

# Educational Contribution Account Disclosure



**FIRSTBANK PUERTO RICO  
EDUCATIONAL CONTRIBUTION ACCOUNTS TRUST**

**Educational Contribution Accounts Disclosure**

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This Educational Contribution Account (ECA) Disclosure (hereafter “Disclosure”) and the following documents: Educational Contribution Account Trust Adoption Agreement, the Trust Deed, the Deposit Account Agreement Booklet, and the Privacy Policy and First BanCorp’s Information Disclosure, contain the terms and conditions that govern your Account.

## **I. Introduction**

This Disclosure and the documents mentioned above contain the provisions, terms and conditions, and other disclosures that apply to the Educational Contribution Account(s) and services selected by you. By signing any account opening document, including but not limited to the account signature card, or by using your account(s) or services you accept these provisions, terms and conditions and services as stated. In case of any doubt, please contact any FirstBank branch or call our FirstLine Customer Center at the address or telephones listed at the end of this Disclosure. If there is any change in the address or telephone number provided, we shall notify you in your quarterly account statement.

To the extent required by law, we shall mail you to the address in our records notification of changes we may make from time to time in the terms of these Disclosures. You shall inform us in writing of any change in your mailing address.

In this document the terms “Trustee”, “Bank”, “FirstBank”, “us” and “our”, refer to FirstBank Puerto Rico; and “Depositor”, “Participant”, “you” or “your” refer to any person whose signature appears in account opening documents including, but not limited to, the account signature card. “Beneficiary” refers to the person to whom’s benefit the Account is established. “ECA” is an acronym for Educational Contribution Account, which can also be referred to as “Account”.

The term “Accountholder” or “Participant” means the person establishing a FirstBank Educational Contribution Account or its legal representatives. The term “Disclosure” means this Disclosure and any other documents provided to you along with this disclosure. “Contributions” means tax deductible or non-deductible contributions to an “Educational Contribution Account”. “Distributions” means withdrawals or cancellations made against the account.

“APY” means Annual Percentage Yield and refers to the percentage yield of your account on a yearly basis. This yield is the interest rate that shall be accrued by deposits in your account if the deposited

amount and the interest earned remain deposited in your account throughout the year. Since accrued interests also earn interest if these remain deposited in the account, the stated APY is higher than the stated interest rate. However, if part of the interest or part of the principal in the account is withdrawn, the amount of interest earned shall be reduced.

“Business day” means every day except Saturdays, Sundays and federal holidays. Although the Bank offers service to the public, these days will not be considered business days.

This disclosure statement is provided in compliance with the requirements established under the Internal Revenue Code for a New Puerto Rico of 2011, as amended (“the PR-IRC”) and the applicable regulations providing a descriptive disclosure statement of the statutory provisions applicable to an educational account (the “Account”). This disclosure statement must be given to each person who establishes an Account and each person who makes a contribution to an Account. This disclosure statement is not intended to be exhaustive or conclusive, or to apply to any person or situation, nor is it intended to be a substitute for legal or qualified tax advice. Persons interested in opening an Account and/or making a contribution to an Account and participating in the Educational Contribution Account Trust (hereafter “Trust”) are urged to consult their financial or legal advisors prior to opening an Account and making a contribution to the Trust.

## **II. General Information**

The PR-IRC enable eligible individuals to make annual tax-deductible contributions to an Account (the “Account Contributions”) in order to financially provide for the post-secondary education (including, but not limited to, university studies, technical colleges or vocational schools) of their children or family members up to the third degree of consanguinity or second degree of affinity (the “Beneficiary”).

## **III. Right to Withdraw a Contribution and Close the Account**

If at any time during the first seven (7) business days after opening an Account, the person that opened the Account decides that he/she does not wish to continue with said Account, this person may withdraw any Account Contribution and close the Account without the applicable provisions of the PR-IRC applying to him/her. In order to be able to withdraw any Account Contribution and close the Account, the person

must send a written notice by certified mail, return receipt requested, addressed to the Trustee at:

FirstBank Puerto Rico  
Transactions and Support Management  
PO Box 9146  
San Juan, Puerto Rico 00908-0146

It will be understood that said notification will have been sent on the date of certification or registration. Said notice also may be delivered personally to the Trustee before the seven (7) business day period expires. If the Adoption Agreement is revoked or canceled within the seven (7) day period described herein, the Trustee will refund the initial contribution, without interest, and the Account will be closed.

The Account shall become irrevocable and non-transferable, with certain limited exceptions established in the applicable provisions of the PR-IRC, once the seven (7) business day period expires.

#### **IV. Eligibility**

The limitations regarding the age of the Beneficiary shall be applicable for purposes of establishing an Account and for purposes of making Contributions to the Account, if any, that are established in the regulations issued by the Secretary of the Treasury under the P.R. Code. The Account may only be opened by the individual who has the custody and *patria potestad* of the Beneficiary designated in the Account. Contributions to the account can only be made by the individual that opened the account. The custody and *patria potestad* apply up to the third degree of consanguinity or second degree of family. Only one Account can be opened per Beneficiary, and each Account shall have only one Beneficiary. No other Educational Contribution Account shall exist in the name of the beneficiary in any other institution.

