their earnings to obtain a loan.

Maximum loan amount. The Federal Employees' Retirement System Act (FERSA) of 1986 and the Internal Revenue Code limit the amount you can borrow:

- ❑ You can never borrow more than the amount of your own contributions and their earnings.
- ❑ If you have not had a TSP loan outstanding during the past year, and your contributions and their earnings are $10,000 or less, you can borrow up to the full amount of your contributions and their earnings.
- ❑ If you have had a TSP loan outstanding during the past 12 months, or if your contributions and their earnings are greater than $10,000, you can use the worksheet in Appendix 3 to estimate the maximum amount you are allowed to borrow.
- ❑ You cannot borrow more than $50,000.

Appendix 3 provides more information on these limits.

How long do I have to repay my loan?

You choose the amount of time you want to repay the loan. The loan repayment period must be at least 1 year. You may choose a period between 1 and 4 years to repay a general purpose loan and between 1 and 15 years to repay a residential loan.

How many loans can I have from my TSP account at one time?

Two. You may have two general purpose loans or a general purpose loan and a residential loan. You may *not* have two residential loans. In order for a second loan to be disbursed, your payments on the first loan must be current and in the correct amount.

Can I get a loan if I am in nonpay status?

No. Loan payments can be made only through payroll allotments. Therefore, if you are in nonpay status, you will not be able to get a TSP loan. When you return to pay status, you may apply for a TSP loan.

However, 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. Write or call the TSP Service Office for more information.

Do my spouse's rights affect my loan?

Yes. FERSA provides certain rights to spouses of TSP participants. If you are a married FERS* participant, your spouse must consent to your TSP loan by signing the Loan Agreement that the TSP Service Office will send you. If your spouse's whereabouts are unknown or exceptional circumstances make it inappropriate to get your spouse's consent, you can apply for an exception using Form TSP-16, Exception to Spousal Requirements. This form is available from your personnel office or from the TSP Web site at http://www.tsp.gov.

If you are covered by CSRS*, your spouse will be notified when you apply for a TSP loan. If you do not know your spouse's whereabouts, you can apply for an exception by submitting Form TSP-16, available as described above.

There have been instances in which participants have attempted to borrow or withdraw money from their TSP accounts without the knowledge of a spouse by forging the spouse's signature or by lying about their marital status. It is the TSP's policy to pursue and prosecute any participant or other person who attempts to deprive a spouse of his or her TSP rights.

If there is a court order against my account, will I be able to get a loan?

No. 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. A loan cannot be approved and disbursed until the court order process has been completed.

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* FERS refers to the Federal Employees' Retirement System, the Foreign Service Pension System, and other equivalent Government retirement plans. CSRS refers to the Civil Service Retirement System, including CSRS Offset, the Foreign Service Retirement and Disability System, and other equivalent Government retirement plans. If you are not sure of your retirement coverage, contact your personnel office.

III. Applying for a Loan

How do I apply for a loan?

Use the Loan Application (Form TSP-20), available from your agency personnel office or the TSP Web site at http://www.tsp.gov. Remember, you must have *at least $1,000* of your own contributions and their earnings to obtain a loan.

You can learn the amount available for you to borrow, as well as the current loan interest rate, by calling the ThriftLine at (504) 255-8777. The loan interest rate is also available on the TSP Web site.

When you have completed the form, mail it to the TSP Service Office at the address on the form. Do *not* send your application to your employing agency; only the TSP Service Office can process a TSP loan.

What information do I need to fill out the Loan Application?

You will need to indicate the amount you want to borrow. You must also select *either* a general purpose loan *or* a residential loan, and enter the length of time you want to repay the loan. To determine the correct loan payment allotment, you will also need to indicate whether you are paid biweekly or on a different schedule. Your loan payments will depend on these factors and on the interest rate on the loan. (You can use the table in Appendix 4 to estimate the amount of your loan payment each pay period.)

You must also indicate whether you are married — even if you are separated from your spouse. If you are married, you must provide your spouse's name and, if you are a CSRS participant, your spouse's address. (See page 5, "Do my spouse's rights affect my loan?")

Note: If you are requesting a residential loan, you will be asked to provide documentation later. Do *not* send documentation of your expenses with your Loan Application.

What happens after I send in the application?

