Tapping 401(k)s for Home Down Payments Could Reshape the Path to Homeownership

January 18, 2026 - A new housing proposal backed by President Donald Trump would allow Americans to use their 401(k) retirement savings to help purchase a home without facing early withdrawal penalties. The plan, expected to be unveiled in Davos later this month, has already stirred debate among financial experts, real estate professionals, and policymakers.

Under the proposal, homebuyers could tap into their 401(k) balances specifically to cover the down payment on a home. It is not yet clear if the funds could also be used for full home purchases or mortgage payments, but early reporting indicates the plan focuses on down payment assistance only. Supporters say this could provide younger or first-time buyers with a much-needed on-ramp into the housing market, especially as prices and borrowing costs remain elevated. Critics warn that using retirement funds early - even for something as important as a home - could undermine long-term financial security.

Currently, IRA holders can withdraw up to $10,000 without penalty to buy a first home under existing tax law, but no similar option exists for 401(k)s. The new proposal would extend similar treatment to workplace retirement accounts. Whatâ€™s not yet clear is whether IRAs would be formally included in the new plan or if the same withdrawal limits would apply.

Eligibility requirements have not been finalized. It is unknown whether the program would be limited to first-time homebuyers, whether income limits would apply, or whether caps would be placed on the amount withdrawn or the value of the home purchased. There is also no official word yet on whether taxes on the withdrawn 401(k) funds would be deferred until the home is sold or if the funds would be tax-free altogether. Some financial observers have floated the idea of treating 401(k)-funded home purchases similarly to Roth IRA first-time homebuyer rules, where qualified withdrawals are tax-free and aimed at reducing barriers to ownership.

The policy is expected to draw support from the real estate industry, which has long advocated for ways to boost housing access and reduce down payment barriers. On the other hand, financial services companies, including brokerage firms and banks, may oppose the effort. These institutions benefit from long-term retirement account holdings and may raise concerns about asset depletion, tax complications, or reduced long-term savings for clients.

Opponents of the proposal argue that retirement accounts are already underfunded by many Americans, and early withdrawals - especially for large purchases - could jeopardize financial security later in life. They also note that real estate, while generally a solid investment over time, comes with risks: market downturns, high maintenance costs, and illiquidity can all affect long-term returns. However, proponents counter that homeownership is already the primary driver of personal and generational wealth in the United States and provides stability that stocks or mutual funds do not. They argue that using a retirement account to secure a stable home isnâ€™t undermining retirement - itâ€™s redefining it for millions families who struggle to get into the market.

Some experts suggest the risk can be mitigated through structure: limiting withdrawals to modest percentages of total retirement savings, applying repayment rules, or deferring taxes until the sale of the home. Others warn that once the door is opened, political pressure could push the rules beyond responsible limits.

The timing of this proposal also coincides with another housing-related tax plan. Representative Craig Goldman of Texas recently introduced the â€œDonâ€™t Tax the American Dream Act,â€• which would eliminate federal capital gains taxes on the of a primary residence, provided the seller has lived in the home for at least two years. Currently, homeowners can exclude up to $250,000 (individuals) or $500,000 (married couples) in gains. Goldmanâ€™s plan would remove those caps altogether, a move he says would increase home sales and unlock more inventory.

Taken together, both proposals could expand access to housing and reduce tax burdens for homeowners. But they could also increase demand without solving the countryâ€™s core housing problem - too little supply. Without a corresponding boost in construction, home prices could rise even higher.

With full legislative language not yet released, both proposals are still in their early stages. But with housing affordability now front and center in national politics, the debate over how Americans fund their first home - and how they define financial security - may only intensify in the months ahead.
by Jim Malmberg

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