

# Securities-Based Lending: Flexible Access to Liquidity

For business owners managing complex, concentrated wealth, a securities-based line of credit can be a strategic tool that provides flexible access to liquidity without disrupting a long-term investment strategy or necessarily triggering a taxable event. In this Private Bank client briefing, our Family Advisory & Trusts team provides an overview of planning opportunities using securities-based lending.

## What is securities-based lending—and why does it matter?

A securities-based line of credit allows eligible securities held in non-retirement accounts to be used as collateral for a revolving line of credit. The ability to access capital without liquidating securities may provide greater financial flexibility within a broader wealth management strategy, particularly when balancing portfolio diversification, liquidity needs, and long-term growth objectives. As part of a comprehensive planning process, each strategy is thoughtfully evaluated for how well it advances your individual and family goals, aligns with your broader wealth strategy, and reflects thoughtful consideration of the associated risks.

### 1. Access liquidity without selling assets

One of the principal benefits of securities-based lending is the ability to access capital without liquidating investments to meet personal and business objectives, such as acquiring a primary residence, vacation home, or commercial property.

When there is an opportunity to move quickly on a real estate purchase—such as making a competitive offer on a primary residence or investment property—timing can be just as important as financing. A securities-based line of credit can provide access to capital if longer-term mortgage financing is being arranged, serving as a short-term bridge that may allow the purchase to close on favorable terms before permanent financing is in place.

As with any borrowing strategy, the appropriate approach will depend on your cash flow, tax considerations, and the anticipated holding period for the property. These considerations should be reviewed in coordination with your financial advisor and a qualified tax professional to determine how the strategy fits within your broader financial plan.

### 2. Cover tax obligations

For individuals facing sizable estimated quarterly tax payments or a significant year-end tax obligation, securities-based lending may offer a convenient source of short-term liquidity.

This approach can be particularly relevant where compensation includes restricted stock units (RSUs) or stock options, as is common among employees of early-stage, high-growth, or publicly traded companies. When RSUs vest, their value is generally treated as taxable compensation, and the amount withheld by an employer may not fully cover the resulting tax liability. Similarly, exercising stock options may require cash to fund both the exercise cost and any associated taxes. A securities-based line of credit can help bridge these liquidity needs, allowing you to address eligible tax payments while continuing to hold your shares.

### 3. Fund your next venture

Considering what may come next following the sale of a business? For many business owners, the sale of a company is often a steppingstone to the next venture. Rather than deploying the proceeds into another single, concentrated position, some savvy entrepreneurs instead use the proceeds to build a well-diversified investment portfolio, then draw on a securities-based line of credit for the leverage and liquidity to fund future opportunities. This is a strategy favored by some founders, sponsors, and principals accustomed to putting a bank's balance sheet to work.

### 4. Manage variable income

Owners, executives, and entrepreneurs often experience variable cash flow—whether from performance-based bonuses, tiered earning structures, or fluctuating business income. A securities-based line of credit may serve as a personal income bridge, helping to cover expenses and maintain your lifestyle without requiring the sale of appreciated assets.

### 5. Efficient access to liquidity

A securities-based line of credit can be an efficient way to access liquidity. Once approved, the line generally provides ongoing availability, subject to lending terms and collateral agreements, and can be drawn upon as needs arise—making it well suited to both planned and unexpected liquidity needs.

In certain circumstances, interest paid on borrowed funds may be deductible where the proceeds are used for qualifying investment purposes and applicable tax requirements are met. Because the deductibility of interest depends on how the borrowed funds are used and your individual tax circumstances, this strategy should be thoroughly evaluated with a qualified tax professional.

### An important planning consideration

While securities-based lending can offer meaningful benefits, it also introduces additional risk. A decline in the value of pledged securities may require additional collateral, repayment of a portion of the loan, or the sale of additional securities. Given these considerations, securities-based lending should be evaluated within a broader financial plan that reflects overall cash flow needs, tax circumstances, and long-term objectives.

### Talk to your Flagstar Private Banker today

We can help you evaluate how securities-based lending may fit within your broader financial strategy and connect you with specialists across the Bank.



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