

APPLYING STOCK LOANS TO REAL ESTATE

US STOCKLOAN

INTRODUCTION

A stock loan can help with low rate financing for real estate purchases or refinancing. It can be used either as a single loan, a bridge loan or in conjunction with a mortgage. A client can obtain up to 90% loan-to-value depending on the securities in the portfolio.

In order to purchase property, a client may be required to sell their security to provide as a down payment. However, selling the security is a taxable event which can be aggravated if the security has a low cost basis, or was bought at a low price relative to the current market value.

With a stock loan, the client can avoid selling the securities, defer the taxable event, and obtain cheap financing. The client still retains dividends and interests from the investment portfolio.

STOCK LOAN

■ Client Profile



- Have concentrated stock position with low cost basis
- Have a portfolio which generates cash flow advantageous to the client
- Executives with company stock
- High Net Worth individuals with a sizable investment portfolio

■ Benefits of Stock Loan



- Lower rate financing
- Retain benefits of investment portfolio such as dividend, interest, and capital appreciation
- Avoid selling low cost basis stock and thus avoid a taxable event
- No Credit or FICA Scores Needed
- Nonrecourse Loan

COMPARISON OF RATES

■ Stock Loan (Variable)

Variable Rate based on the 1 Month LIBOR plus a spread.
Spread size is dependent on loan amount.

Stock Loan			
Debit Balance	Index	Spread	Cumulative Rate
\$1,000,000 +	1month LIBOR	0.50%	0.74%
\$500,000 - \$999,999	1month LIBOR	0.80%	1.04%
\$100,000 - \$499,999	1month LIBOR	1.10%	1.34%
\$0 - \$99,999	1month LIBOR	1.10%	1.34%

Current Rates	
10/08/11	Rate
1 Month LIBOR	0.24%

Fixed rate stock loans are calculated based on market conditions and have 3 to 5 year terms. They also have lower rates than 3 or 5 year mortgages.

■ Mortgage Rates

Mortgage (National Average)	
	CURRENT
30-Year Fixed	4.12
15-Year Fixed	3.45
5/1-Year ARM	3.07
1-Year ARM	2.95
30-Year Fixed Jumbo	4.77
15-Year Fixed Jumbo	4.14
5/1-Year ARM Jumbo	3.17
Provided by Bankrate.com 10/08/11	

TRADITIONAL MORTGAGE LOAN COMPARISON

The following is an example of how a real estate loan could be improved using a combined stock loan/traditional mortgage loan. The combined approach produces a more powerful use of this type of loan for certain transactions.

The security loan can be used for partial or entire purchase price of a home but is not a lien on the property and therefore not part of the LTV or cumulative loan-to-value (CLTV). Given the low interest rate of the security loan, it will reduce the overall debt to income (DTI). This does a couple of things—from enabling a transaction to get done to allowing lower LTV on the mortgage.

■ Regular Mortgage ■ Purchase Price: \$2 million

Borrower wants to finance \$1.6 million with a regular mortgage

- LTV of 80%
- Interest rate of 5%
- Mortgage payment of \$10,672
- Monthly income of \$25,000

Debt-to Income(DTI)TI: 43%

■ Security Loan/Mortgage Combo ■ Purchase Price: \$2 million

Collateralized Security Loan for \$600K

- Rate: 3%
- Monthly Payment of \$1,500 (simply interest)

Regular Mortgage: \$1 million

- LTV: 50%
- Interest rate of 4.75% (rate reduced due to lower LTV and lower loan amount)
- Mortgage payment of \$7,299
- Total monthly payment of \$8,799, with a monthly savings of \$1,873 (18% savings)

Debt-to-Income: 35%