

The following is a review of IRS rules concerning 457 loans and LSW's administrative procedures that correspond to these IRS requirements.

PLEASE KEEP THIS INFORMATION WITH YOUR LOAN PAPERS.

I. Generally.

The IRS has set forth the rules regarding what constitutes an annuity that qualifies for Section 457 treatment, and the basis upon which loans can be made from these Policies or Certificates. Although loans come from your Policy or Certificate Values, IRS rules require us to administer the loan as if it is from an independent party. Keeping that in mind will help you understand these rules.

You may have more than one (1) loan outstanding on your LSW Policy or Certificate. Each loan is kept separate and distinct from others with each loan having its own payment due date, amortization schedule and Scheduled Payment amount. LSW reserves the right to determine in its sole discretion the amount it will loan from a Policy or Certificate. In making this determination, LSW will consider the amount it believes is necessary to provide LSW with adequate security for the loan. In no instance will any loan be allowed that will exceed the amount permitted by applicable law and regulation. The Loan Agreement shall be automatically amended so as to maintain compliance with all laws and regulations applicable to such loan.

II. Payments.

Loans must have at least four (4) Scheduled Payments each 12 month period with each payment comprising both principal and interest. LSW will accept either quarterly installments by check or a monthly/quarterly pre-authorized check plan ("PACP"). If you have multiple loans, all loans must be paid by the same method (quarterly installments or monthly/quarterly PACP) and the same financial institution (for PACP only). The amount of your Scheduled Payment and its payment due date is shown in the amortization schedule provided for you.

A window of time exists, referred to as the "Payment Window", during which Scheduled Payments must be received. This Payment Window runs for 20 days prior to each payment due date through the end of the grace period. Split payments cannot be accepted during the Payment Window unless all payments are made on the same date and they total an amount no less than the Scheduled Payment.

III. Non-Scheduled Payments.

A. Timing. Any payment made outside the Payment Window period is not treated as a Scheduled Payment, but is applied to reduce loan principal.

B. Amount. LSW cannot accept any payment during the Payment Window which is less than the Scheduled Payment shown in your amortization schedule. For larger payments, the excess over the

Scheduled Payment will reduce principal, with the balance applied as a Scheduled Payment. LSW cannot change your amortization schedule if you make pre-payments.

IV. Grace Period.

LSW provides a 30 day grace period after each payment due date during which time LSW will accept and apply amounts no less than the Scheduled Payment toward the payment due at such payment due date. Any Scheduled Payment made during the grace period is considered late. Interest is charged on late payments from the payment due date until receipt. Additional late interest is charged at the same rate as the loan rate and is capitalized (added to the principal amount of the loan.) Consistently paying Scheduled Payments during the grace period can result in your Scheduled Payment not being large enough to reduce principal. If this occurs, LSW will send you a revised amortization schedule showing new payment dates and the new scheduled payment you must pay to make your payment comprise both principal and interest. If you receive a revised amortization schedule, you must pay the new scheduled payment amount by the new payment due date; otherwise, your loan will default. Any reamortization will be over the remaining time period of the loan in question.

V. Loan Payoffs.

You may pay off your loan at any time that you wish, either while the loan is current or in default. In general, loan payments must be paid by you personally. However, money can be distributed from your annuity to pay off your loan if a "Qualifying Event" has occurred. A Qualifying Event is defined in IRS rules as "a severance from employment, attained age 70½ of the plan participant, plan termination, or death of the plan participant." As a general rule, you cannot withdraw monies from your annuity to pay taxes on any deemed distribution or to pay off a loan until a qualifying event has occurred. At your death any remaining loan balance will be paid by a distribution from your annuity.

VI. Defaulted Loans.

If a Scheduled Payment is not made before the end of the grace period, your loan will default. When a loan defaults, the entire remaining loan balance will become taxable to you as a "deemed distribution" in the tax year in which the default occurred. A deemed distribution means that only a theoretical (tax purpose) distribution is made to you, no actual cash is distributed. Additional taxes will be due on the deemed distribution. You will receive a Form 1099 reporting the income

Guide to Governmental 457 Loans - Continued

associated with the deemed distribution. If your Policy or Certificate has an unpaid defaulted loan, please contact your Plan Administrator to determine loan availability.

VII. Interest on Defaulted Loans.

Interest continues to accrue thereby increasing the balance of the defaulted loan until the loan is paid in full. Default interest as it accrues is not reported to the IRS as taxable income. The defaulted loan amount plus outstanding interest is taken into account when LSW determines the amount available to be loaned to you under any of your LSW Policies or Certificates.

VIII. Payoff of Defaulted Loans.

You may personally pay off a defaulted loan at any time. LSW cannot do any billing or PACP drafts to repay defaulted loans. LSW will pay off a defaulted loan as soon as we are advised a Qualifying Event has occurred. To do so, LSW will distribute an amount (after application of any applicable surrender charges) equal to the loan payoff amount. The distribution will come from any Policies or Certificates used to fund the loan.

IX. Withdrawal Charges and Penalties.

All applicable withdrawal charges will be applied on distributions from your LSW Policy or Certificate.

X. No Legal or Tax Advice.

The above information represents our understanding of the IRS rules governing 457 Governmental Plan loans. LSW cannot give legal, tax or accounting advice. Please consult your professional advisor for information about your own situation.