When opening an Account or when making an Account Contribution, the person opening the Account or the person who makes the Account Contributions shall provide the Trustee with the representations that are required under the Regulation promulgated by the Secretary of the Treasury under the PR-IRC. A person may contribute up to \$500 per taxable year per qualified Beneficiary, without limitation on the number of Accounts which may be contributed to if the Beneficiaries of said Accounts are eligible. The Trust establishes that the Account Contributions can only be made by a lump sum payment of \$500.

Each contribution made to an Account should be accompanied by instructions from the person making the Account Contribution indicating the tax year for which that person will claim the deduction for said contribution.

An eligible person will open the Account in the Trust upon executing an Adoption Agreement (which is made part of this document) by which the person opening the Account, among other things, adopts, under his/her name and the name of the Beneficiary, the provisions of the Deed of Trust under which the Trust was created. According to the Deed of Trust, the Trustee will keep separate records for each Account. The person who opens the Account shall be responsible for complying with the requirements of informing the Beneficiary's family members and the requirements of preparing the applications and making the required selections as established under the applicable provisions of the regulation promulgated by the Secretary of the Treasury and the PR-IRC.

**V. Nontransferable and Nonforfeitable; Title; Use as Collateral; Life Insurances**

**A.** The total balance of the Account will be irrevocable and non-transferable under the law, except as described in the applicable provisions of the PR-IRC.

The total balance of the Beneficiary's Account cannot be partially or totally forfeited.

**B.** The ownership of the Account will be the Beneficiary, for which the Account was opened. However, the person who makes the Account Contributions (or their heirs, in case of death) retains the rights established in the PR-IRC regarding the return of the amounts contributed under the circumstances described below.

**C.** The Beneficiary's interest in an Account cannot be used as collateral for a loan, and any amount that is used in this manner shall be treated as if it had been distributed to the Beneficiary and said distribution shall be treated as ordinary income of the Beneficiary for the tax year in which the Account or any part thereof is used as collateral.

**D.** No part of the funds of the Trust can be invested in life insurance policies.



## **VI. Contributions to the Account**

The total permissible maximum annual contribution to an Account is \$500 for any taxable year for any eligible Beneficiary. Said contributions are deductible for tax purposes (except for rollover contributions), subject to the following limitations:

### **A. Excess Contributions**

If an eligible person contributes an amount to an Account in excess of the maximum amount permissible (\$500) and the excess is withdrawn, together with any income generated by the excess, no later than the deadline for the filing of the income tax return of the person who makes the contribution for the year with respect to which the excess Account Contribution was made (including any applicable extension of the time for filing), said excess Account Contribution (together with the income generated by the excess) will not be considered as a taxable distribution to the person who made the contribution to the Account. The person who made the contribution to the Account will not be entitled to deduct any excess Account Contribution from the permitted amount established under the PR-IRC. A written request by the person who contributed to the Account for the withdrawal of an excess Account Contribution must be sent to the Trustee at the address indicated above stating the amount of the excess Account Contribution.

### **B. Deadline for Account Contributions**

Account Contributions by an eligible person for a given year must be made by no later than the date prescribed by law for the person who made the Account Contribution to file his or her Puerto Rico income tax return for that year (including any applicable extension of the time for filing).

## **VII. Distributions from the Account**

### **A. Distribution to the Beneficiary**

The balance of the Account must be distributed to the Beneficiary after graduating from high school and no later than the tax year in which the Beneficiary reaches thirty (30) years of age, and the distributions to the Beneficiary can be used exclusively to defray the cost of post-secondary education of the Beneficiary. The distribution shall be disbursed according to the requirements of the Regulation promulgated by the Secretary of the Treasury of Puerto

Rico, including, but not limited to, providing the Trustee with all documents and certifications required, and notarized Sworn Statement.

## **B. Distribution to the Person who Contributed to the Account**

According to the applicable provisions under the PR-IRC, in the following instances the person who made the Account Contributions shall be obligated to declare as income the balance of his/her Account Contribution for the tax year in which the Account loses its exemption.

In every instance in which the Beneficiary, for whom the Account was created, dies (or is disabled for purposes of studying, if said disability is included in the regulation promulgated by the Secretary of the Treasury) and the person that made the Account Contributions receives a refund for the balance of his/her Account Contributions or that part of the contributions not yet distributed, and that person does not uses or transfers these funds for the benefit of other persons that qualify under the PR-IRC.