If you are eligible for a loan, the TSP Service Office will send you a loan package that includes:

- ❑ Your Loan Agreement/Promissory Note (Form TSP-21)
- ❑ Your Loan Payment Allotment Form (TSP-22)
- ❑ For residential loans, your Residential Loan Documentation Form (TSP-21-R).

The Loan Agreement/Promissory Note shows your loan account number and the terms of your loan. The loan terms include the amount of the loan, the interest rate, the amount of interest you will pay on your loan, the loan repayment period, the number of payments, and the amount of each payment. The Loan Agreement is also the promissory note; your signature on that document obligates you to repay the loan according to its terms.

The Loan Payment Allotment Form shows the amount of each loan payment to be deducted from your pay. Your signature authorizes your employing agency to make these deductions.

The Residential Loan Documentation Form provides instructions for documenting costs associated with the purchase of a primary residence.

How do I complete the loan package?

It is extremely important that you review the terms of your loan as shown on the Loan Agreement/Promissory Note. Do not alter any of the preprinted information on it. If you agree with all of the terms of the loan:

- ❑ Sign the Loan Agreement/Promissory Note (Form TSP-21).
- ❑ If you are a married FERS participant, have your spouse sign Form TSP-21 also (or attach Form TSP-16, Exception to Spousal Requirements, if necessary).
- ❑ Sign the Loan Payment Allotment Form (TSP-22).
- ❑ If you requested a residential loan, complete the Residential Loan Documentation Form (TSP-21-R). You must provide copies of the purchase contract, settlement sheet, or other documents to show the cost of the residence. (Appendix 2 describes the documentation requirements.) Do *not* send original supporting documents; they will not be returned to you.

Your Loan Agreement will expire 45 days after the date on the Loan Agreement/Promissory Note. The TSP Service Office must receive your completed loan package by this date, or your loan request will be cancelled. If your loan package is not complete when you send it, the entire package will be returned to you. This may delay your loan or cause your request to be cancelled.

When you sign your Loan Agreement/Promissory Note, you are acknowledging that you have read the form and that you promise to repay the loan according to its terms. You are also certifying under penalty of fine or imprisonment that the information in the Loan Agreement/Promissory Note, including all attachments and any documentation, is true and complete.

What if I do not accept the terms of the loan package?

If you do not agree with the terms of your Loan Agreement (that is, you want a loan for a different amount, you want to repay the loan over a different time period, or your pay cycle is not correct on the Loan Agreement), check the cancellation block on the Loan Agreement and return it to the TSP Service Office. The TSP Service Office cannot process an altered Loan Agreement/Promissory Note. If you want to apply for a loan with different terms, send a new Loan Application when you return your cancelled Loan Agreement.

Only one loan request can be processed at a time. Therefore, if you apply for another loan (that is, for a different purpose, amount, or time period) before an earlier Loan Agreement expires, or if you have not checked the cancellation block on the earlier Loan Agreement and returned it to the TSP Service Office, your second Loan Application will be rejected. You may call the ThriftLine to confirm that the prior request has been cancelled or has expired.

What happens after I return the loan package?

The TSP Service Office will review your loan package, including supporting documentation for a residential loan. The Service Office may verify your documentation, for example, by calling your mortgage company or contractor. The loan package contains a release permitting the TSP Service Office to make these contacts.

If your loan is approved, it will be scheduled for disbursement in the next monthly processing cycle. At the time of disbursement, the record keeper will send your Loan Payment Allotment Form to your payroll office, which authorizes your loan payments to begin. Your check will be sent directly to you at your current address of record for the TSP. (See address information on page 10.)

You will also receive a package containing important documents regarding your loan, including your Loan Payment Schedule (Form TSP-23). *Keep these documents.* You may need to refer to them if you transfer to another agency or leave Government service.

At the loan disbursement date, the TSP record keeper repeats the test that determines the maximum amount you may borrow (maximum loan amount). (See Appendix 3.) If a negative adjustment has been made to your account or you have experienced losses in the C or F Fund, the maximum loan amount may be less than the amount shown on your Loan Agreement. However, if the amount available for you to borrow is at least $1,000, you will receive a loan in the smaller amount. The interest rate and the amount of each loan payment will not change, but the repayment period may be shorter than you requested.

