Access funds with ease using a line of credit (LOC)

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TRANSCRIPT

SPEAKERS:

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Don Raymond: My name is Don Raymond with Fidelity Investments. I'm a regional brokerage consultant with Fidelity. My role—I work in the greater Boston area, helping local clients with education on Fidelity's award-winning brokerage platform. I appreciate everyone signing into the event today. We look forward to today's discussion about line of credit. Steve, let me let you introduce yourself, and then we'll jump right into the agenda.

Stephen Phelps: Perfect. Thanks, Don. My name is Steve Phelps. I'm a director of the Lending Solutions team here with Fidelity. I've been at Fidelity for about a decade now in various roles. Been in this role for about two years now, helping clients understand all of the lending solutions that Fidelity has to offer to them.

DON: That's great. Thanks, Steve. So let's take a look at what our agenda is for today. When you think about when we're done at the end of our presentation, what do we expect to walk away with? First, we would want to know, what is a line of credit? What is a securities-based line of credit? After that, how can I use a line of credit? How does it work? And if all of those things are right for me, how do I apply and move forward, Steve?

STEVE: Great.

DON: So let's look at the first piece, Steve. What is a securities-based line of credit, and what are some of the things I might consider?

STEVE: Perfect, yeah. Let's talk about it, Don. So in its simplest terms, securities-based line of credit is a way for you to get access to money for your short-term liquidity needs. This is going to allow you to stay invested. It's going to allow you to focus on your long-term strategy while still getting access to cash in the immediate term.

As we'll see, there's a broad range of uses for credit lines. And you can really use credit line for whatever you want, as long as it's not being used for purchasing additional securities within the market. This is going to give you the ability, like we said, to have access to cash quickly and easily while still staying invested.

This isn't the only lending option that Fidelity has. We do have other lending options here that are listed on the page here. We've got a margin loan, typically used for trading, typically used for additional investment within the market. Through our referral partners, we also have home equity lines of credit—a similar line—similar to an asset-backed line of credit. On an asset-backed line of credit, it's the assets in your brokerage account that are being used as collateral for your loan. Home equity line of credit—it's your home equity that's being used as collateral for your loan.

We also offer traditional mortgages through our referral partner, which you will see later on. Have some different terms, a little less flexibility than the line of credit, which we're going to focus on today. Great. Anything else you want to add there, Don?

DON: No, nothing else there, Steve. But if we can, let's think about what are some of the things that I should consider with line of credit as we're looking at this?

STEVE: Yeah, the number one advantage to this, as we mentioned, is that it's going to let you stay invested. It's going to let you focus on your long-term strategy and hopefully help you achieve your long-term financial goals—also getting access to that short-term liquidity and that short-term cash need that you might have.

It's going to let you avoid capital gains and avoid the costs of liquidating. It's very easy to get access to cash. And like we mentioned, it's flexible, so you can use it whenever you want. Credit line sits there on your account at no charge to you until you actually use it.

DON: Steve, I've talked to a number of clients in the past about borrowing against their wealth. And when we think about this that we're discussing now, I see where it says, fast access and no fees. Tell me a little bit about what are we defining as fast, because I know sometimes this is really important.

STEVE: Lots of different accounts are eligible for this and it's easy to get access to the money no matter what type of nonretirement account you have. So this is available for nonretirement accounts. We have a digital online process for you that you can use to apply. We'll take a look at that later on in our presentation.

But the bottom line is our clients that are applying online are typically getting access to funds within two to three business days of completing their application. When they're ready to access funds, our partner banks that supply the loans will send a bank wire to any destination that you indicate. So whether that be to your own bank account or whether that be directly to a title company for a closing, directly to a contractor for a home improvement, you can have access to money same day once this line of credit is on your account.

DON: That's really great. Thank you, Steve. Knowing now what we know about this, I'm thinking about, what are some of the common cases, Steve? As you had a lot of conversations about this with local investors, what are some of the common cases that clients are coming to us for a line of credit?

STEVE: Yeah, let's take a look, Don. Let's take a look. Here's a list of some of the common uses that we see clients utilizing a line of credit for. I would say this is not an exhaustive list. So a lot of our clients do use this as a bridge loan, using this for a real estate purchase, trying to make a cash offer on a house. We'll talk a little bit more about that here.

But there are definitely broad needs. And like we mentioned, you can use this for anything, and you can use this for multiple purposes as long as you're not using it to buy additional securities in the market.

Let's look at a couple examples. So here's a good example. Again, I mentioned a real estate need—very common for our clients. Let's talk about how this compares to a traditional mortgage. We already mentioned this is fast, and this is flexible. So it's free to apply. It's free to put this on your account. It's free to have it if you need it.

