



Thrift Savings Plan BULLETIN

for Service TSP Representatives

Subject: TSP Loan Default Process

Date: October 4, 2007

The Thrift Saving Plan (TSP) has implemented its loan default program. This program is mandated by Internal Revenue Service regulations which apply to all 401(k) plans, including the TSP. Essentially, the regulations provide that at the end of each calendar quarter, plans like the TSP must identify loan accounts that are missing payments and notify participants that they have until the end of the following quarter to pay the missing amount. If the payments are not made up, the loan balance is declared a taxable distribution. The amount of the distribution is treated as income and may be subject to a 10% early withdrawal penalty tax. (See “Repaying a Loan” in the booklet *TSP Loans*.)

I. Implementation

- A. In preparation for this process, on March 31, 2006, the TSP reamortized a total of 36,545 loans that were missing 2½ or more payments to give participants a chance to start fresh.
- B. The first quarterly default cycle began on June 30, 2006, the last business day of the second quarter. Any loan that was more than 2½ payments behind was identified as being in default (except loans belonging to participants in nonpay status less than 12 months, or participants in military nonpay status). Approximately 20,000 participants were sent a “pending loan default notice.”

This notice informs participants that they must bring their loan accounts up to date by submitting missed loan payments directly to the TSP before the end of the quarter in which the notice was sent. The notice provides the current amount needed to bring the loan into a good standing. This amount is the “cure amount” and is only valid for 30 days. It does not take into consideration any future missed payments. Participants are told to contact the TSP to obtain current cure amounts if they do not submit a payment within 30 days or continue to miss payments. If the payments are not made up, the loans will

(continued on next page)

Inquiries: Questions concerning this bulletin should be directed to the Federal Retirement Thrift Investment Board at **202-942-1460**.

Chapter: This bulletin may be filed in Chapter 8, Loan Program.

become taxable distributions at the end of the quarter. A copy of the notice is included with this bulletin as [Attachment 1](#).

C. Participant Notifications.

(1) End of Quarter Participant Notices.

At the end of each quarter that follows, the TSP evaluates the status of loans for all participants (except those who have been in nonpay status for less than 12 months or are in nonpay status due to military service). If the loan is in a current payment status, no action will be taken. If not, then one of the following actions will occur:

- a. If the participant had been sent the pending loan default notice at the end of the prior quarter and the loan payments have not been made up, the loan will be declared a taxable distribution. The participant will be notified that the loan has been closed, and agencies and services will be notified via the 19401 Report that loan payments (if any) should be stopped. (See [Attachment 2](#) for a copy of this notice.)
- b. If the participant had not been sent the pending loan default notice, one will be issued. The loan will be subject to a taxable distribution if payments are not made up by the end of the following quarter.

(2) Mid-Quarter Reminder Notice. If the participant was sent a pending loan default notice (1)(b) and the loan has not been “cured,” a reminder notice will be sent to the participant approximately mid-quarter. A copy of that is [Attachment 3](#).

II. Service Actions

A. Pending Loan Default Report (19402 Report).

At the end of each quarter, the TSP will send each submitting payroll office a report listing their participants who have been sent the Pending Loan Default Notice. This report is very similar to the 19401; it provides the participant’s Social Security number, name, loan number, loan payoff amount, last payment date, and LWOP status. It is broken down by department and agency. A copy of the report is [Attachment 4](#).

B. Services and payroll offices can assist their participants in two ways:

- (1) If payments are erroneously not being made, they should be started immediately. If payments are incorrect, they should be changed to the appropriate amount. The Agency Technical Services (ATS) can provide assistance to payroll offices as necessary. Services should also remind participants that they must send the cure amount to make up the deficiency

(in addition to the loan payments made by payroll deductions) to prevent the taxable distributions at the end of the quarter. It is the participants' responsibility to ensure that their loan payments are current. Participants should be referred to the TSP to obtain the latest cure amount.

- (2) If participants are on leave without pay (LWOP) or military LWOP and received a pending loan default notice, then the TSP was not notified of that status. It is extremely important that service (or agencies) promptly submit Form TSP-U-41, Notification to TSP of Nonpay Status, to the TSP. (You may fax the form to 1-866-817-5023.) This form will ensure that the participants' loan(s) will be suspended and not subject to a taxable distribution due to missing payments. (NOTE: Loan payments cannot be suspended due to LWOP for more than a year unless the participant is on military LWOP.)

For more information about participants in nonpay status and the effect on TSP loans, please see TSP Bulletin 04-8, Revision of the Booklet *TSP Loans*, dated May 4, 2004. There is also a fact sheet, Effect of Nonpay Status on TSP Participation, dated May 2005. These publications are available on the TSP Web site.

Services are advised that they may receive calls from participants concerning the pending default notice. They should provide assistance as necessary to ensure that payments are being properly deducted or that the TSP is promptly notified of a LWOP status. However, as indicated on the loan agreements that they signed, participants are responsible for repaying their loans, including any missed payments and associated interest.



