



## Using your 401k for Real Estate Investing

When people think about their 401k, they consider a lump sum of money that has been put away for retirement. In fact, most people completely forget about their 401k until income tax time. Creative real estate investors, however, have figured out that their 401k's and real estate investing have a mutually beneficial relationship.

So with that being said, you are probably wondering how a savvy investor can use one for the other.

The easiest way that 401k and real estate investing can work together is through the ability to take out a loan against a 401k. The primary objective with real estate investing is to use little or none of your own personal money to fund the investment. Since you are allowed to borrow against your 401k, you can use this to finance part of your investment. When the deal closes, you will receive the amount you borrowed and then some. You can then easily pay back the loan without affecting your 401k. So, basically, it's like a short term loan you make against yourself. You have access to the funds needed for investing, it doesn't technically come directly out of your pocket, and when you finally cash in your profits, you simply pay yourself back.

There are some things to note about this method of investing, however. First, you should know that there is a cap on the amount you can borrow against your 401k. This amount is usually \$50,000. However, it can be less, depending on the amount of money you actually have in your 401k. Another thing to note is that the real estate you purchase through this method is not eligible for the mortgage-interest tax deduction. There are no tax benefits when you use 401k to finance a portion of any real estate related transaction.

Another option for is to put the money into an IRA, or individual retirement account. Sometimes this is not allowed, but if it is, you will have more flexibility on what you can do with the money. You might receive a penalty for moving your money from your 401K. However, the penalty is usually worth considering given the benefits you would receive through real estate investing. Just keep in mind, the main objective is to only borrow the money for a certain period of time. As you wrap up each deal, its imperative that you repay yourself, and only hold onto the remainder of the profit.

If you are weary of the risks involved, there is a safer way to invest in real estate by using your 401k. Some plans offer the option to invest in real estate investment trusts. These trusts consist of companies that buy and sell real estate, which is a much less risky way of investing in real estate. It also requires less work on the part of the investor since the trust companies are the ones actually doing the real estate investing.

Most people are unaware of the many possibilities that exist by using their 401k's to invest in real estate. It is a creative way for investors to make a profit in real estate without actually using their own money. The best part about it is that there are both safe and risky ways of investing with this money to yield a profit. The decision you make is one entirely of personal preference.

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**About the author:**

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