

# Loans as Investments: Best Practices for Due Diligence

## Loan Benchmarking Worksheet

Factor	Average	Actual*	Implication
<b>Number of total loans outstanding</b>	20% of active participants		Examine loan demographics.
<b>\$ of total loans outstanding</b>	2-3% of plan assets		Examine loan demographics.
<b>Total defaults annually (#)</b>	10% of all outstanding loans		Review loan policy & communications.
<b>% of defaults deemed</b>	8% of total defaults		
<b>% following voluntary termination</b>	50-67% of total defaults		Do you allow continuation via ACH post separation? Examine use of that feature & communications.
<b>% following involuntary termination</b>	30-50% of total defaults		Same as voluntary & consider safety net such as loan insurance.
<b>% resulting from disability</b>	10-20% of total defaults		Review processes around leaves of absence; consider safety net such as loan insurance.
<b>% resulting from death</b>	5-10% of total defaults		Examine loan policy & actual processes following death; consider safety net such as loan insurance.
<b>Full repayment of loan at separation</b>	5-10% of participants separating with loans		Consider change to allow for continuation of repayment via ACH; optimize communications.
<b>Continuation of loan payment via ACH at separation</b>	0-10% of participants separating with loans		Set goal to boost adoption – particularly for voluntary job changers.
<b>Default at separation</b>	80%+ of participants separating with loans		Consider loan insurance as a safety net.

\*Best practice: use a 3- to 5-year look-back as metrics can vary significantly from year to year.