naviter wealth

Portfolio Lending

Margin lending and securities-backed loans both allow you to borrow money against your investment portfolio.

Margin Lending

Margin lending is a type of loan that is offered through a brokerage account. When you take out a margin loan, you are essentially borrowing money from your brokerage firm to buy more securities. The amount of money you can borrow is typically limited to a percentage of the value of your portfolio and you will be required to maintain a minimum equity balance. If your equity balance falls below a certain level, you will be required to deposit more money into your account or sell some of your securities.

The Federal Reserve Board, SROs such as FINRA, and the securities exchanges have rules that govern margin trading. Brokerage firms can establish their own "house" requirements that are more restrictive than those rules.

Here are some of the key rules you should know:

Rates

Rates are typically variable and based on a percentage or "spread" over the Secured Overnight Financing Rate (SOFR).

Borrowing Limit

The Federal Reserve Board's Regulation T (Reg T) limits the borrowing rate in margin accounts to 50%.

Amount You Can Borrow – Initial Margin

According to Regulation T of the Federal Reserve Board, you may borrow up to 50% of the purchase price of margin securities. This is known as the "initial margin." Some firms require you to deposit more than 50% of the purchase price.

Amount You Need After You Trade – Maintenance Margin

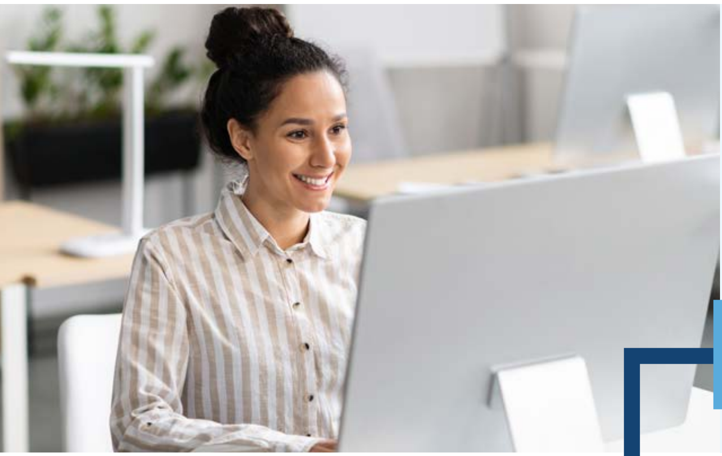
After you buy margin securities, FINRA rules require your brokerage firm to impose a "maintenance requirement" on your margin account. This "maintenance requirement" specifies the minimum amount of equity you must maintain in your margin account at all times. The equity in your margin account is the value of your securities less how much you owe to your brokerage firm. FINRA rules require this "maintenance requirement" to be at least 25% of the total market value of the margin securities. However, many brokerage firms have higher maintenance requirements, typically between 30 to 40%, and sometimes higher depending on the type of securities purchased.

Securities-Backed Loans

Securities-backed loans (SBLs) are offered by banks and other financial institutions. These loans are not tied to a specific brokerage account and you can use the proceeds for any purpose. The amount of money you can borrow is typically limited to a percentage of the value of your portfolio. Typical advance rates on these loans range from 50-65% for equities, 65-80% for corporate bonds, and 95% for U.S. Treasuries. Often financial institutions that provide SBLs require a minimum loan size of $100,000 or more.

Rates for SBLs are often lower than what you would be able to qualify for with a personal loan or line of credit. Rates are typically variable and based on a percentage or "spread" over the Secured Overnight Financing Rate (SOFR). Some institutions offer a fixed rate.

	Margin Lending	Securities-Backed Loans
Purpose	To buy securities	For any purpose
Borrowing Limit	Typically 50% of the portfolio value	Typically 65-90% based on asset type
Maintenance Rate	Typically 25% of the loan amount	Typically 30% of the loan amount
Rate Type	Variable	Variable or fixed



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