If a good real estate opportunity comes up for you, this is something that you can have in your back pocket where, now, you can go and put a cash offer on a property, whereas you might not have been able to do that with traditional mortgage financing, seeing cash is king right now in a lot of offers across the real estate markets.

Again, this is free. This is flexible. It's easy to use, in comparison with a real estate mortgage or with a traditional mortgage, you're looking at having closing costs, broker fees, and mortgage repayment fees, prepayment fees if you are trying to prepay your mortgage early, right ahead of that fixed 15- or 30-year period that most mortgages have.

With this, there are no prepayment fees. You can pay this loan back whenever you want and in whatever cadence that you want. So you can have this in your back pocket to put a cash offer on a home and then pay off the loan in whatever terms that you want, rather than have a mortgage broker indicate those terms to you.

DON: Steve—go ahead, Steve. Sorry. No, I was going to say—this is a common example that I see come up through some of my conversations as well. I see a lot of clients that are asking or have interest in—they want to sell a home. They want to buy a home. But they might want to buy before they sell. Is this the kind of case that you're thinking about here when we're looking at this?

STEVE: Exactly right. Exactly right, Don. I would say that is the most common use for our clients and how they utilize this. They're using this as a bridge loan. They want to purchase a second home without moving out of their first home. And they're able to do that with us. They're able to put a cash offer down, purchase the home outright.

And if they want, then from there, you can refinance into a traditional mortgage. But this is going to allow you to avoid those closing costs up front. This is going to allow you to be able to make that cash offer simply and easily in one transaction, one bank wire, directly from our partner banks to a realtor for a closing.

DON: And for an example like this, Steve, this really feels like we're, you know, having access and everything being fast is really important. Correct me if I'm wrong, Steve. But if an investor decides that they want to open a line, that doesn't mean they need to draw from it right away, right? They could wait till that time is right for them.

STEVE: Right, again. Absolutely correct on—the line of credit is going to sit there at no charge to you until you actually use it. So no charges to apply, no charges to maintain the line, no annual fees. The only charge that you're going to see with an asset-backed line of credit is your monthly interest payment once you actually start using your credit line.

DON: That's great. Steve, let's take a look at a couple more scenarios if we can.

STEVE: Yeah, great. Yeah, let's look at another example here regarding tax payments. This is another common one that I see a lot of clients use the line of credit for. I recently had a client who owned their own business, and they ended up selling it. After they sold their business, they were staring at a seven-figure tax obligation.

They used line of credit to help mitigate that liability. So they were able to sign up for a line of credit. They were able to make one large payment to the IRS using the credit line. And then from there, they were able to then pay off their line of credit on their own terms. So they were able to spread out that tax liability over several years by utilizing the credit line. OK. That's a good one.

Let's look at one more example here, which is another common one which is funding a business. Fidelity offers lots of different types of business accounts, whether they be corporate accounts, LLC accounts, sole proprietorships. Those are all eligible registration types for credit lines.

My personal favorite—client that I helped with a credit line ran a nonprofit for inner-city kids in the Washington, DC, area. They were helping inner city kids get access to arts and music programs that they wouldn't have otherwise had access to. They were able to use a line of credit to help expand the program and help more kids get access to those programs.

So we were really excited about that. I think that was a great example of that, again, exemplifies that you can really use this product for any purpose that you can think of—again, as long as it's not investing in additional stocks and mutual funds.

DON: I think I heard you say before, Steve, you consider this more of a general-purpose loan when you think about different reasons—what it can be used for. Does that sound right?

STEVE: Yeah, absolutely correct. Absolutely correct. A general-purpose loan can be used for anything and can be used for multiple purposes at the same time as well. So when we think about—another example of how to use this with funding a business—I see a lot of clients use this when they have real estate LLCs and they like to flip houses. So they'll buy a house, renovate the house, and then sell the house, ideally for a profit.

This is going to allow you to do all of that with one loan. So rather than purchasing the home with a construct—purchasing the home with a mortgage loan and then renovating it with a construction loan, you can now do all of that in one loan and in one piece. You can do it quickly and easily. And it's there for you to use any way that you want.

DON: Steve, if I'm an investor and decide that this might be right for me, what are some of the terms I should be thinking about? What are some of the other things that I should just be aware of? Can you go over a few of those for us.

STEVE: Yeah, yeah, let's talk about how this works and some of the key details when we think about applying and what you want to consider. So right now, this is a product that's available for our high-net-worth clients. We do have a $500,000 minimum in nonretirement assets to be eligible for the program.

If you're falling short of that, we have other options for you. On our earlier slide, we mentioned margin loans. We mentioned home equity loans. And we mentioned traditional mortgages. Those products do not have this $500,000 minimum that the line of credit has.

