

How to Use Your Retirement Funds for the Down Payment on a Business Loan

By David Nilssen, CEO and Co-founder, [Guidant Financial](#)

When it comes to small business financing, many mistakenly believe it's a 'pick one and done' kind of deal. However, in many cases, using multiple methods to reach your desired capital amount is possible and preferable. Not only can mixing and matching create a customized financing plan that's perfectly molded to your needs, but it can save you money.

One of the most beneficial ways to combine financing methods is to use [401\(k\) business financing](#) (formally called Rollovers for Business Start-ups or ROBS) with an SBA loan. This allows you to leverage your retirement funds for the loan down payment without triggering any tax penalties.

While both SBA loans and ROBS have advantages as stand-alone programs, together they can set you up on a path for success. Here are a few of the benefits:

Keep Your Rainy Day Savings Intact

When [applying for an SBA loan](#), a down payment is asked for upfront to secure the loan. The down payment is usually 20 – 30 percent of the total loan amount, and many entrepreneurs must pull from their personal cash reserve to meet the requirement. But when using ROBS, you can use your retirement funds as the down payment, saving your liquid cash for a real rainy day.

Save Money on Interest and Other Fees

One of the biggest benefits of using ROBS with an SBA loan is it allows you to leverage money you already own (your retirement funds) as the loan down payment rather than pulling from savings. It's not a loan, so there are no additional interest or principle payments, and since you're reinvesting your retirement funds, not withdrawing them, the process doesn't trigger the taxable distribution that normally occurs when withdrawing retirement funds, allowing you to put more of your hard-earned money to work for you. Most retirement plans qualify for ROBS, including 401(k)s, traditional IRAs and 403(b)s.

Easy Qualification

Because ROBS entails using funds you already possess, there are no other qualification requirements. As long as you have at least \$50,000 in a rollover retirement account (meaning funds can be transferred from one retirement account to another), you can rest assured knowing you're qualified. You don't need to worry about your credit score or filling out additional applications and business projections.

Reduce the Amount You Need to Borrow

By combining ROBS with a business loan, you'll be accessing capital from two different sources rather than just one, thus reducing the amount you'll need to access from each source. For example, if you need \$100,000 in business capital, you can divide that amount between available funds in your retirement account and the loan. By only requesting a loan for \$50,000



rather than the full \$100,000 and supplementing with funds from ROBS, you'll save money on interest, reduce your monthly payment and down payment, and increase your chances of loan approval.

Secure a Quicker Path to Profitability

Many entrepreneurs choose to combine an SBA loan with funds from ROBS because it offers the freedom of becoming debt-free sooner. As discussed above, access to your retirement funds allows you to reduce the amount of capital you need to borrow with a loan. That means you'll be able to pay the loan off sooner and reinvest those monthly payments back into your business.

To learn more about how ROBS can benefit your business, download our white paper: [Rollovers for Business Start-ups Revealed](#).

David Nilssen is the CEO & Co-founder of [Guidant Financial](#), which helps individuals secure small business funding to start, buy or grow a business with 401(k) business financing, SBA loans and more. Read more tips about finding and financing your business on the Guidant blog at [guidantfinancial.com/blog](#).

