



GENERAL BULLETIN

CONNECTICUT
BANKERS
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2019 - 15

January 25, 2019

TO THE CHIEF EXECUTIVE OFFICER
OR INDIVIDUAL ADDRESSED

SENT TO:
CEO, CEO+, CLO
Legislative Committee,
Compliance

RE: Federal Employee Loan Program Update - January 25, 2019

As we have previously indicated, we have worked with member banks and counsel to produce a sample “note” for the State Loan Guarantee Program which can be used either on a paper (manual basis) or used as a guide for automating the process in your existing loan systems.

The Addendum that we had mentioned in yesterday’s communication will be available as soon as we receive key information from CHFA, which we hope will be by the end of the day.

As always, thanks go to all the banks that have provided us with the key feedback necessary to produce these loan documents and please contact us with any comments or questions you may have.

Sincerely,

THOMAS S. MONGELLOW
Executive Vice President & Treasurer

IMPORTANT CAVEATS TO THE SAMPLE DRAFT FORM PROMISSORY NOTE

The attached draft promissory note ("Draft Note") is provided by the Connecticut Bankers Association ("CBA") as a convenient starting point for the development of a note that can be used for purposes of making loans to "Affected Employees" under the loan program contemplated by HB 5765 of the 2019 Session (the "Act"). Member banks are cautioned that the Draft Note must be customized in consultation with the bank's own counsel, based on the Act, the bank's policies, and its operational and servicing capabilities. The following are some observations to consider with that customization process. This is being provided in a Word format so you can customize.

The Draft Note has been created with the intention to provide a plain language, simple approach to the obligation to repay (Connecticut's plain language act applies), but you need to be the judge on plain language and the delivery of the message about the obligation to repay.

Under the Act, the loan must be interest-free during the period leading up to the "grace period" (i.e., during the shutdown), during the 90-day grace period, and during the 180-day repayment period.

The Act calls for the Borrower to repay the loan within 180 days after the "grace period" expires. Under the Act, you get to choose between no less than 3, and no more than 6, equal installment payments of principal during the 180-day repayment period. The Draft Note uses 4 equal monthly installment payments, and provides that the loan is completely interest-free, because loans with no more than four installments and no finance charges are exempt from the Truth-in-Lending Act. No TILA disclosures are required under these circumstances.

If you want to require more than four installment and/or charge interest or other finance charges (which, under the Act, may only be charged after the 180-day repayment period), you will need TILA disclosures. They are not provided with the Draft Note.

The Act does not mandate any specific payment dates for the installment payments. The Draft Note requires the first payment on the first day of the Repayment Period. The remaining payments are spread out over the Repayment Period (in roughly equal intervals), with the final installment due on the last day of the Repayment Period. You will need to make sure your system can accommodate those due dates. Other payment due dates can be substituted as long as they are consistent with the Act.

The Draft Note calls for you to notify the borrower (during the 90-day Grace Period) as to when the Repayment period will start. Can your system do that?

The Draft Note also states that in "that notice, or in separate billing statements", you will tell them when the installment payments are due. Can you do that?

The Act prohibits prepayment penalties and the Draft Note expressly states that prepayments are permitted, but does not specify how prepayments will be applied (for example, the note does not specify whether schedule payments will be affected by a prepayment).

There are no late fees or other charges. The Draft Note is extremely consumer-friendly with respect to delinquencies. Note that there is no acceleration feature and you can only start enforcement proceedings after the expiration of the 180-day Repayment Period.

**PROMISSORY NOTE
INTEREST-FREE FEDERAL EMPLOYEE SHUTDOWN LOAN**

1. What Some of the Terms In This Note Mean. In this Promissory Note (the "*Note*"), the following terms have the following meanings.

A. "*I*", "*me*", "*my*" refer to the "*Borrower*" signing at the bottom of this Note.

B. "*You*", "*Your*", and "*Lender*" refer to [Name and Address of Bank] and what are called its "*successors*" and "*assignees*". I understand that the Lender may, under certain circumstances, transfer this Note to the State of Connecticut. In that case, the State of Connecticut would become an "*assignee*".

