

Hidalgo County Affiliated Departments Retirement Plan LOAN POLICY

Pursuant to the terms of Hidalgo County Affiliated Departments Retirement Plan (the "Plan"), the Plan Administrator has adopted a participant loan program as part of such Plan and Trust. All loans granted or renewed on or after the 1st day of January, 2016 will be made in accordance with the provisions specified in the Plan and under this Loan Policy. The Plan intends this loan program to comply with all applicable requirements of the Internal Revenue Code and the Department of Labor. Violating the terms of this Policy may cause a loan to be treated as a taxable distribution from the Plan.

Administration of Program.

The following person (the "Loan Administrator") is responsible for the administration of this loan program. All loan requests and other inquiries should be delivered to:

Teresa Flores, P.R. Avila II, Jaime Longoria
P.O. Box 0117
EDINBURG, TX 78540
(956) 318-2619

Application Procedure.

The Loan Administrator will make loan applications available to any individual who has a vested interest under the Plan. An eligible individual, as defined within this Policy, may apply for a loan by returning a paper loan application.

Loan applications will be processed as soon as administratively feasible following receipt of the completed loan application.

The Loan Administrator will review the loan application for completeness. Incomplete applications will be returned and must be resubmitted for consideration. All loan applicants must meet the requirements of this Policy for consideration and approval. If the loan applicant fails to meet the requirements of this Policy and receives a loan disbursement, the loan will be treated as a "deemed distribution" and reported as taxable to the IRS.

Basis for Approvals.

Loans are available to all actively employed participants.

Loans will be available without regard to any individual's race, color, religion, sex, age, or national origin.

Each application is reviewed on a nondiscriminatory basis. However, its approval will depend on the applicant's creditworthiness, financial need, and the purpose and terms of the loan.

In addition, if a participant submits a loan application at a time when a decision concerning a domestic relations order is pending or the Plan Administrator is on notice that divorce is in progress, the loan request will be placed on hold until the order is finalized or the determination period expires.

Once the loan is approved, a Promissory Note will be generated and issued to the applicant. The applicant must sign the Promissory Note to acknowledge and document receipt of the loan disbursement from the Plan and to affirm such applicant's obligation to make the required repayments.

Spousal Consent.

If a married participant submits a loan application spousal consent must be obtained no earlier than 90

days before the date on which the loan is processed and secured. The consent must be in writing and properly executed on the loan application and Promissory Note. The participant's spouse is required to acknowledge consent to the participant's pledge and assignment of 50% of the participant's vested interest in the Plan; and to the effect such consent will have on the benefit that would otherwise be paid under the Plan, in the event of a default. The spouse must sign the consent in the presence of a Notary Public or the Plan Administrator who can attest to the spouse's willingness to consent and endorse the loan documents. A new consent must be obtained if the amount of a loan is increased or if a loan is renegotiated, extended, renewed or otherwise revised.

Terms of the Loan.

Subject to the limitations on the amount of any loan, a participant may request a loan for one of the following reasons:

- * Acquiring (excluding mortgage payments) a principal residence for the participant.
- * Preventing eviction from the participant's principal residence and/or foreclosure on the mortgage on the participant's principal residence.
- * Paying expenses for repair of damage to the participant's principal residence that qualify for the casualty deduction (as defined in IRC 165, determined without regard to whether the loss exceeds 10% of adjusted gross income).
- * Paying deductible medical expenses (described in Section 213(d) of the Internal Revenue Code) incurred by the participant or the participant's spouse or dependents.
- * Paying tuition for the next semester or quarter of post-secondary education for the participant or the participant's spouse, children or dependents.
- * One or any combination of the following purposes: (1) the purchase, construction or improvement of a residence or other real estate; (2) the purchase of a vehicle (including an automobile, van, truck or recreational vehicle); (3) tuition and other educational expenses; (4) medical and dental expenses; or (5) funeral expenses of a family member..

Loan Amounts.

The Loan Administrator will determine the available loan amount at the time the loan request is approved. The maximum amount of any loan is the lesser of 50% of the participant's vested interest minus any existing loan balance, or \$50,000 reduced by the participant's highest outstanding loan balance in the previous twelve months even if all or a portion of this amount has been repaid.

To calculate the maximum loan amount, the participant's vested interest in all plans established or maintained by the employer or a related employer of the employer will be considered. Notwithstanding, the Plan limits the minimum amount of any loan to \$1,000.

An individual may have no more than one loan outstanding at any one time. Refinancing of an existing loan is not permitted.

Sources for a Loan - Accounts and Investment Options.

The Loan Administrator will select the accounts and investment fund or funds from which the amount necessary to grant the loan will be taken in a nondiscriminatory manner. However, the loan will not be taken from any insurance policies.

Loans may be taken from all vested participant accounts.