When your loan is disbursed, the money is deducted *pro rata* from your employee contributions and associated earnings in the G, C, and F Funds.

How long will it take from the time I apply until I receive my check?

You should anticipate that there will be *6 to 8 weeks* between the time you submit your Loan Application and the time a check is mailed to you.

The TSP is a monthly valued plan; therefore, loans are disbursed once a month (by mid-month) after earnings have been posted. The month in which your loan is disbursed depends on when the TSP Service Office receives *all* the completed and signed materials necessary to approve your loan and schedule it for disbursement. Your loan must be approved by the 4th business day of the month in order to be paid in that month.

To keep the process from being delayed:

- ❑ Make sure that you have completed and signed all the forms.
- ❑ Verify that the information on each form is correct.
- ❑ Submit copies of all required documentation for residential loans.

- ❑ If your address changes, notify your agency personnel or payroll office *immediately*, because only your agency can update your address of record for your TSP account. You *cannot* change your address in the TSP database by marking up the Loan Agreement. Although the Loan Agreement/Promissory Note will be sent to the address you provide on your Loan Application, your loan check will be sent to the address of record for your TSP account, which is the address provided by your employing agency. *If your address is not correct, your loan check may not reach you* and you may not receive other TSP correspondence. Correspondence concerning your loan after it is issued (for example, your quarterly Loan Statements) will be sent to your address of record.

IV. Paying Back a Loan

How do I make loan payments?

You must make loan payments in substantially equal installments through payroll allotments. Personal checks *cannot* be accepted as payment on the loan.

When your loan is disbursed, the TSP Service Office will notify your payroll office to begin deducting your payments from your salary each pay period and submitting them to the TSP record keeper. When the TSP receives each loan payment, it is credited to your account in the G, C, and F funds in proportion to the total current balances in those funds.

Be sure to check your earnings and leave statements and contact your personnel office immediately if:

- ❑ your loan payment allotment does not start within 30 days after you receive your loan, or
- ❑ your payments are not for the correct amount (that is, they are not for the exact amount shown on your Loan Agreement or that amount rounded up to the nearest dollar), or
- ❑ your payments are not being deducted every pay period.

The TSP will also send you a quarterly Loan Statement (Form TSP-24) from the TSP record keeper. You should review all transactions reported on the statement to make sure that your loan payments are being submitted correctly. If your payroll office does not deduct a loan payment in the correct amount from your pay each pay period, you will face the consequences of missed or incorrect payments. (See the discussion on pages 15 – 16 concerning missed or incorrect payments.)

How do I make payments on two TSP loans?

Your agency will decide whether your loan payments will be made in two allotments or combined into a single allotment. Regardless of whether your loan payments are made by separate or combined allotments, you should confirm that the correct loan payment amounts are deducted from your pay each pay period.

Can I suspend my loan payments?

No, you *cannot* suspend your loan payments. Before a loan is issued, you must sign your Loan Agreement/Promissory Note and an authorization for payroll allotments.

What if one of my paychecks is not large enough to make my loan payment?

You will miss your payment, because your payroll office is only authorized to deduct the payment shown on your Loan Payment Allotment Form. (See the discussion on pages 15 – 16 concerning missed or incorrect loan payments.)

Can I prepay my loan?

Yes, but you must pay the full amount; no partial payments are accepted. Ask the TSP Service Office to provide you with the prepayment amount. This amount will include all unpaid principal and any unpaid interest. Your payment must be made by certified check (this is a personal check certified by the financial institution on which it is drawn), cashier's check, cashier's draft or treasurer's check from a credit union, or money order. A personal check that is not certified by the financial institution on which it is drawn cannot be used for loan prepayments. A payment in an insufficient amount will not be accepted.

Can I change the repayment period or the payments on my loan?

Yes. You may request a reamortization of your loan once during the loan's life. For example:

- ❑ you may want to increase your payment amount and repay the loan more quickly than you had originally agreed to, or
- ❑ you may want to decrease the amount of each payment and extend the time period for repaying your loan.

However, the rules for minimum and maximum repayment periods still apply. (See page 4.)

If you want to reamortize your loan, contact the TSP Service Office for new loan payment terms (Rider to the Loan Agreement/Promissory Note, Form TSP-21-Rider) and a new Loan Payment Allotment Form.

