CARES Act Loans and Loan Deferments: Year End Processing FAQs

Note: Fidelity will make periodic updates to these FAQs to communicate any relevant new information.

CARES Act General Overview

1. **Who is a "qualified individual" for purposes of a CARES Act loan or a loan deferment?**
   A person is a qualified individual if:

   - You, your spouse, or your dependent (as defined in Internal Revenue Code section 152) is diagnosed with the virus SARS-CoV-2 or with coronavirus disease 2019 (both referred to as "COVID -19") by a test approved by the Centers for Disease Control and Prevention (including a test authorized under the Federal Food, Drug, and Cosmetic Act); or

   - You have experienced adverse financial consequences because: (i) you, your spouse, or a member of your household was quarantined, furloughed, or laid off, or had work hours reduced due to COVID-19; (ii) you, your spouse, or a member of your household was unable to work due to lack of childcare due to COVID-19; (iii) a business owned or operated by you, your spouse, or a member of your household closed or reduced hours due to COVID-19; or (iv) you, your spouse, or a member of your household had a reduction in pay (or self-employment income) due to COVID-19 or had a job offer rescinded or start date for a job delayed due to COVID-19. A "member of your household" is someone who shares your principal residence.

2. **What is a CARES Act loan?**
   A participant normally may obtain a loan from an eligible retirement plan for lesser of 50% of the vested account balance or $50,000 reduced by the highest outstanding loan balance within the past twelve months. The CARES Act enables a participant who is a qualified individual to obtain a loan from an eligible retirement plan for double the normal limits to the lesser of 100% of the vested account balance or $100,000 reduced by the highest outstanding loan balance within the past twelve months. However, the loan must have been initiated by the close of business on September 22, 2020. All loans for a participant from the plans of companies that are part of the same controlled group are combined to determine the overall limit. A CARES Act loan is treated as a general purpose loan, and a plan may increase the number of outstanding loans that are available.

   A participant who requested a CARES Act loan will automatically have his/her remaining 2020 loan payments deferred from the date of his/her loan through December 31, 2020. The deferment applies to the participant regardless of whether or not he/she is an active, terminated, furloughed, or laid off employee at any time through December 31, 2020. Interest will continue to accrue during the deferment period and the loan will be reamortized in January of 2021 to determine the new principal and interest payment. The term of the loan automatically included an extension of the loan term by the length of the deferment period, from the date of the loan through December 31, 2020.

3. **What is a CARES Act loan deferment?**
   A participant who is a qualified individual and elects a loan deferment on his/her loan will have any remaining 2020 loan payments deferred from the election date of deferment through December 31, 2020. The deferment applies to the participant regardless of whether or not he/she is an active, terminated, furloughed, or laid off employee at any time through December 31, 2020. Interest on the loan will continue to accrue during the deferment period, and the loan will be reamortized in January of 2021 to determine the new principal and interest payment. In addition, the term of the loan will be extended by the length of the deferment period from the date of the election through December 31, 2020. For example, if a participant who is a qualified individual requested a loan deferment on July 1, 2020, then the five -year term of his/her loan will be extended by the number of days in the deferment period from

July 1, 2020 through December 31, 2020, or 183 days. In addition, the loan deferment applies to all existing loans in that plan at the time the participant elected the deferment and any new loans in that plan obtained after that date through December 31, 2020. A participant must request loan deferment for each plan in which they have one or more loans.

4. **How will Fidelity identify a participant who is a qualified individual for purposes of a CARES Act loan or a loan deferment?**
   The participant's account will be flagged with a CARES Act loan deferment indicator on the Fidelity system. This information will enable us to identify the deferment election and effective date so that we can reamortize his/her loan after the December 31, 2020 deferment period expires.

5. **How is a CARES Act loan and loan deferment administered for a qualified individual?**
   A participant's loan(s) will be administered based on the information in the CARES Act direction documents entitled "Increased Loan Limits Service" and "Delay of Repayments Services" and Fidelity's processes and procedures. They are the plan sponsor's direction to Fidelity to administer the participant's loan(s) for the applicable service and amend the plan administration manual, recordkeeping, or service agreement. These documents do not include every Fidelity administrative practice but identify the general guidelines that are being used to administer the loans.

   CARES Act and increasing loan limits service

   CARES Act and delay of loan repayments service

6. **When does the loan deferment option expire?**
   A participant who is a qualified individual may request a loan deferment through December 31, 2020. Loan deferment on Fidelity's system will be turned off for all eligible plans at the close of the market on December 31, 2020, unless there is some statutory or regulatory relief that extends the date. A participant may elect a loan deferment through December 31, 2020 to avoid a loan default, but they must begin making payments on those loans when required.