The loan will be established as a participant directed investment in the Plan. During the term of the loan, each scheduled principal and interest repayment will be made to this loan account until the entire loan is paid in full.

Interest Rate and Fees.

Interest will be charged on each loan. From time to time, the Loan Administrator will review the interest rate charged for loans, with the intention of providing the Plan with a return commensurate with the interest rates that a commercial lender would charge for loans made under similar circumstances. The interest rate for a loan will take into account the creditworthiness of the participant and the terms of the loan.

The interest rate on the loan will be the prime rate as used by The Wall Street Journal adjusted by 2 percentage point(s). The prime rate will be determined

Once the interest rate is determined, the amount of the loan will be amortized according to the selected repayment terms. Each repayment will include both principal and interest until the loan is no longer outstanding in the Plan.

To cover the added administrative costs associated with processing and maintaining a loan under the Plan, the participant will be charged a \$110.00 loan processing fee, and quarterly, a loan maintenance fee of \$20.00, until the loan is paid in full. In addition, the loan maintenance fee will be charged for all years in which the loan remains in default. Fees are deducted from the account(s) from which the loan is taken.

Security for a Loan.

All loans must be adequately secured with at least 50% of the participant's vested account balance in the Plan. The security interest will be determined and measured at the time the loan is granted. The participant must secure each loan with an irrevocable pledge and assignment of at least 50% of such participant's vested account balance under the Plan.

Repayment Terms.

With limited exceptions, the Internal Revenue Code requires a loan to be repaid through level installment payments at least quarterly, over a period not to exceed 5 years.

Under this Loan Policy, a loan is required to be repaid within 5 years, starting from the payment date outlined in the Promissory Note.

However, if the loan application is for a residential loan and the Loan Administrator confirms that there is sufficient documentation that the entire proceeds of the loan will be used to acquire a dwelling unit that will be used as the participant's principal residence, within a reasonable time, then this residential loan must be repaid within 10 years of the original date of the loan.

A principal residence is a house, apartment, condominium, or mobile home (not used on a transient basis) established and used as the participant's principal dwelling unit.

Loans are to be repaid based on substantially level amortization over the term of the loan with payments made each pay period.

Loan payments will be made through payroll deduction, and by cashier's check or money order.

Early Payoff.

The participant may elect, in writing to the Loan Administrator, to accelerate loan payments, by making one or more scheduled payments early.

Special Provisions for Military Service.

The Loan Administrator may temporarily suspend loan repayments, if the participant is not actively employed due to a qualified military leave or because the participant is performing service in the uniformed services (as defined in chapter 43 of title 38 United States Code). In addition, the period of military suspension will extend the original loan term.

Once the military service has ended, loan repayments must resume. The loan must be repaid in full by the end of its original term plus the period of military service.

For example, if the loan was due in 5 years, and the military leave was for 18 months, then the Loan Administrator would extend the 5 year term by the length of the military leave. The final installment payment would be due within 6 years and 6 months of the date the loan was originally issued.

In addition, upon receipt of proper notice of active military service, if the interest rate for an outstanding loan exceeds 6%, the Loan Administrator will reduce the interest rate on such loan to 6% during the period of military service.

Repayment upon Termination.

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When the participant no longer works for the employer sponsoring the Plan, the Plan permits a terminated participant, who has elected to defer receipt of a final distribution, to continue making scheduled installment payments on the participant's outstanding loan. The participant must contact the Plan Administrator for repayment options.

Default and Offset.

A loan is in default when a scheduled installment payment has not been received by the scheduled due date. If the participant fails to arrange for the repayment of the missed payment, in a manner that is reasonably acceptable to the Loan Administrator, the remaining principal and accrued interest on the loan will be declared due and payable. The missed payment must be received by the end of the "cure period". The end of the cure period will be the last day of the calendar quarter following the calendar quarter in which the scheduled installment payment was due. After this date, the Loan Administrator will notify the participant in writing that the loan is in default.

The outstanding loan (including accrued interest) will become taxable and treated as a "deemed distribution". A deemed distribution means the entire outstanding loan balance is immediately due and the Loan Administrator will report and process the outstanding loan amount as a taxable distribution from the Plan. The defaulted loan (outstanding principal plus accrued interest thru the date the loan was deemed distributed) will be reported as taxable income on IRS Form 1099-R. It will be subject to federal and state income taxes, and a 10% additional tax on early distributions if the default occurs before age 59-1/2. This amount will not be eligible for rollover to another employer plan or IRA.

The participant is still under an obligation to the Plan to repay the loan. Therefore, the Promissory Note will remain outstanding and interest will continue to accrue. This outstanding loan obligation will be offset against the participant's vested account balance when the participant is eligible to take a distribution of their account balance for the sources that were used to fund the loan.