There are circumstances under which you *must* reamortize your loan, for example, if you have missed payments or payments have been made in an incorrect amount. (See the discussion on pages 15 – 16 concerning missed or incorrect loan payments.)

How can I avoid loan repayment problems?

- ❑ When you apply for a loan, be sure you provide your correct pay period (for example, biweekly) on the Loan Application.
- ❑ When you receive your Loan Agreement package, review the terms of your loan and be sure the frequency of payments (for example, 26 per year) is correct.
- ❑ After your loan is disbursed, check your earnings and leave statement to be sure loan payments are started in the correct amount and check your statements periodically thereafter to be sure no errors are being made.
- ❑ Check your quarterly Loan Statement, to be sure your payments are being made correctly.
- ❑ If your employment status changes, follow up with your agency and the TSP.
- ❑ If you receive a notice from the TSP Service Office indicating a problem with your loan payments or a requirement to reamortize, act quickly. Contact your payroll office immediately and follow up until the problem is corrected. If you receive a reamortization package, you must complete and return it. Otherwise, you will be required to repay your loan in full or a taxable distribution will be declared. (See pages 15 – 16.)

What happens if I transfer to another Federal agency or my payroll office changes?

When you change payroll offices, you must inform your new personnel office that you have a TSP loan and ask the office to continue your TSP loan payments. (If you need help, you may also wish to notify the TSP Service Office of your payroll office change, either by telephone or mail.) If your new payroll office does not begin your allotments promptly, loan payments will be missed, with possible significant adverse tax consequences to you. Check your earnings and leave statements and your Loan Statements to make sure your payments are current and correct. (See pages 15 – 16 concerning missed or incorrect loan payments.)

If there is a change in your pay periods (for example, from biweekly to monthly), your loan payments will have to be recalculated. As soon as you know what your new pay cycle will be, you must notify the TSP Service Office. The TSP Service Office will send you a reamortization package based on your new pay cycle.

What happens to my loan payments if I go into nonpay status?

Because loan payments can only be made through payroll allotments, a period without pay will result in missed payments.

If you go into approved nonpay status (such as approved leave without pay or military furlough), your agency must send Form TSP-41, Notification to TSP of Nonpay Status, to the TSP Service Office, or you must send the TSP Service Office a copy of your SF-50, Notification of Personnel Action, or a letter from your agency personnel office confirming your status. A letter must contain essentially the same information as the SF-50 or Form TSP-41, including personal identification information, the date the nonpay status began, and the "not-to-exceed" date (that is, the last day for which your nonpay status has been approved). When you return to pay status, you should contact your agency to ensure that your loan payments resume immediately.

If you miss payments for 90 days or less, your loan payment schedule will be extended. If your payments resume more than 90 days from the last correct payment, but less than one year from the start of the nonpay status, your loan must be reamortized. (See pages 15 – 16 concerning missed or incorrect loan payments.)

If you do not return to pay status within 1 year of the start of your nonpay status, you will have to repay the loan in full by the end of the year of nonpay status or be subject to a taxable distribution of the unpaid balance and any accrued interest. (See the discussion on pages 15 – 16 concerning missed payments and the discussion in Chapter V regarding the consequences of having a taxable distribution declared.)

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 IPA assignment, your loan payments must continue. Contact the TSP Service Office for instructions.

What should I do if my agency makes a mistake in my loan payments?

Sometimes an agency may not start payments promptly or in the correct amount after a loan is issued, or may not submit the correct payment amount if you have two loans outstanding. As soon as you identify an error or missed payment on your earnings and leave statement or on your quarterly Loan Statement, contact your agency to make a correction. You may also ask the TSP Service Office to assist your agency in making the necessary corrections. However, you are responsible for ensuring that correct loan payments are submitted timely.

What happens when loan repayment problems are not fixed?

The consequences depend on whether the period of missed or incorrect payments is 90 days or less, or more than 90 days, as described below.

90 days or less. If the period of missed or incorrect payments is 90 days or less, reamortization will not be required, with the following exception: the loan must be reamortized if the missed or incorrect payments will result in the loan's not being repaid within 5 years of the loan issue date for a general purpose loan and within 18 years of the loan issue date for a residential loan. (The loan issue date is printed on your quarterly Loan Statement.)