Reamortization of CARES Act Loans and Loan Deferments

7. **When will Fidelity reamortize a participant's loan who either obtained a new CARES Act Loan or requested a loan deferment of an existing loan?**
   Reamortizations will occur in January of 2021 for all participants (other than an individual who is on a leave of absence that is either unpaid or whose rate of pay after applicable employment tax withholding is less than the amount of the required loan payment under the terms of the plan) who obtained a CARES Act loan or requested a loan deferment for all active loans in a plan. However, loans that have been defaulted either because they are deemed as or actual distributions, or have been paid in full, will be excluded from the reamortization process. The process is tentatively scheduled to begin on January 8, 2021. The exact date of the reamortization for your plan will be communicated as soon as it is available.

   > Example of a loan deferment:
   >
   > A participant who is a qualified individual with an existing loan with a five-year term with a March 1, 2022 maturity date elected loan deferment on July 1, 2020. The term of his/her loan will be extended by the number of days in the deferment period from July 1, 2020 through December 31, 2020, or 183 days so the new maturity date will be August 31, 2022. We will calculate the amount of the new payment amount and the number of payments that will be due from January 10, 2021 through August 31, 2022.

8. **Why isn't Fidelity reamortizing the loan deferments on December 31, 2020?**
   There are several reasons why the reamortization will occur in January of 2021:

   - The loan deferment period expires on December 31, 2020. Participant loan payments are deferred but some have been making payments during the deferment period. We need to ensure that all payments that are made through December 31, 2020 will be included as part of the reamortization process in January.
   - IRS guidance did not require the loans to be reamortized in December 2020.
   - One of the safe harbor requirements in the IRS guidance requires loan payments to begin in January of 2021.

9. **If a participant sets up recurring loan payments in December by automated clearing house (ACH) transactions or before the reamortization in January, will payments begin right away?**
   A participant can restart ACH repayments at any time by setting up recurring payments through NetBenefits or by contacting a Fidelity phone representative. If a participant restarts the payments before the reamortization process has been completed in January, then there should not be any issues. We will reamortize the loan and consider any payments that are made before the loan is reamortized to determine the new payment amount. Participants will be notified of the new payment amount in January and must establish the new recurring payment amount by contacting Fidelity or by doing so on NetBenefits.

10. **If loan repayments are made through ACH, do participants need to provide Fidelity with their bank account information?**
    Participants who obtained CARES Act loans were required to add their bank account information when they requested their loan, so we do not need any new information from them unless it has changed. Participants who requested loan deferment were required to stop their recurring ACH loan payments at the time of their loan deferment election. These participants must restart their recurring loan payments. In January, a communication will direct them to NetBenefits, where they can view their new loan payment amount and set up recurring ACH loan payments. We plan to use a multi-touch campaign to remind participants to restart their recurring loan payments. In addition, a PSW report will be available to assist you in helping ensure participant loan payments have restarted.

11. **If a participant is delinquent when he/she elects loan deferment, will the entire amount be reamortized, or will he/she be required to repay the full delinquent amount before the reamortization process begins?**
    When a participant elects loan deferment and his/her loan is in delinquency, we will remove it from the delinquency status. The participant will not be required to repay the delinquent amount at the time he/she elected loan deferment. The delinquent amount will be included in the balance when it is reamortized in January of 2021.

Loan Interest Calculation and Extended Maturity Date

12. **What happens to a participant who is a qualified individual who elected loan deferment if his/her loan maturity date is in 2020?**
    If the participant's loan maturity date is in 2020, we will use December 31, 2020 as the maturity date for the purpose of extending the term of the loan by the length of the deferment period.

Example:

Maturity date calculation = 12/31/2020 + # of days in deferment.

5/1/2020 = Loan deferment (5/1/20 – 12/31/20 = 244 days of deferment)

6/1/2020 = Maturity date

8/1/2021 = New maturity date (12/31/2020 + 244 days of deferment)

13. What if a participant made loan payments during the deferment period? How will Fidelity administer the extension of the term of the loan?

A participant may have elected loan deferment in 2020, but it may have taken one or more payroll cycles before the loan payments stopped. Interest will accrue during the deferment period based on the outstanding balance of the loan, and the amount of any loan payments made during that period will reduce the outstanding loan balance. The term of the loan will be extended for the length of the deferment period. Thus, in this situation it is possible that the amount of a participant's loan payment after it is reamortized in January 2021 may be less than the amount of the loan payment before the date of the loan deferment.

