



Securities-Based Lines of Credit in Practice: Helping a Business Owner Start a New Chapter

Selling a business is a monumental milestone. But that sale is often followed by a question: What's next? For one financial professional's client who had just sold his company, the answer was to jump headlong into a large commercial real estate transaction, using a securities-based line of credit (SBLOC) that delivered the liquidity and flexibility he needed.

The GS Select® line of credit team recently worked with the financial professional who was helping the client find a flexible way to finance the deal, which included several commercial properties housing a gas station and retail space. The client could have paid cash, sinking more than 70% of the proceeds from the business sale into the real estate purchase. But he was reluctant to tie up so much of that cash in relatively illiquid real estate assets — and especially reluctant to do so in a very volatile economic environment.

Another option was to finance the purchase with a commercial mortgage. While a mortgage would protect his liquidity, the underwriting process required lender appraisals, environmental reviews and a lot of billable hours from lawyers. That process would be costly and time consuming.

The financial professional suggested a third option, an SBLOC. By investing the money earmarked for the real estate deal into a high-quality municipal bond fund, the client could borrow against those assets as a line of credit he could use to purchase the properties.

The SBLOC solution was appealing for several reasons. It offered plenty of flexibility, allowing the client to draw from the line of credit when he needed and pay down the balance on his own schedule without a prepayment penalty. The client would need to make regular interest payments on the SBLOC but could also obtain a very favorable interest rate spread due to historically low interest rates. The result: The SBLOC offered the financial flexibility and liquidity the client wanted along with a timely strategy to capitalize on low rates.

The client moved forward with the SBLOC. Their financial professional worked with their GS Select Regional Lending Manager to create four separate lines that allowed the client to make the purchases on behalf of his family's four irrevocable trusts. The client drew on those lines of credit over a 90-day period, giving him time to move quickly — but carefully — in the purchase of each property.

The SBLOC enabled the client to take his next entrepreneurial step without sacrificing liquidity and while retaining the flexibility to adapt to changing market environments. And that's another milestone the client was happy to celebrate.

Learn more about how SBLOCs can fit into your workflow

Regional Lending Managers			
Northeast	MA, NH, VT, ME, RI, NY state	Ossie Babson	617-204-2334
New York Metro	Greater NYC, NJ, CT	Suzette LaBonne	212-357-4823
Great Lakes	OH, PA, DE	Laura Latulippe	215-405-4909
Mid-Atlantic	KY, WV, VA, DC, MD	Jen Bernstein	202-585-6798
Southeast	NC, SC, GA	Pat Jubard	404-846-7394
Gulf	FL, AL, MS, TN	Carrie Calloway	561-650-2607
South Central	TX, OK, AR, LA, NM	Paul Sargis	214-855-1183
Midwest	WI, MO, MN, IL, IN, IA, MI, KS, ND, SD, NE	Christina Harmon	312-655-5607
Mountain	CO, UT, WY, MT, ID, WA, OR, AK	Brad Croft	801-741-5705
NoCal	NoCal, NV	David Esser	415-393-7649
SoCal	SoCal, AZ, HI	Mario DePasquale	949-790-3726
GS Select Transitions		Debbie White	212-357-2171
		Danielle Falcone	212-934-0037

GS Select Advisor Solutions Desk | 844-477-1155

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