More than 90 days. If the period of missed or incorrect payments is more than 90 days, interest on the unpaid amount for the entire period will be added to the outstanding principal balance of the loan. The loan must be reamortized, even if correct payments resume after 90 days. If the loan is not reamortized, you must repay it in full or a taxable distribution will be declared. (See Chapter V, Taxable Loan Distributions.)

- ❑ **Reamortizing your loan.** When reamortization is required, your loan payments will be recalculated based on a new balance (because of interest owed on missed or incorrect payments). When a loan is reamortized, there is no change in the loan interest rate.

The test for the maximum loan amount is repeated at the time the reamortization is calculated (see Appendix 3). If you fail the test for the maximum loan amount, your loan cannot be reamortized. If you do not reamortize (or if you cannot because of limits on the loan repayment period), you must repay the loan in full.

- ❑ **Repaying in full.** Ask the TSP Service Office to provide you with the repayment amount. This will include all unpaid principal and any unpaid interest. You must pay the full amount; no partial payments are accepted. Your payment must be made by certified check, cashier's check, cashier's draft or treasurer's check from a credit union, or money order.

What happens if I leave Federal service?

The terms of your loan include a requirement that you repay the loan in full, including interest, when you leave Government service. After you leave the Government, you will be sent a notice with instructions to repay your loan.

If the TSP Service Office does not receive your repayment in full within 90 days of the date on the notice to repay, a taxable distribution of the unpaid loan principal (and any unpaid interest up to the time of the distribution) will be declared. Note: An outstanding loan may delay processing the withdrawal of your account.

What happens to my loan if I die?

The outstanding loan balance plus any unpaid interest is reported as a taxable distribution to your estate. (See Chapter V, Taxable Loan Distributions.) The distribution is not subject to an early withdrawal tax penalty. Neither your estate nor anyone else may repay your loan.

V. Taxable Loan Distributions

What is a taxable distribution?

When a loan is not repaid in full by the established deadline, the amount of the unpaid principal and interest must be reported to the Internal Revenue Service (IRS) as taxable income (that is, a taxable loan distribution) in the year the distribution is declared. This means that you will be liable for income taxes on the amount reported to the IRS and, depending upon your age and employment status, you may also be liable for a 10 percent early withdrawal penalty. The TSP Service Office will send you the appropriate tax form by January 31 of the year following the year the distribution is reported to the IRS. Note: When a taxable distribution is declared, you will not receive any additional money. The taxable distribution accounts for the portion of your loan and interest which you failed to repay to your TSP account.

What are the circumstances under which a taxable distribution is declared?

A taxable distribution of the unpaid principal and any unpaid interest is declared if:

❑ you leave Government service without repaying your loan in full within the required time limits, or

❑ you are in approved nonpay status and you do not repay your loan in full within 1 year of the date you began your nonpay status, or

❑ you are in approved nonpay status for less than 1 year and have had missed payments for more than 90 days but, when you return to your job, you do not reamortize or repay your loan, or

❑ you are in pay status and have had incorrect or missed payments for more than 90 days, but you do not reamortize or repay your loan, or

❑ you are in pay status but, because of missed or incorrect payments, neither your current loan payments nor your reamortized loan payments can repay your loan within the required time limits, and you do not repay your loan, or

- the new amount financed in a reamortization (in conjunction with the outstanding principal on another TSP loan) is greater than the maximum amount of loan you are allowed to have outstanding under the Internal Revenue Code, and you do not repay, or
- you die before your loan is repaid.

How does a taxable distribution affect my TSP account?

If a taxable distribution is declared, you can no longer repay your loan. This means that your final account balance available for your retirement will be less than it otherwise would be. Therefore, if you take a loan from your TSP account, you should check your earnings and leave statement on a regular basis to ensure that your loan payments are being made properly as long as you are in pay status. If your agency makes an error by not deducting your loan payments or by deducting loan payments in an incorrect amount, it is important that you contact your agency immediately.

Does a taxable distribution affect my eligibility for another loan?

Yes. After a taxable distribution is declared, you may not apply for another loan within 12 months of the date of the taxable distribution (unless the taxable distribution was declared because you were on approved leave without pay for more than 1 year).

