

Pam in the Media

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Warning Clients on 401(k) Loans
By: Daisy Maxey August 13, 2013
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Pam Dumonceau, president of Consistent Values Inc., in Greenwood Village, Colo., says borrowing from one's 401(k) is "a precarious last resort." She's convinced some clients not to tap into their retirement plans.

"Most of the time, I brainstorm with them about every other possible solution first, then I inform them of the consequences," says Ms. Dumonceau, who's affiliated with Asset One LLC, which manages \$348 million. "Sometimes it is the last resort and you've got to do it. It's still better than losing your house or having cars repossessed."

For clients who can be convinced to leave their accounts alone and are in position to secure money via other sources, Ms. Dumonceau of Consistent Values recommends that they borrow on a home-equity line of credit or take an unsecured, low-interest personal loan. Even applying for a credit card with 0% interest may be a better option, she says.

Still, she says, for those with no real choice, a 401(k) loan may work. It can work well, for example, for a small-business owner who wants to expand by purchasing a piece of equipment or real estate and who's certain he can make the payments, she says. However, Ms. Dumonceau would still rather see such an investor take a small-business loan secured by the real estate, which can be had at reasonable cost if the borrower has good credit, she says.

Last year, one of her clients borrowed from his 401(k) to pay off credit-card debt with interest of 12% to 21%. He had a secure government job and no home equity, she says. "You must not run up those credit cards again," she warned him.

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