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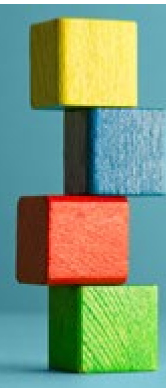

A Flexible Borrowing Option for Your Clients

By Whit Magruder

Advisors can satisfy clients' cash needs while they stay invested

Are securities-based lines of credit (SBLOCs) included in the toolkit you use to serve your clients? If not, they probably should be.

SBLOCs are a flexible and convenient form of consumer borrowing that can be attractive for clients and also for financial advisors. Here are key things for financial advisors to know and examples of how SBLOCs have been used in a number of real-life cases we have seen.

The basics of securities-based lending

SBLOCs use nonretirement investment assets as collateral for borrowing. These arrangements are revolving lines of credit, meaning that borrowers can draw down part or all of their available credit at their convenience. Clients can borrow, repay and re-borrow multiple times.

The loans can finance weddings, vacations, down payments or any number of other large liquidity needs (with the exception of purchasing or carrying margin stock). SBLOCs can also fund business expenses such as start-up and working capital, mergers and acquisitions, capital expenditures and partner buyouts. Commonly, securities-based borrowing is used to finance real estate activities.

SBLOCs help your clients' meet their liquidity needs—while allowing them to stay fully invested and not disrupting your implementation of their investment program.

An attractive choice for borrowers

Consider an advisor who got a call from a client eager to invest in a real estate venture. The client didn't want to sell investments from her portfolio, but the opportunity demanded that she raise cash quickly or risk missing out.

The advisor offered an SBLOC as a ready solution to her problem. With the client's approval, the advisor initiated the loan process as soon as he hung up the phone so she could have the loan in place when she needs it.

In the past, financial advisors had few options to offer clients with such needs. Selling investments meant forgoing potential gains or income and possibly triggering tax liabilities. Home equity lines of credit and other personal loans were often unappealing because they typically require lots of paperwork, weeks for approvals and all sorts of fees. And depending on the type of loan, interest costs could be significant.

Details vary among providers, but an SBLOC can offer a compelling combination of no fees, relatively low interest rates and quick turnaround.

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A compelling option for advisors

This borrowing alternative has given financial advisors a lever for strengthening existing client relationships and gaining insight into clients' full financial picture. Engaging with clients in a discussion of liquidity needs often highlights heretofore unknown client needs—and, just as often, unknown client assets held at other firms. You can more effectively manage clients' full investment portfolio without running the risk of disrupting your implementation to raise cash for their liquidity needs—and, as a result, you can keep those assets under management.

With some SBLOC programs, advisors maintain full visibility into the details throughout the life of the loan, so they can help review and manage both sides of their clients' balance sheets. With other financing alternatives, by contrast, the financial advisor's role is diminished due to a lack of transparency.

The product is not right for all clients. It requires a diversified portfolio that has a lendable value more than adequate to support the line of credit, to allow for market value declines. Clients using this product have to be ready to take action if collateral values fall, such as selling securities if certain collateral value thresholds are breached and incurring any related tax consequences and transaction costs. But for those clients who want to stay fully invested while still meeting their short and long term liquidity needs, an SBLOC can be very attractive.

Cash for life events and business plans

We have seen advisors across the US use SBLOCs to help their clients finance a variety of needs while keeping their portfolios intact.

One client used an SBLOC to pay for the down payment and renovation of a vacation property. He plans to repay the loan over time from cash flow. Another client wanted to purchase a new home while his existing home was on the market. His advisor helped him use an SBLOC as bridge financing, using the line of credit for the down payment. Advisors also find these lines of credit useful for clients who need cash to settle an unexpected and significant tax obligation or education expense.

In another case, a client wanted to provide seed money to a nephew who was raising funds to start a company. Guided to an SBLOC by his advisor, the client was able to help the fledgling company get off the ground. In a separate instance, a partner in a private manufacturing firm turned to an SBLOC to buy out one of his partners and increase his ownership stake in the business.

SBLOCs have helped advisors solve dozens of problems for their clients quickly and cost effectively, while allowing clients to stay fully invested. Financial advisors are finding SBLOCs to be a flexible and value-enhancing addition to their suite of offerings.

Whit Magruder is a managing director of Goldman Sachs and head of Goldman Sachs Private Bank Select® (GS Select). GS Select is a digital lending program that enables independent financial advisors to offer securities-based lines of credit (SBLOCs) to their clients.

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