APPENDIX 1. The Cost of TSP Loans

When you borrow from your TSP account, loan payments (including interest) are deducted from your pay and deposited to your TSP account. Although you are restoring funds to your TSP account during the life of the loan, those funds and their earnings may not equal what you would have had if you had not borrowed from your account. Borrowing from your TSP account may affect the final account balance available for your retirement. The following examples illustrate the effects of borrowing.

The Cost of Residential TSP Loans. Let's assume that you need to borrow $10,000 to purchase a home, and that a mortgage loan is available from your bank at 7% for 15 years. The monthly loan payments (principal and interest) would be approximately $90, and, over the life of the loan, you would pay about $6,200 in total interest. But mortgage interest is a tax deductible expense on your Federal income tax return, and so, if you are in the 28% Federal tax bracket, the effective interest cost of your loan would be reduced to about $4,500.

The $10,000 that remains in your TSP account — because you borrowed from the bank — would continue earning for the next 15 years. Let's assume that $6,000 of your account is invested in the G Fund and $4,000 in the C Fund. Using the G Fund and C Fund compound annual rates of return of 8% and 15%, respectively (the approximate historical rate for the past 10 years*), your TSP account would earn approximately $41,600 over 15 years. Therefore, your "net earnings" at the end of 15 years would be $37,100 ($41,600 – $4,500) if you borrow from the bank.

Now, let's suppose you borrow the $10,000 from your TSP account instead of the bank. If you do, you will not have to pay the $90 per month to the bank, but you will also lose much of the $41,600 in earnings you otherwise would have received on your TSP account. Also, the "interest" you pay yourself for a TSP loan is not tax deductible.

To illustrate: If the TSP loan rate is 6%, you will have to repay approximately $84 per month to your account for 15 years. (As in the above example, assume that 60% of your account balance is in the

* These rates of return and all others assumed in this discussion are not intended to be projections of future rates; they are used for illustration only.

G Fund and 40% in the C Fund over the 15-year repayment period, so that your repayments go into the two funds in those proportions.) At the end of 15 years, you will have restored your TSP account balance to $10,000, but — using the same G and C Fund annual rates of return as above — you will have earnings of only about $27,500.

To offset the diminished TSP earnings somewhat, the $6 savings between the monthly bank loan payment and the monthly TSP payment ($90 – $84), if invested at, say, 5% over 15 years, would be worth approximately $1,500 to you — about $1,100 in savings and about $400 in interest (after Federal taxes of 28%). Therefore, your "net earnings" at the end of 15 years would be $29,000 ($27,500 + $1,500) if you borrow from your TSP account.

The difference between your earnings when you borrow from the bank and your earnings when you borrow from your TSP account is $8,100 ($37,100 – $29,000), which should be considered the cost of borrowing from your TSP account.

The Cost of Other TSP Loans. If you need to borrow money for some other purpose, it may be less expensive to borrow from your TSP account than to borrow from commercial sources.

For example, assume your best alternative to borrowing from your TSP account is a 4-year personal bank loan of $10,000 with a 15% interest rate, which would require monthly payments of approximately $278. You would pay approximately $3,300 in interest over 4 years on this loan, which is not tax deductible. Your TSP earnings on the $10,000 that remain in your account ($6,000 invested in the G Fund and $4,000 in the C Fund over the term of the loan at 8% and 15% compound annual returns, respectively) would be about $5,200 over the 4 years, for "net earnings" of $1,900 ($5,200 – $3,300).

However, if you borrow $10,000 at 6% from your TSP account to be paid back over 4 years, your monthly payments will be about $235. In 4 years, your account will be restored to $10,000, and you will have earnings of approximately $3,900. In addition, if you invest the $43 difference between the monthly bank loan payment and the monthly TSP payment ($278 – $235) at 5%, over 4 years you would have approximately $2,200 in savings and interest (after Federal tax of 28%). Your "net earnings" after 4 years would therefore be about $6,100 ($3,900 + $2,200).

The difference between your earnings when you borrow from your TSP account and your earnings when you borrow from a bank is $4,200 ($6,100 – $1,900). Thus, upon the assumptions given, it would be less expensive to borrow from your TSP account than from the bank.

Summary. Although the principal and interest you pay back to your TSP account during the life of your loan will restore funds to your TSP account, there may be costs of borrowing from yourself as illustrated above. Be sure you understand the financial effects of borrowing before proceeding with your TSP loan.