Example: Assume a weekly payroll period every Friday and that the participant's weekly loan payment was $100 before he/she elected loan deferment. The participant elected loan deferment on July 1, 2020 but three $100 weekly payments were deducted before loan payments stopped. When the loan is reamortized in January 2021, the outstanding balance is reduced by the three loan payments and the term of the loan is extended by the 183 days (number of days from July 1, 2020 through December 31, 2020). Thus, it is possible that the new loan payment is less than the amount of the original loan payment before the date of the loan deferment.

14. How is accrued interest calculated for the loan deferment period?

Interest will accrue from the date of the last payment made prior to the deferment election date through the reamortization date in January. We will take into account any payments made during the deferment period.

Example:

- 5/15/20 = Last payment made on or prior to deferment
- 6/1/20 = Loan deferment date
- 1/10/20 = Reamortization date

The number of days between 5/15/20 and 1/10/21 = 240 Days

Interest calculation = OLB * interest rate * # of days in deferment / 365

Loan Defaults

15. **Did Fidelity default participant loans that were scheduled to be defaulted on June 30, 2020, September 30, 2020, or December 31, 2020?**
    Fidelity followed its normal procedures for defaulting non-CARES Act loans that were scheduled to be defaulted on June 30, 2020, September 30, 2020, and December 31, 2020. If the participant did not initiate a loan deferment by the dates listed below, the loan was defaulted at the end of the applicable cure period for the plan.

For non-CARES Act loans outstanding as of the following period	...Participants needed to initiate deferral by ....
April 1, 2020 through June 30, 2020	June 30, 2020
July 1, 2020 through September 30, 2020	September 30, 2020
October 1, 2020 through December 31, 2020	December 31, 2020

16. **How will Fidelity prevent a participant who elected a CARES Act loan or loan deferment in 2020 prevent it from defaulting on it in the first quarter of 2021?**
    The IRS issued guidance which clarified that qualified individuals impacted by COVID-19 could elect to delay loan payments that would normally have been due on or after March 27, 2020 through December 31, 2020. However, loan payments must start or resume in January 2021. Our goal is to help plan sponsors with the administrative challenges of timely restarting affected participant loan payments. We realize that plan sponsors, payroll providers, and participants may need some time to restart the loan payments in January 2021. As a result, Fidelity will apply a minor payment adjustment of $.01 in January 2021 to each participant who obtained a CARES Act loan or elected the loan deferment. This will prevent the premature delinquency or immediate default in the first quarter of 2021 for a participant's outstanding loan(s) due to the non-payment of the amount(s) that would have been due for one or more quarters in 2020 based on plan rules but were deferred based on the CARES Act.

Reamortization of CARES Act Loans and Loan Deferments for a Participant on a Leave of Absence

17. **What status code must be used on Fidelity's Participant Recordkeeping System to identify a participant on a leave of absence who also elected a CARES Act loan deferment?**
    A plan sponsor must use the applicable participant status code designated by the plan for an approved unpaid non-military leave of absence. Generally, an employee who is furloughed is considered to be an active employee but has a temporary reduction in compensation and hours. A furloughed employee is generally not the same as an employee who is on a bona fide leave of absence. Please consult with your legal counsel for assistance with the proper categorization of your employees.

Administrative Practices Related to the Participant Status Code

A participant who elected a loan deferment and was on a bona fide non-military leave of absence** at the time of the January reamortization:	A participant who elected a loan deferment and was on a bona fide non-military leave of absence** but not at the time of the January reamortization:
If the participant is still on a leave of absence, then the loan will be excluded from the January 2021 reamortization. The loan will be reamortized based on the plan's rules.	If the participant is *no longer* on a leave of absence, then the loan will be reamortized in January 2021.
Action Required: If the participant is still on a leave of absence then the plan sponsor should update the participant's status code to reflect a leave of absence so that the loan is excluded from the January 2021 reamortization.	***Action Required***: If the participant is *no longer* on a leave of absence then the plan sponsor must update the participant's status code promptly so that the loan is reamortized in January 2021.

**The leave of absence applies to a participant with an outstanding loan who is either on an unpaid leave of absence or whose rate of pay after applicable employment tax withholding is less than the amount of the required loan payment under the terms of the plan.

18. How will Fidelity administer a participant with an outstanding loan who is on an unpaid non-military leave of absence who elected a CARES Act loan deferment?
Participants on a bona fide leave of absence and designated with a non-military leave of absence** status code will be excluded from the reamortization in January 2021. Upon their return from the leave of absence, we will calculate accrued interest, reamortize the loan, and extend the term of the loan for the length of the CARES Act loan deferment period. However, the amount of the loan payment after the expiration of the leave of absence cannot be less than the amount that was in effect before the leave based on IRS regulations. Fidelity will adjust the term of the loan to ensure the amount of the loan payment is not less than the original payment amount.