In every instance in which the Beneficiary, for whom the Account was created, having reached his legal age as per the Civil Code of Puerto Rico, decides not to use the funds for a post-secondary education, and the person who made the Account Contributions receives as a refund the balance of his/her Account Contributions or that part of the contributions not yet distributed, and that person does not uses or transfers said funds for the benefit of other persons that qualify under the PR-IRC. The Beneficiary's decision to not use the funds for his/her post-secondary education shall be documented according to the requirements of the Regulation promulgated by the Secretary of the Treasury of Puerto Rico.

## **C. Tax Treatment upon Distribution**

At the time of a current distribution or implied distribution (that is, considered done) the full amount received or considered received will be treated as ordinary income subject to Puerto Rico income contribution at the regular rates; provided, however, under the PR-IRC, that for contributing years beginning after December 31, 2018, that the person who receives the distribution is given the option of choosing that a special tax rate be retained, instead of the ordinary rate for distributions (not including the distribution of the original Account Contribution or the distribution of interest-derived income)

that constitute income derived from sources in Puerto Rico. In addition, the amount of any income earned by the Account on tax-exempt investments (but not any profits generated from any sale of such investments) is added to the base of the Account person of the person receiving the distribution (the basis of which would be zero of accruing exempt income), and therefore would not be subject to contributions on Puerto Rico's income when distributed to the person receiving the distribution. In addition, subject to the limitations imposed by the P.R. Code, the distribution of any interest earned by the Account from certain types of bank deposits is eligible for the exclusion of the Puerto Rico's income contribution that is permitted and the rate established by the PR-IRC for that portion of the qualified interest not covered by the exclusion of contribution on income from Puerto Rico that is allowed.

#### **D. Capital Gains Treatment**

The distribution of a lump sum of an Account is not eligible for capital gain treatment for purposes of Puerto Rico income.

#### **E. Distribution by Transfer (“Rollover”)**

Amounts distributed from an Account established for the benefit of the Beneficiary may be transferred to another Account established for the benefit of the same Beneficiary (these Account Contributions being referred to as “Rollover Contributions”) in an amount greater than the maximum amount described above. Rollover Contributions, however, are not tax-deductible for the year with respect to which such Rollover Contribution is made. If a Rollover Contribution is made by the person who opened the Account (or by the Beneficiary, if he/she is of legal age) who received said amount as a distribution from another Account, the transfer must be made within 60 days of the receipt of the distribution. If the transfer is made, but not on a timely basis, the transfer may well result in an excess Account Contribution with possible adverse tax consequences. Only one transfer from one Account to another Account can be made in any one-year period ending on the date of receipt of the distribution being transferred. If a transfer is made directly between Account Trustees, this one-year restriction does not apply.

## **VIII. Fees, Expenses and Penalties**

### **A. Service Charges**

The Educational Contribution Account Deed of Trust provides that the Trustee may charge the Account those normal and reasonable expenses which become necessary in order to administer the accounts, including but not limited to, reasonable compensation for its services of administering the IRA accounts, legal fees and the cost of Trustee insurance.

### **B. Early Withdrawal Penalties**

The Educational Contribution Account may be subject to penalties regarding the early withdrawal of moneys before the maturity of said product. You should review the documents and other disclosures that are provided to you which describe the terms and conditions of the banking product and penalties, if any, pertaining to the early withdrawal of moneys before the maturity of said product.

### **C. Charges for Rollover**

FirstBank may charge a fee for account rollovers to another eligible institution. This amount shall be paid at the time the transfer is made.

## **IX. Required Filings**

An eligible person who makes an Account Contribution shall report the applicable deduction for the Account Contribution in his/her income tax return in order to qualify for the tax benefits of an Account.

## **X. Additional Tax Information**

The eligible person who makes the Account Contributions may deduct the total amount of the permissible annual Account Contributions when computing his or her taxable income for Puerto Rico income tax purposes for the year with respect to which the Account Contribution is made. Puerto Rico income taxes are not paid on the income generated by the assets held in an Account until a distribution is made from the Account.

## **XI. Reports**

The Trustee shall mail to the persons that are required to receive statements under the PR-IRC and its regulations, quarterly and annual statements covering transactions made with respect to his/her Account. Such reports shall indicate the amount of any distribution, withdrawal or

transfer made to or from the Account, any interest or other credit earned and charges made to the Account, and any other information required under the applicable provisions of the PR-IRC and regulations promulgated there under. Said quarterly and annual reports shall be mailed to the persons that are required to receive statements under the PR-IRC and its regulations on or before the dates required under the PR-IRC and the applicable regulations there under, and the annual reports shall be mailed to the Secretary of the Treasury on or before the date required under the PR-IRC and the applicable regulations there under.

## **XII. Notification**

Any written notice to FirstBank shall be sent to:

FirstBank Puerto Rico  
Transactions and Support Management  
P. O. Box 9146, San Juan, Puerto Rico 00908-0146

Telephone communications may be made at:

FirstLine Customer Center  
(787) 725-2511  
1(866) 690-2511 (Toll free)

If you have any questions regarding your eligibility, tax status or any other matters after reviewing this FirstBank Disclosure Statement you should contact your tax adviser.

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