

**Participant Loan Policy for
The City of Seattle Voluntary Deferred Compensation Plan and Trust
March 13, 2012**

The City of Seattle Voluntary Deferred Compensation Plan and Trust (the "Plan") permits loans to be made to Plan participants. The Plan Committee adopts the following Loan Policy, which is authorized under Section 4.15 of the Plan and is intended to comply with Internal Revenue Code Section 72(p)(2), Section 457 and all applicable regulations thereunder. This Loan Policy shall be deemed to be part of the Plan. This Loan Policy sets forth the rules and guidelines for making participant loans.

ELIGIBILITY

An employee is eligible for a loan if the employee:

- Is a participant in the Plan,
- Is actively employed by the City of Seattle and on paid status, and
- Has an account balance of at least \$2,000

A participant who has previously defaulted on a loan will not be eligible to apply for a new loan.

LOAN LIMITS

The Plan participant bears responsibility for compliance with the limits listed below. Failure to adhere to these limits may result in undesirable tax consequences.

1. The minimum loan amount is \$1,000.
2. The maximum loan amount is limited to the lesser of:
 - a) \$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 any other plans maintained by the City), **OR**
 - b) 1/2 of a participant's vested accrued balance.
3. Only one outstanding loan is allowed per participant. However, a new loan may be allowed immediately following the recordkeeper's verification of the receipt of final amounts due on a previous Plan loan, subject to the reduced maximum loan amount described in 2. above.
4. A participant may not transfer a loan from a former employer's plan.
5. Notwithstanding the loan limits specified above, the Plan Committee may limit further the amount of any loan based upon the participant's ability to repay, as determined by the Plan Committee in its sole discretion.
6. The assets in a participant's Self-Directed Brokerage Account, if any, can be used to determine the participant's vested accrued balance, but cannot be used to provide any portion of the loan proceeds.

INTEREST RATE

The interest rate on participant loans will be determined as follows:

1. A fixed rate of interest will apply to all loans issued in any calendar quarter. The interest rate on loans issued in any calendar quarter will be equal to the prime rate, as shown in the "Money Rates" section of the Wall Street Journal fifteen (15) days prior to the first day of such calendar quarter, plus 1%. The rate will not change during the loan repayment period.
2. The recordkeeper will announce quarterly the interest rate on participant loans. However, the Plan reserves the right to change the basis for determining the interest rate prospectively with thirty (30) days notice.
3. Any change in interest rates will only apply to a loan issued after the change(s) takes effect and will not apply to an existing loan.

Participants on military leave who have an outstanding loan will have further rights as determined by the Soldiers and Sailors Relief Act pursuant to which the interest rate may not exceed 6% during the leave.

Interest on loans is not deductible for Federal Income Tax purposes. Participants should consult the IRS or a qualified tax advisor for further information on this issue.

LOAN REPAYMENT

1. Loan repayments will include both interest and a portion of the outstanding principal and will be calculated under a level amortization schedule. Loan repayments will be invested according to the participant's investment allocation for current contributions.
2. Loan repayments must be made each pay period by automatic payroll deduction if actively employed and receiving taxable pay. The maximum loan repayment amount through payroll deduction may not exceed current take-home pay less all other reductions (net pay less all authorized deductions). Loan repayments will begin as soon as is administratively possible following issuance of the loan, but no later than 4 weeks from the loan date.
3. The participant will be responsible for remitting required repayment amounts and extra applicable interest due to a late (missed) or incomplete ("short") loan repayment normally taken by automatic payroll deduction. This payment may be made via an increased payroll deduction(s), Electronic Funds Transfer (EFT) Payment, or other method acceptable to the recordkeeper. This payment(s) must be received no later than the end of the grace period defined in **DEFAULT PROCESS, 1**. The late or "short" amount and associated interest may neither be used to reamortize a loan nor recognized in an otherwise allowable amortization following a leave.
4. Should a separation from employment occur while there is still an outstanding loan balance, loan repayments may be made by periodic billing or by EFT Payment from the participant's personal checking or savings account. A fee to convert from payroll deduction to periodic billing or EFT Payment may apply.
5. Loans may be paid in full at any time without penalty. Any amount paid which is in excess of the scheduled payment, but less than the total outstanding balance, must be included with a scheduled payment and not under separate cover. The additional amount will be applied to the principal. Prepayments will not change the scheduled repayment amounts or

timing of subsequent payments due prior to pay-off of the loan, but will simply reduce the total number of payments to be made. 6. The repayment duration will not exceed five (5) years. However, loans used to acquire any dwelling unit, which within a reasonable time is to be used (determined at the time the loan is made) as the principal residence of the participant, shall allow for a repayment of up to fifteen (15) years.

7. If a participant initially elects a repayment duration (term) that is briefer than the maximum allowable duration associated with the loan's intended use (e.g., the participant selects a 10-year term on a loan that will be used for the purchase of a primary dwelling), the participant may request at any time during the repayment term that the remaining loan amount (loan balance) be refinanced and re-amortized so as to lower scheduled repayment amounts by increasing the total number of payments to be made. The following rules will apply to such a refinancing:

- a) The total repayment duration of the loan, both in its original form and the refinanced form when taken together, will not exceed the maximum allowable duration associated with the loan's use ((15) years repayment duration for a loan on a principal residence and five (5) years on all other loans).
- b) The refinanced balance of the loan will be subject to the interest rate applicable to all Plan loans issued in the calendar quarter in which the refinancing takes place.
- c) An application fee will be charged and deducted from a Participant's account for the refinancing which is not refundable.