**The special loan repayment suspension rule for a participant on a leave of absence applies to a participant with an outstanding loan who is either on an unpaid leave of absence or whose rate of pay after applicable employment tax withholding is less than the amount of the required loan payment under the terms of the plan. The loan payments are suspended for the earlier of the actual period of the leave of absence or twelve months. Interest will continue to accrue during the suspension period.

19. Can Fidelity provide an example of the process for reamortizing a loan for a participant on a bona fide non-military leave of absence who requested a loan deferment?
Example: A participant is on an unpaid leave of absence with the appropriate status code and a deferment indicator on his account. He had a loan with a five-year loan term and a $100 per month loan payment before he went on an unpaid leave of absence.
    - 04/01/2020 – Start of participant's unpaid leave of absence
    - 06/01/2020 – Participant elects loan deferment
    - 12/31/2020 – End of deferment period (213 day deferral based on 6/1/2020 - 12/31/2020)
    - 02/15/2021 – Participant returns from unpaid leave of absence. Loan payments must begin after the expiration of the leave of absence, which is the earlier of when the participant returns to work or twelve months after the date of the original leave of absence.

- The term of the loan will be extended by the length of the deferment period (213 days).
- Interest will continue to accrue during the deferment period.
- Interest will continue to accrue during the leave of absence for a participant on an unpaid leave of absence (April 1, 2020 through February 15, 2021)
- There is an overlap of the period to accrue interest during the leave of absence and the CARES Act loan deferment period, June 1, 2020 through Dec. 31, 2020. The participant will not be double charged interest.
- No loan payments were made during the leave of absence and the CARES Act loan deferment period.
- Loan payments must begin after the expiration of the leave of absence, which is the earlier of when the participant returns to work or twelve months after the date of the original leave of absence.
- The leave of absence rules require that the loan payments after the expiration of the leave cannot be less than the amount in effect before the leave.

The loan will be reamortized at the expiration of the leave of absence, February 15, 2021. Fidelity will use a 5-year, 213-day loan term to reamortize the loan, but the loan payment will not be reduced below the $100 per month payment that was in effect before the leave of absence. The term of the loan (five years plus 213 days of deferment) will be reduced to maintain the original $100 per month payment based on the original five-year amortization as required under the IRS Regulations.

*Please Note: If the loan term was less than five years, then it may be extended for up to five years if allowed, based on the plan's rules.

Communications

20. **How will Fidelity communicate with plan sponsors the need to start loan payments for participants who took a CARES Act loan?**
CARES Act loans were initiated with a first payment date of January 1, 2021. Your payroll will first receive an open "O" record on your loan feedback file prior to January 1, 2021 for the new loan setup. The feedback file with the open record will be sent according to your plan's current feedback file setup and frequency. The loan reamortization process will begin on January 8 and shortly thereafter, you will receive a change "C" record in your regularly scheduled feedback file with the new loan payment amount, which includes the accrued interest.

21. **How will Fidelity communicate with plan sponsors the need to restart loan repayments on deferred loans?**
The loan reamortization process will begin on January 8, 2021, and shortly thereafter, you will receive a change "C" record in your regularly scheduled feedback file with the new loan payment amount, which includes the accrued interest and the extended loan term. This reamortization will trigger the feedback file and payments to begin with the new payment amount. The original loans must be open on your payroll system in order to accept this "C" change record. It is important that you validate that the loans were not closed as part of the loan deferment process so that your payroll is ready to accept this "C" record.

22. **What communications will be sent to participants who initiated CARES Act loans and/or loan deferment?**
A communication was sent on October 28-29, 2020 to qualified individuals who had initiated a CARES Act loan or requested loan deferment. The key message was that the end of the deferment period was approaching and that loan repayments would begin in January 2021. The communication was sent to all participants regardless of their current status code; however, participants with a loan balance of zero were excluded. The communication was sent to participants via email using their work email address. If we did not have that address or the email was returned, then

we resent it using their personal email address. If we did not have that address or the email was returned, then we sent it through the U.S. mail.

Using the same notification protocols as described above, we will notify all impacted participants in January that they can visit NetBenefits to view the new payment amount, next payment due, and the new maturity date. We will include a direct link to NetBenefits, allowing participants to authenticate and immediately view the updated information. We will identify the steps required for those participants who will be using automated clearing house (ACH) to make their loan repayments so they can set up their recurring payments that will begin in January 2021.