



Section 14: Loans

Loan Eligibility

Tier 1 and 2 members must:

1. Have an Annuity Savings Fund of at least \$400.
2. Have at least one year of member service.
3. Not have an outstanding System loan more than two months delinquent or in default.
4. Tier 1 and 2 members may only borrow once between January 1 and June 30, and once between July 1 and December 31 in any given year.

Tier 3 – 6 members must:

1. Have a Required Contributions Fund of at least \$1,334.
2. Have at least one year of member service.
3. Not have received a loan from the System within the current calendar year (January 1 – December 31).
4. Not have an outstanding System loan more than two months delinquent, or in a default, or non-performing status.

Loan Terms

Tier 1 and 2 members:

1. Minimum loan is \$300.
2. Loan may not exceed 75% of the member's Annuity Savings Fund.
3. A new loan will be combined with any existing loan.
4. Minimum annual payment is the greater of 2% of the current contract salary divided by 10 or the amount which makes the loan repayable within 30 years.
5. Repayment will be by payroll deduction unless you are not currently employed as a teacher.

Tier 3 – 6 members:

1. Minimum loan is \$1,000.
2. Loan may not exceed 75% of member's Required Contributions Fund.
3. A new loan will be combined with any existing loan.
4. Loan must be repaid within 5 years.
5. Minimum annual payment is the greater of 2% of the current contract salary divided by 10 or the amount which makes the loan repayable within 5 years.
6. Repayment will be by payroll deduction unless you are not currently employed as a teacher.



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Repayment

Repayment of a member loan is through payroll deduction. You will receive a *Payroll Deduction Notice* (LON-4) approximately 10 days before the month that you will make the loan deductions. The *Payroll Deduction Notice* will show the monthly payment amount you are required to deduct for each individual.

Both 10-month and 12-month employees will appear on your *Payroll Deduction Notices* from September through June.

There is no *Payroll Deduction Notice* in July and August since payment is not required.

You should review the *Payroll Deduction Notice* and note any changes on the “Members with Payment Changes” page as soon as you receive it.

The amount of the deduction may change for several reasons:

- We may have issued a new loan with a revised payment amount;
- The member may have changed the repayment terms;
- The final payment (usually smaller) may be due; or,
- The member may have changed to direct repayment.

Payment is due by the 10th of the month following the month of the *Payroll Deduction Notice*. You should make deductions only for members listed on that notice. If you cannot deduct the requested amount (e.g., member is on leave without pay or no longer employed), complete the “Reason for Change” area on the notice. If a member returns from a leave of absence, s/he should contact our office at (800) 348-7298, Ext. 6080 regarding her/his loan payments. Do not deduct loan payments until s/he appears on the *Payroll Deduction Notice*.

Members may elect to make additional payments, in multiples of the required monthly amount, at any time without penalty.

Finance Charges

1. A \$30 service charge is added to the amount to be repaid.
2. Interest is charged at the annual rate of 5% for Tier 1 and 2 members, and 6.5% for Tier 3 – 6 members.
3. Life insurance is charged at the annual rate of .10%. The loan is fully insured beginning 31 days from the date of issuance. Once the loan is in default, insurance coverage ceases.
4. A charge of \$20 is added to the member’s loan balance for each returned check.
5. A charge of \$10 is added to the loan balance for each delinquent payment.

Nonpayment

Tier 1 and 2 members:

1. Loan is defaulted to payroll deduction when four months past due.



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2. Loans uncollectable through payroll deduction are deducted from the member's Annuity Savings Fund. When this occurs, a portion of the loan balance may be reportable as income for Federal income tax purposes.
3. Once a loan has been defaulted to payroll or has been deducted from the member's Annuity Savings Fund, s/he forfeits the right to borrow until the unpaid balance at the time of default is repaid by certified check or money order.
4. Loan is deducted from the member's Annuity Savings Fund upon termination of membership.

Tier 3 – 6 members:

1. Loan is defaulted to payroll deduction when four months past due.
2. Loans uncollectible through payroll deduction go into a non-performing status. When this occurs, a portion of the loan balance will be reportable as income for Federal income tax purposes. Such loans continue to accrue interest and could substantially reduce any benefit payable.
3. Once the member's loan has been defaulted to payroll or is in a non-performing status, s/he forfeits the right to borrow until the unpaid balance at the time of default is repaid by certified check or money order.
4. Loan is deducted from the member's Required Contributions Fund upon termination of membership.

Loan Forms

Five-Year Loan Application

The **5-Year Loan Application – All Tiers (LON-26)** has been distributed to employers and may be used by any member for a loan with repayment terms of five years or less. Tier 3 – 6 members must use the 5-Year Loan Application. This application is also available for downloading from the **Forms** page at **NYSTRS.org**. Members may also calculate a loan estimate and apply online with a **MyNYSTRS** account.

Generally, loans with a 5-year repayment schedule are not distributions for federal income tax purposes unless they fall into one of the following categories:

- Loans equal to or greater than \$50,000 or if the highest outstanding loan balance during the previous 12 months plus the current loan balance equals or exceeds \$50,000.
- Loans equal to or greater than \$10,000 which exceed half your accrued benefit with this System.

If your loan was not a distribution at the time of issuance but your loan is defaulted at retirement and you are at least 55 years old, the transaction may create a taxable event; however, the additional federal tax of 10% would not apply.

If your loan is not repaid within 5 years from the issuance date, a portion of the remaining loan balance may be taxable at that time.



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Employers must provide current year salary information on the application if members request it. This information will increase the amount of the maximum loan available to members, if the member is still contributing to the System.

We cannot change the repayment amount on a 5-year loan after the member cashes the check. **We strongly urge members to call our Information Communications Center at (800) 348-7298, Ext. 6250 (447-2900 if calling from the Albany area) to discuss loan options before applying for a Five-Year Loan.**

Loan at Retirement: If Tier 1 or 2 members want to remove (through a defaulted loan) the non-taxable portion of their funds before retiring, they should use the **5-Year Loan Application - All Tiers (LON-26)**. Members should know the following before filing:

- This System cannot accept a loan application on or after the date of retirement; and,
- Filing the application more than 30 days before the effective date of retirement may result in some taxable income at default.

Tier 1 members may want to consider a *total withdrawal* of their funds at retirement instead of taking a loan. For more information on withdrawal at retirement, see **Section 17: Refunds**.

Distribution Loan Application

Only Tier 1 and 2 members can use the *Distribution Loan Application for Tier 1 and 2 Members* (LON-26.1) form. Eligible members will receive this application if they call the System for a loan estimate. Loans that are distributions may:

- Extend beyond five years;
- Be taxable at issuance; and,
- Affect the taxability of future transactions.

The System will include the approximate taxable amount (if any) in the estimate sent to members.

For questions regarding loan issuance or repayment, call (800) 348-7298, Ext. 6080 (447-2900 if calling from the Albany area).