

Fewer Home Equity Loans More 401k Loans

ALEXANDRIA, VA – July 26 (SEND2PRESS NEWSWIRE) – The slumping housing market has reduced the use of home equity as a source of personal loans. Home equity loans fell by \$900 million the week ending June 28, reports the Federal Reserve. Individuals looking for money are increasingly pursuing other options such as the 401k loan according to Daniel Lamaute, retirement plan specialist at Lamaute Capital, Inc.



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Employees who participate in a 401(k) usually have access to 401(k) loans, but once they leave their employer they lose access to the loan privilege. Only after the tax laws changed in 2001 were self-employed individuals also permitted to take out 401(k) loans. The advantage of taking a 401(k) loan instead of a retirement distribution is that a loan makes it possible to avoid the tax penalties generally associated with early withdrawals.

Small business owners can initially fund their Self-Employed 401(k) by rolling over an existing IRA or 401(k) from a previous employer into their plan. They can then borrow up to \$50,000, or one half of their 401(k) account balance, whichever is less.

A loan from a 401(k) is quick to obtain because it comes out of the 401(k)

account. In many cases the loan interest is fixed at prime rate for the duration of the loan. Typically the loan must be repaid in equal monthly installments over no more than a five-year period. The loan payments, interest and principal, go back in the 401(k) account. However, unlike home equity loans 401(k) loan payments are not tax-deductible.

Although a loan from a 401(k) plan is free of tax and early withdrawal penalty; if the loan is not paid back on schedule the IRS will treat the balance of the loan as a distribution subject to taxes and applicable penalties.

The Self-Employed 401(k) is available to any business that employs only owners and their spouses, including C corporations, S corporations, partnerships, and sole proprietors. This 401(k) is not suitable for companies with employees, or those that plan to hire employees.

More information: www.InvestSafe.com

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