[This information was adapted from the article of the same title in the May 1996 *Highlights for Thrift Savings Plan Participants.*]

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APPENDIX 2. Requirements for Residential Loan Documentation

You may obtain a residential loan for the purchase or construction of your primary residence. Your residence may be a house, condominium, shares in a cooperative housing corporation, or a townhouse, boat, mobile home, or recreational vehicle (RV), but it must be used as your primary residence.

For a house, condominium, or cooperative, the documents must clearly show the cost of the residence to which you want to apply the loan, the full address of the residence, and that you are the purchaser. For a cooperative, the documents must also clearly show that you own shares in a cooperative housing corporation. The documentation submitted for the purchase of a mobile home or RV as a primary residence must show that you are the purchaser and must include the sales price, serial number or other identifying number, and address where the vehicle will be located. If the vehicle you are purchasing is an RV, you must also provide a complete description of the vehicle's facilities and accommodations and a signed statement indicating that it will be your primary residence.

The documentation submitted for the purchase of a boat as a primary residence must show that you are the purchaser and must include the sales price, serial number or other identifying numbers, and a complete description of the on-board facilities and accommodations. The documentation must also include a letter from the marina or other location where the boat will be moored and a signed statement from you indicating that it will be your primary residence.

Your primary residence must be purchased (in whole or in part) by you. If it is being purchased with a person other than your spouse, you must attach a statement, signed by you, indicating the portion of the purchase cost(s) that represents your share of the purchase.

You may obtain a TSP residential loan for the construction of a new residence. You may *not* obtain a residential loan to refinance or prepay an existing mortgage, and you may *not* obtain a residential loan for the renovation of, or an addition to, an existing residence. The purchase of land is *not* eligible for a residential loan unless combined with evidence that you are constructing an entire residence on the land. If this is the case, you must submit evidence, in the form of building permits, receipts, or other third-party documents, that a complete residence will be constructed.

Your documentation must:

- ❑ Be from a third party (i.e., someone who is selling the home to you or building the home for you — for example, a building contractor, a real estate firm, or a mortgage company).
- ❑ Show you as the purchaser or builder.
- ❑ Show the purchase price or construction price.
- ❑ Show the full address of the residence.
- ❑ Be dated no more than 24 months before the date your Loan Application is received.

Examples of Acceptable Documentation:

- ❑ Copy of the purchase contract showing the sale price.
- ❑ Copy of the settlement sheet or estimated settlement sheet. Some costs shown on the settlement sheet may not be eligible for a TSP loan. Only the contract price and, in general, those costs that can be added to the cost basis of the residence for Federal income tax purposes are eligible for a TSP loan.
  - Examples of items that *can be added* to the cost basis include: title charges, such as settlement fees, attorney's fee, title search fee, title insurance fee, notary fee; government recording and transfer charges, such as deed and mortgage recording fees, and city, county, and state tax stamps; items payable in connection with the loan, such as fees for appraisal, credit report, and inspection.
  - Examples of items that *cannot be added* to the cost basis for a TSP loan include: real estate taxes; loan origination fees, interest charges, and points (whether or not the points are included in the cost basis for Federal income tax purposes); utility expenses; and any costs that have been borne by the seller. A lease-to-buy option is not eligible unless you are exercising the option to buy.
- ❑ Copy of the construction contract(s) showing the building cost, if you are having your home built.
- ❑ Copy of building permits, receipts, assessments, or other documents that *clearly* demonstrate that an entire residence is being constructed if you are building your home yourself. In addition, you must provide evidence of costs in an amount at least equal to the loan amount.

Do not send original documents; they will not be returned to you.

APPENDIX 3. Worksheet for Estimating Your Maximum Loan Amount

Under the Federal Employees' Retirement System Act of 1986, you can never borrow more than your own contributions to your TSP account and their earnings. In addition, the Internal Revenue Code imposes further restrictions on the amounts that you can borrow. These laws require a three-part test to ensure that the principal amount of a loan is less than or equal to the *smallest* of the following amounts:

(1) your contributions and their earnings in your account, not including any outstanding loan balance (the Contributions and Earnings Test),

(2) 50 percent of your 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).

