

**How much can a participant borrow from his or her 401(k) Plan?**

401(k) loans are limited to the lesser of 50% of the participant's vested plan balance or \$50,000 and are repaid over five years via payroll deduction (or in a lump sum upon separation from the employer). Details are outlined in the Plan Document or SPD. There is also a small processing fee.

**Is it now allowable for owners and partners to take out loans from their 401(k) plans?**

Yes; the law was amended, effective in 2002. Owners of small businesses of all types (including sole proprietorships and partnerships) may now take participant loans from a plan they sponsor, subject to the same participant loan rules that apply to all retirement plans

**Should I take a hardship distribution or a loan?**

Regulations require that the participant make use of available loans before applying for a hardship distribution. Regulations also require that a plan applies reasonable standards in determining whether to grant a request for a loan, including the credit worthiness of the participant, and the participant's ability to repay the loan. In this case, the plan administrator can reject the loan application.

**What is the negative tax impact on taking a 401(k) Loan?**

When you pay back your loan, you do so with post-tax (after-tax) dollars. Consequently, a \$100 loan repayment reduces your take-home pay by \$100. Worse, when you take the money out of your 401(k) plan during retirement, you will pay tax on the same money again.

**Will a 401(k) loan affect my credit?**

Regardless of your credit score, you'll pay a competitive interest rate. No credit check. The rate is often in the neighborhood of prime, consistent with typical consumer loans. Better yet, you'll pay the loan, *including the interest*, to yourself - not to a bank. The entire amount of each loan repayment goes to your 401(k) account.

**What happens if I default on a Loan?**

One point to consider with 401(k) loans is that you will have to repay the loan in full before you take a plan distribution. Otherwise, the full unpaid loan balance will be considered a taxable distribution, and you could also face a 10% federal tax penalty on the unpaid balance if you are younger than age 59 1/2. Individuals often are given a grace period of 60 days to arrange plan-loan repayment after leaving work.

**How long do I have to pay off my loan if I quit my job?**

Typically, if you quit working or change employers, it is not uncommon for plans to require full repayment of a loan within 60 days of termination of employment or it will default.