

6 Popular Uses for SBLOCs



Individuals can get flexible, convenient financing for a wide variety of uses through securities-based lines of credit (SBLOCs) backed by their non-retirement investment portfolios. Revolving SBLOCs enable users to borrow, repay and re-borrow on their schedule, paying interest only on the amount they use. Here are six ways that financial advisors see clients using these borrowing arrangements.

1. Real-estate bridge financing

Individuals moving from one home to another may temporarily need funds to buy or build a new home before they receive proceeds from selling the existing house. The use of “bridge financing” may be part of their plan when they start looking for a new home or it may be prompted by a sale that falls through or a closing that is delayed. An SBLOC can often be arranged quickly and the costs may be attractive relative to alternative lending options. Revolving SBLOCs allow borrowers to withdraw funds when needed to buy or build and repay in part or in full without penalty when the funds are no longer needed.

You might also read *Helping Baby Boomer Clients Move to a Retirement Community*.

2. A financial safety net

A line of credit can provide financial flexibility and emergency access to cash. Some clients may choose to apply for an SBLOC when there is no immediate intention to borrow. That way, they know the line of credit is available in case of an unexpected expense, an income shortfall or a family or other emergency. A line of credit can augment cash reserves and holdings of liquid securities, providing an additional option and greater flexibility when cash is needed.

3. Home renovation

Individuals borrowing to finance a home renovation or other home project may find an SBLOC attractive. They can compare an SBLOC to other choices including home equity loans and home equity lines of credit (HELOCs). For instance, compared to a HELOC, an SBLOC may be simpler, quicker and less intrusive to arrange, and the interest rate may be lower. Recent changes in the law removed many of the tax-advantages from HELOC’s – speak to your tax advisor to determine how this affects your decision.

4. Postponing realization of capital gains

Some clients with a need for cash may choose to use an SBLOC as an alternative to selling securities from their portfolio. In particular, they may prefer to postpone selling securities that have significantly risen in value since purchase, because selling such appreciated securities could result in a large taxable capital gain. Having an SBLOC in place can give investors liquidity when needed while they still retain control over the timing of capital gains and the potential taxes associated with a securities sale.

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5. Capital for personal or business investment

SBLOCs can provide funds for a variety of investments, such as a purchase of real estate rental property, an investment in a relative's start-up business, or as a means to accelerate the growth of the borrower's own private business. An SBLOC may also be attractive to a person who is starting a business but finds it difficult to get start-up financing. And because the borrower and pledgor may be different individuals or entities, SBLOCs can make it easier for parents or partners to invest in your clients business.

6. Cost-effective and flexible personal borrowing

Some individuals may choose to borrow to pay for a child's education or wedding or for a luxury purchase such as a boat or artwork. Having a flexible, revolving line of credit in place makes it easy to handle recurring or on-going expenses, and keeps interest costs down since you only borrow when you need it. They can compare the terms and cost of an SBLOC to those of other types of borrowing to select the best fit for them. Setting up an SBLOC ahead of time enables clients to move quickly on a time-sensitive purchase and implement the specific plan to cover the expense later.

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