8. Upon request by the participant, loan payments shall be suspended during a non-military leave of absence of up to one year, if the participant's pay from the City of Seattle is insufficient to service the loan. Interest is not suspended during this period. The loan must still be repaid with five years as provided by the Internal Revenue Code section 72(p)(2)(B), or fifteen years for residential loans. The participant may elect to continue loan repayments during the leave of absence via periodic billing or EFT payment. Upon the participant's return to active status with taxable pay, any amounts suspended shall be repaid by payroll deduction. While a participant is on active duty in the United States military for a period of more than 30 consecutive days, the interest rate on the loan shall not exceed six percent (6%), compounded annually, provided that the participant supplies the notice required under the Servicemembers Civil Relief Act of 2003 within 180 days after the period of military service ends.

9. A leave of absence due to a participant performing service in the uniformed services (as defined in Chapter 43 of title 38 United State Code), whether or not qualified military service, will result in a suspension of loan payments. Interest is not suspended during this period. The suspension will not jeopardize the qualified status of the plan, cause the loan to be in default or result in a prohibited transaction. For example, if the loan was due in five years, the five-year period would be calculated by extending the period by the length of the leave of absence. The participant may elect to continue loan repayments during the leave of absence via periodic billing or EFT payment. Upon the participant's return to active status with taxable pay, any amounts suspended shall be repaid by payroll deduction.

DEFAULT PROCESS

1. The Plan Committee will consider a loan 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 participant missed the scheduled payment. ;

2. Prior to the date of default, the participant may bring the loan current by paying any missed payment(s) plus additional accrued interest.
3. Upon a loan default, the entire outstanding loan balance will be reported to the IRS as a deemed distribution.
4. Should a participant's loan be in default at the time of any distribution authorized under the Plan, the distribution amount may be offset (reduced) by the outstanding loan balance. The full amount of the loan and the actual distribution shall be reportable as a distribution, consistent with the Internal Revenue Code.

OFFSET PROCESS

A loan amount is "offset" against a participant's Plan account if a participant's loan is in default when the participant separates from service, even if a distribution has not been made to the participant. When a loan is offset, the loan balance is permanently removed from the participant's aggregate account balance and is considered repaid.

Pending the offset of a participant's account balance following a defaulted loan, the following rules apply to the amount in default.

- a) Interest continues to accrue on the amount in default until the time of the loan offset or, if earlier, the date the loan repayments are made current.
- b) A subsequent offset of the amount in default is not reported as a taxable distribution, except to the extent the taxable portion of the default amount was not previously reported by the Plan as a taxable distribution.
- c) The post-default accrued interest included in the loan offset is not reported as a taxable distribution at the time of the offset.

LOAN FEES

1. An application fee will be charged and deducted from a Participant's account for each new loan and it is not refundable. In addition, there is an annual processing charge which will be deducted from a Participant's account on a quarterly basis for as long as the loan is outstanding. These fees may be increased by the Plan Committee as to new loans by notice to or agreement with the recordkeeper or other party administering loans and repayments. Note that application fees will not be charged against participant accounts for loan applications that are rejected.

2. A fee will be charged to convert from a payroll deduction payment to an EFT or billing payment method.

OTHER CONDITIONS & OBLIGATIONS

1. The Plan intends this loan program not to place other Participants at risk with respect to their interests in the Plan. In this regard, the Plan will administer any participant loan as a participant-directed investment of that portion of the participant's vested account balance equal to the outstanding principal balance of the loan. The Plan will credit that portion of the participant's account balance with the interest earned on the note and with principal payments received from the participant. The Plan also will charge that portion of the participant's account balance with expenses directly related to the organization, maintenance and collection of the note.

2. Participants agree to give a security interest in their vested account equal to the amount loaned, up to 50% of the participant's total vested account balance.
3. Participants agree to a pro rata reduction of all investments by an amount equal to the original outstanding loan balance.
4. Participants are not required to suspend contributions as a result of taking a loan.
5. The outstanding loan balance is not available for purposes of withdrawals, death benefits to the participant's beneficiary, and annuity amounts.
6. Subject to the consent of the Plan, an outstanding loan balance is not available for transfer to another eligible retirement plan.
7. As the loan is repaid, an amount equal to the principal and interest will become part of the participant's account.
8. Refinancing of a current loan is only permitted as described in **LOAN REPAYMENT**,
9. The Plan Committee reserves the right to limit availability of loans without prior notice.

HOW TO APPLY FOR A LOAN

A participant may apply for a loan by submitting a loan application to the Plan's recordkeeper, in a manner prescribed by the recordkeeper and consistent with the terms of this Loan Policy. The date and time of receipt of the application by the recordkeeper will be recorded.

ACCEPTANCE OF LOAN

A participant who is issued a loan will receive a promissory note from the recordkeeper along with a check. By endorsing and/or cashing the check, the participant accepts and acknowledges the terms of the loan.