Before you send in your Loan Application, you can call the ThriftLine, (504) 255-8777, or use the worksheet on page 26 to estimate your maximum loan amount. The left-hand column of figures provides an example. Fill in your own set of figures in the right-hand column.

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* Your *vested* account balance is that amount of money in your TSP account which belongs to you and to which you are entitled if you leave Federal service. You are *always* vested in your own contributions and their earnings. If you are a FERS employee, you are also always vested in the matching contributions your agency makes to your account, as well as in the earnings on those contributions.

Most FERS employees become vested in the Agency Automatic (1%) Contributions (and earnings on those contributions) after completing 3 years of Federal civilian service. FERS employees in congressional and certain noncareer positions become vested in their Agency Automatic (1%) Contributions (and earnings on those amounts) after completing 2 years of civilian service.

Worksheet for Estimating Maximum Loan Amount

	Example	Your own figures
Your account status when loan application is made		
1. Your contributions and earnings in your account	$10,000	
2. Your vested account balance (the vested amount in your account plus your outstanding TSP loan balance, if any)	$25,000	
3. Your highest outstanding TSP loan balance in last 12 months, if any (from your quarterly Loan Statements)	$4,000	
4. Your current outstanding TSP loan balance, if any (from your last quarterly Loan Statement adjusted by subsequent payments to date)	$3,000	
Calculation to determine your maximum loan amount		
5. The Contributions and Earnings Test (Item 1)	**$10,000**	
6. The IRS Vested Balance Test		
(a) Enter your vested account balance	$25,000	
(b) Calculate ½ of line (a)	$12,500	
(c) Enter $10,000	$10,000	$10,000
(d) Enter larger of line (b) or line (c)	$12,500	
(e) Enter your current outstanding loan balance, if any	$3,000	
(f) Subtract line (e) from line (d)	**$9,500**	
7. The IRS $50,000 Test		
(a) Enter $50,000	$50,000	$50,000
(b) Enter the amount of your highest outstanding TSP loan balance in the last 12 months (Item 3)	$4,000	
(c) Subtract line (b) from line (a)	**$46,000**	
8. Maximum new loan amount you can get is the *smallest* of the amounts in the boxes on lines (5), (6f), and (7c)	**$9,500**	

APPENDIX 4. Estimating Your Loan Payments

Use this table and the worksheet below to estimate your loan payment each pay period, based on an 8% interest rate.

		Estimated payment* each pay period per $1,000 of loan principal if your pay schedule is:			
		Monthly	**Semimonthly**	**Biweekly**	**Weekly**
	Number of Years to Pay Back Loan	*12 payments/ year*	*24 payments/ year*	*26 payments/ year*	*52 payments/ year*
	1	$87.00	$43.50	$40.00	$20.00
	2	$45.25	$22.50	$20.75	$10.50
	3	$31.25	$15.75	$14.50	$7.25
	4	$24.50	$12.25	$11.25	$5.50
Residential loans only	5	$20.25	$10.00	$9.25	$4.75
	6	$17.50	$8.75	$8.00	$4.00
	7	$15.50	$7.75	$7.25	$3.50
	8	$14.25	$7.00	$6.50	$3.25
	9	$13.00	$6.50	$6.00	$3.00
	10	$12.25	$6.00	$5.50	$2.75
	11	$11.50	$5.75	$5.25	$2.75
	12	$10.75	$5.50	$5.00	$2.50
	13	$10.25	$5.25	$4.75	$2.50
	14	$10.00	$5.00	$4.50	$2.25
	15	$9.50	$4.75	$4.50	$2.25

** Estimated payments are rounded to the nearest $0.25.*

Example: You want to borrow $8,500 for a period of 4 years, and you are paid biweekly.

	Example	**Your own figures**
A. Amount you want to borrow	$8,500	$ ______________
B. Divide (A) by 1,000	$8,500 ÷ 1,000 = 8.5	$ ______________
C. Number of years to repay loan	4	______________
D. Your pay schedule	Biweekly	______________
E. Payment each pay period per $1,000 of loan principal: Go across row for years entered on line (C) to pay schedule column entered on line (D)	$11.25	$ ______________
F. Loan payment for $8,500 = (B) times (E)	8.5 × $11.25 = $95.63	$ ______________

Your actual TSP loan payments may be higher or lower, based on the loan interest rate in effect at the time your Loan Application is received.