C. "*Shutdown*" means the federal fiscal year 2019 partial government shutdown that began on December 22, 2018.

D. "*Grace Period*" means the ninety-day period after my Federal Employer Agency is funded. I understand that you may use your reasonable discretion in determining the precise date on which my Federal Employer Agency is "*funded*".

E. My "*Federal Agency Employer*" is _____.

F. "*Repayment Period*" is the one hundred eighty-day period immediately following the expiration of the Grace Period. The "*Final Maturity Date*" is the final day of the Repayment Period.

G. "*Principal*" means the dollar amount that you are lending to me pursuant to this Note.

* This sample document is provided as a drafting aid. The precise terms of any note that is to be used by a bank for the Government Shutdown Loan Program must be developed and customized by the bank in consultation with its counsel, and after careful review of House Bill No. 5765 of the 2019 Session. The customization must also take into account the bank's operational capabilities. Remove this footnote from any final draft.

2. **My Promise To Pay.** In return for the loan that I have received, I promise to pay to the Lender or to Lender's order the Principal sum of \$_____.

3. **My Payments.** I will repay the Principal in four (4) equal installments of \$_____ during the 180-day Repayment Period. I understand that the exact duration of the Shutdown cannot be predicted as of the Date of this Note. As a result, the exact beginning of the Repayment Period cannot be predicted at this point in time. Once My Employer Agency is funded, and my 90-day Grace Period begins, you will give me notice telling me when my Repayment Period will start. In that notice, or in separate billing statements, you will also tell me the dates when my four (4) installment payments will be due. I promise to make the payments on or before the applicable due dates. The first installment payment will be due on the first day of the Repayment Period. The second installment payment will be due on the first day of the second full calendar month following the beginning of the Repayment Period. The third installment payment will be due on the first day of the fourth full calendar month following the beginning of the Repayment Period. The final and fourth installment payment will be due on the Final Maturity Date. I will make all those payments in U.S. dollars to the following address _____, or to a different address if required by you.

4. **My Right To Prepay.** I have the right to make payments of Principal at any time before they are due (called a "Prepayment"). I can make a full or partial Prepayment without incurring any penalty or charge.

5. **WHAT HAPPENS IF I AM IN DEFAULT.** If I do not pay the full amount of any installment payment on or before the date it is due, I will be in default under this Note. I understand that if I am in default under this Note, you may report my delinquency or delinquencies to one or more consumer reporting agencies, and that could negatively affect my credit history. I also understand that if the full amount of Principal is not completely repaid on or before the Final Maturity Date, you have the right to collect and enforce this Note and I agree to repay all of your costs and expenses in collecting and enforcing this Note to the fullest extent permitted by law. Those expenses may include, for example, court costs and reasonable attorney's fees.

6. Delay in Enforcement. I understand and agree that if you delay in enforcing any of your rights under this Note, that does not mean that you have given up or waived any of those rights. You may still enforce them at a later time or times.

7. Waiver of Presentment. I understand and agree that I am waiving the right of presentment. "Presentment" means the right to require you to formally demand payment of amounts due under this Note.

8. Notices. Unless applicable law requires a different method, any notice that you are giving to me under this Note may be given by delivering or mailing it by first class mail to me at My Address (as listed below) or at a different address if I give you notice of that different address. Any notice that must be given to you, will be given by mailing it first class mail to the Lender at the address identified in Section 1(B) above, or at a different address if I am given notice of that different address by you.

9. Signature. By signing below, I agree to make all the Principal installment payments on or before the dates they are due and I agree to abide by all of the terms of this Note. I also acknowledge that I have read and understand the terms of this Note. Finally, I acknowledge that I have received a copy of this Note as of the Date of this Note.

Date of this Note _____ Signature of Borrower _____

Name of Borrower _____

My Address: _____