PAMELA-JEANNE MORAN
Director
Office of Participant Services

Attachments



Thrift Savings Plan

P.O. Box 385021
Birmingham, AL 35238

TEST015 ALIZON
22 WEST MAIN
NEW ORLEANS, LA 70112

LOAN: 0419001R
07/27/2007

RE: Pending TAXABLE DISTRIBUTION - **Immediate Action Required**

Dear Participant:

The Thrift Savings Plan (TSP) reviews loans routinely at the end of each calendar quarter (March 31, June 30, September 30, and December 31) to determine whether loan payments have been made in accordance with the terms of your loan. According to our records, your loan is either currently behind by more than two and a half payments (and you are not in approved nonpay status) or the payment amount is incorrect. Therefore, you must bring your account up to date or the TSP will declare a taxable distribution of your loan (as explained below) at the end of this calendar quarter.

TSP Loan: 0419001R Residential
Payment Due Date: Immediate
Overdue Loan (Cure) Amount: \$107.85
Cure Amount Valid Until: 08/16/2007

The amount above is the **current** overdue amount, which includes any past due amount plus accrued interest for an additional 30 days from the date of this notice. **(The overdue loan amount above does not include any payments missed after the date of this notice.)** To make a payment, use the enclosed Loan Payment Coupon, follow the instructions on that coupon, and promptly submit your payment.

Once your payment is posted to your account, you will receive a confirmation that it has been processed. When you receive the confirmation, please verify that your loan has been brought up to date and that you have not missed any additional payments.

If your payment is not received by the "Cure Amount Valid Until" date stated above, or if you have missed additional loan payment amounts since the date of this letter, you must obtain a new overdue loan amount and send that new amount to the TSP so it can be processed before the date below, to avoid a taxable distribution.

You can verify that your loan has been brought up to date or obtain a new overdue (cure) amount from the Account Access section of the TSP Web site or by calling the ThriftLine and speaking to a Participant Service Representative.

If you do not bring your account completely up to date, a taxable distribution of the loan will be declared on **00/00/0000**. When a taxable distribution is declared, you will have to pay Federal tax (and possibly a 10% early withdrawal penalty tax) on the principal and interest outstanding as of the date of the taxable distribution. In addition, you will not be eligible for another TSP loan for 12 months from the date of the taxable distribution.

Note: If your agency or service is not deducting your loan payments from your pay (or is deducting an incorrect amount), you are responsible for correcting this error with your agency and for submitting subsequent loan payments directly to the TSP. To do this, use a Loan Payment Coupon and mail your payment to the address on the coupon, until your agency or service resumes your deductions. Failure of your agency or service to withhold and submit your loan payments to the TSP does not absolve you of the responsibility to repay your loan.

If you have questions, call the ThriftLine number shown below. Callers outside the United States and Canada should call (404) 233-4400 (not a toll-free number). The TSP hours are Monday through Friday 7 a.m. to 9 p.m. eastern time. You can also write to the TSP. Please include your daytime telephone number and TSP account number (or your Social Security number) on all correspondence so that we can identify your account. **Note:** If you are a member of the uniformed services, do not provide your Defense Switched Network (DSN) telephone number.

Enclosure: Loan Payment Coupon

Checklist for Making Loan Payments

- ✓ The Loan Payment Coupon below can be completed on line. Please print **all** information on the coupon, including your **complete** Social Security number to help us identify your account. Otherwise, your payment will be returned.
- ✓ Make your payment with a personal check, cashier's check, or money order made payable to the **Thrift Savings Plan**. Personal checks must have at least your name and the check number pre-printed on them.
- ✓ Write 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 (1-877-968-3778, or 404-233-4400 outside the U.S. and Canada).
- ✓ 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.
- ✓ When you send us a check for your loan payment, it will be converted into an electronic funds transfer (EFT). This means that we will make an electronic image of your check and use the account information on it to debit your bank account electronically for the amount of the check. The debit from your account will usually occur within 24 hours of the time we receive the payment.
Although the debit will be reflected on your bank statement, you will not receive the cancelled check because the original will be destroyed after we image it. If for some technical reason the data from the EFT cannot be processed, we will transmit our imaged copy of your check to your bank.
- ✓ 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



THRIFT SAVINGS PLAN LOAN PAYMENT COUPON

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

Check Code: **CHK**

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Check Number

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Date of Check (mm/dd/yyyy)

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Last Name

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First Name

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Middle Name

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Social Security Number

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Loan Number

Letter

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Payment Amount

OC 02-7 (5/2007)



Thrift Savings Plan

P.O. Box 385021
Birmingham, AL 35238

TEST015 ALIZON
22 WEST MAIN
NEW ORLEANS, LA 70112

LOAN: 0419001R
07/27/2007

Dear Participant:

The Thrift Savings Plan (TSP) has closed your loan by declaring a taxable distribution as indicated below:

TSP Loan: 0419001R Residential
Amount of Taxable Distribution: \$550.00
Effective Date of Taxable Distribution: 07/27/2007
Processing Date of Taxable Distribution: 07/27/2007
Year Reported as Taxable Income: 2007
Reason for Taxable Distribution: Exceeded term limit

You will have to pay Federal tax (and possibly, a 10% early withdrawal penalty tax) on the principal and interest outstanding as of the date of the taxable distribution. Also, you are not eligible for another TSP loan for 12 months from the date of this taxable distribution.

