



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. 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 minimum required contributions fund of \$1,334 (members who joined NYSTRS prior to July 1, 2022); or a minimum required contributions fund of \$2,000 (members who joined NYSTRS on or after July 1, 2022).
2. Have at least one year of member service.
3. Only borrow once from their member contributions per calendar year (January 1 – December 31).
4. Not have received a loan from the System within the current calendar year (January 1 – December 31).
5. 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 member is not currently employed as a teacher.

Tier 3 – 6 members:

1. Minimum loan is \$1,000.
2. Tier 3-6 members who joined the System prior to July 1, 2022 may borrow up to 75% of their required contributions fund. Tier 6 members who join the System on or after July 1, 2022 may borrow up to 50% of their required contributions fund or \$50,000, whichever is less.
3. A new loan will be combined with any existing loan.
4. Loan must be repaid within five 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 five years.
6. Repayment will be by payroll deduction unless member is not currently employed as a teacher.

NOTE: In all cases, members may borrow only from their own contributions, not from employer contributions.



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Repayment

Repayment of a member loan is through payroll deduction. You will receive a monthly loan bill in the Employer Secure Area (ESA) approximately 10 days before the month that you will make the loan deductions. The monthly loan bill 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 monthly loan bill from September through June. There is no monthly loan bill generated in July or August.

You should review ESA notifications regularly. The notifications will reflect any changes to member payments that are made after the monthly loan bill has been issued.

The amount of the deduction may change for one of the following reasons:

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

Payment is due by the 10th of the month following the issuance of the loan bill. If you cannot deduct the requested amount (e.g., member is on leave without pay or no longer employed), indicate the reason in the comments area in ESA. If a member returns from a leave of absence, they should contact our office at (800) 348-7298, Ext. 6080 regarding their loan payments.

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

Loan deductions should not be stopped unless you are notified by NYSTRS. If a member requests this, please contact the Loan Unit at (800) 348-7298, Ext. 6080.

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 5.95% 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. If 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.



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Nonpayment

Tier 1 and 2 members:

1. Loan is defaulted to payroll deduction when four months past due.
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, the member 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, the member 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)** is available for downloading from the [Forms/Active Members Forms](#) page at nystrs.org. **Members may also calculate a loan estimate and apply online with a MyNYSTRS account.**

Generally, loans with a five-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 the member's accrued benefit with this System.

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

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



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We cannot decrease the repayment amount on a loan after the application has been processed. **We strongly urge members to review loan estimates in MyNYSTRS or call our Information & Communications Center at 800-348-7298, ext. 6250 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 for a loan that would be issued on or after the date of retirement.
- 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 have the following conditions:

- Extend beyond five years.
- Be taxable at issuance.
- 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.