If you have questions, call the ThriftLine number shown below. Callers outside the United States and Canada should call (404) 233-4400 (not a toll-free number). The TSP hours are Monday through Friday 7 a.m. to 9 p.m. eastern time. You can also write to the TSP. Please include your daytime telephone number and TSP account number (or your Social Security number) on all correspondence so that we can identify your account. **Note:** If you are a member of the uniformed services, do not provide your Defense Switched Network (DSN) telephone number.



Thrift Savings Plan

P.O. Box 385021
Birmingham, AL 35238

TEST015 ALIZON
22 WEST MAIN
NEW ORLEANS, LA 70112

LOAN: 0419001R
07/27/2007

RE: TIME-SENSITIVE INFORMATION ABOUT YOUR TSP LOAN AND PENDING TAXABLE DISTRIBUTION

Dear Participant:

The Thrift Savings Plan (TSP) sent you a notice in July notifying you that the payments on your TSP loan were not up to date. According to our records, the TSP has not received the payment from you necessary to bring your account up to date nor are you in approved nonpay status. As a result, a taxable distribution is still pending for 09/30/2007.

To prevent this taxable distribution, you must make up any missed amounts immediately. Call the ThriftLine (1-877-968-3778) or check the TSP Web site at www.tsp.gov to obtain the current amount you must submit. (The amount shown on the original notice is no longer valid.)

Your payment must be received at our lockbox by 09/23/2007 in order for it to be processed in time to stop the taxable distribution of your loan. To make a payment, please send a personal check or money order using the enclosed Loan Payment Coupon; follow the instructions on that coupon to be sure your payment can be accepted.

If you have already sent a payment, please call the TSP to verify that your payment has been received and your loan is now current. If your loan is still behind in payments, you must make another payment. Also, if you are in nonpay status, the TSP has not received official notification of your nonpay status. Please contact your agency or service immediately and ask it to provide your nonpay status information to the TSP no later than 09/23/2007.

When a taxable distribution is declared, you will have to pay Federal income tax (and possibly a 10% early withdrawal penalty tax) on the principal and interest outstanding as of the date of the taxable distribution. In addition, you will not be eligible for another TSP loan for 12 months from the date of the taxable distribution.

If you have questions, call the ThriftLine number shown below. Callers outside the United States and Canada should call (404) 233-4400 (not a toll-free number). The TSP hours are Monday through Friday 7 a.m. to 9 p.m. eastern time. You can also write to the TSP. Please include your daytime telephone number and TSP account number (or your Social Security number) on all correspondence so that we can identify your account. **Note:** If you are a member of the uniformed services, do not provide your Defense Switched Network (DSN) telephone number.

Enclosure: Loan Payment Coupon


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1      66666  0000000  1      0000000  0000000  0000000  1
11     6      6  0 / / 0  11     0 / / 0  0 / / 0  0 / / 0  11
1 1    6      6  0 / / 0  1 1    0 / / 0  0 / / 0  0 / / 0  1 1
1      66666  0 / / 0  1      0 / / 0  0 / / 0  0 / / 0  1
1      6      6  0 / / 0  1      0 / / 0  0 / / 0  0 / / 0  1
1      6      6  0 / / 0  1      0 / / 0  0 / / 0  0 / / 0  1
111111111  66666  0000000  111111111  0000000  0000000  0000000  111111111

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ttttttttt  0000000  0000000  777777777  0000000  66666  2222222  9999999
t      0 / / 0  0 / / 0  7      0 / / 0  6      6  2      2  9      9
t      0 / / 0  0 / / 0  7      0 / / 0  6      6  2      2  9      9
t      0 / / 0  0 / / 0  7      0 / / 0  66666  2      9999999
t      0 / / 0  0 / / 0  7      0 / / 0  6      6  2      9
t      0 / / 0  0 / / 0  7      0 / / 0  6      6  2      9
t      0000000  0000000  7      0000000  66666  222222222  9999999

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sssssssss  1      9999999  4      0000000  2222222
s      11     9      9  44     0 / / 0  2      2
s      1 1    9      9  4 4     0 / / 0  2
sssssssss  1      9999999  4444444  0 / / 0  2
s      1      9      4      0 / / 0  2
s      1      9      4      0 / / 0  2
sssssssss  111111111  9999999  4      0000000  222222222

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Report No: TSP 19402
Payroll Office No: 99999999
Payroll Office Nm: TEST OF DEPT.

Thrift Savings Plan
Pending Loan Default Information Report

Run Date: 05/24/07
Run Time: 06:25:25
Page No: 1

Process Taxable Distribution Date: 06/29/2007

** Sensitive Personnel Data - Use is Restricted **

SSN	Last Name	First Name	Middle Name	Date of Birth	Loan Number	Payment Amount	Date of Last Pmt	LWOP End Date	Dept Code	Agcy Code	Pers OfId
999-99-9999	SAMPLE	PART	E	11/15/1965	99999999G	50.00	05/22/2007	00/00/0000	DL	ES	3226