With that in mind, there is a $500,000 minimum to be eligible for this program. You can mix and match your accounts to get there. So you can combine different account registrations to get to that $500,000 minimum. So if you have a joint account and an individual account—if you're managing some of your money and Fidelity is managing some of your money for you, you can combine all of those different account registration types together to get to that $500,000 minimum, to get above it, and to get the biggest loan possible. The more collateral that you provide, the larger of a loan our banking partners are able to provide you. We'll look at how those ratios work in a little bit.

If you are ready to move forward, we want you to talk to your advisor. We have a digital application that we'll be able to send out to you. We talked about that it's easy to apply. It takes about 10 to 15 minutes to apply online, in most cases. And again, we have that quick online turnaround of two to three business days in most cases.

We do offer our loans through third-party banking partners. We have two banks that we work with—US Bank and a second bank called Leader Bank, which is a regional bank out of Boston where Fidelity is headquartered. Those are the banks that you'd be working with. They are the ones providing the loan.

They do have dedicated lending teams that will work with you to release the funds. Like we talked about before, when you're ready to use your credit line, you're going to send a bank wire—you're going to contact the lending institution. The lending institution will send a bank wire to whatever destination you indicate, whether that be directly to you or to a third party that you might be working with.

Terms and fees—it's free to apply. No application fees, no annual fees. You have an interest-only payment every month. You'll be able to pay off his loan, like we said, in whatever cadence you want. You can pay it off in chunks. You can pay it off in all in one shot. There's no prepayment penalties or anything like that when you're repaying it. Anything you think I missed there, Don?

DON: No, that's great, Steve. I might just comment around—just from something you shared where if an investor has multiple accounts that qualify, what you're saying is they can potentially open a line on both of those accounts should they choose to do so. And what that might mean to the investor is they'll have more funds available to borrow against. But am I right that that might also help them qualify for a lower tier rate, which could also be a net benefit to the investor?

STEVE: Yes, yes, absolutely. Let's definitely take a look at that here. You're absolutely correct that we have a tiered rate structure. And the larger of a credit line you get, the better of a rate you can get. One thing I do want to mention before we leave away from this page is we can combine spousal accounts as well. So if you're married and you and your spouse both have individual accounts, we can put those accounts together to help you get to the minimum and to help you get to the biggest credit line possible.

DON: Steve, let's move on and go over some of the other things I should be thinking about or considering, if we can, please.

STEVE: Perfect. Let's look at some risks and considerations. I think that's a great segue here. So going from left to right, variable interest rates for credit lines. So the rate is going to change every month based on rates in the overall market, whether that's to your advantage or disadvantage. So if rates are moving up in the overall market, you're going to see your rate increase. But if rates are moving down in the overall markets, you're going to see your rate decrease automatically as well. That's going to change every month.

Fluctuating asset values, as we talked about, the amount of assets that you pledge toward your credit line is going to determine what we're able—what our partner banks are able to offer to you as your total maximum credit line. If your assets are decreasing in value, that can cause your credit line value to drop as well.

Some withdrawal features are disabled from your account when you have an active credit line. Those include bill pay and checkwriting. That's not to say that your assets are locked up entirely. We'll see later that you do have the ability to withdraw your own assets from your account while your credit line is active.

Last but not least, as we mentioned before, funds cannot be used to purchase additional securities. So these are general-purpose loans, revolving lines of credit. Can be used for any outside business activity but cannot be used to buy more stocks, mutual funds, bonds, et cetera.

DON: Steve, I think the question that a lot of our investors that are watching this now might be asking is with the variable interest rates, is that something I can track? What can you tell me there?

STEVE: Sure. It is definitely something you can track. The variable component to the rate is going to be run off the one-month securities overnight finance rate. That's a common rate that's used in the market to set some of these credit lines up. And it's affected by Federal Reserve action in the open market.

DON: Thank you, Steve.

STEVE: Great.

DON: Steve, if we can, let's now move on to—I know what the line of credit is. I know different ways it can be used. You did a great job of sharing some of the different examples of how it works. If I were interested in moving forward, like the slide says here, what's the process look like?

STEVE: Yeah. Yeah, let's talk about the roles of each party here because as we mentioned, we have a tri-party agreement between you, the client, Fidelity as the broker, and our third-party lenders. Your role as the client is to decide which of your accounts you want to pledge. Remember we talked about combining your accounts to get to your credit line size that you need.

Once you've decided which accounts you want to pledge, you're going to complete an application. That's going to go to the partner bank for review and approval. And then it's up to you when you want to use your credit line. Remember that? We said it's going to sit there as available to you with a zero balance and no charge to you until you actually use it. You decide how much you actually need to use. And of course, you only pay interest on what you're actually drawing.

Fidelity's role is to monitor the assets and to connect you with our two partner banks. Your accounts stay invested at Fidelity. Everything's going to continue to look normal from an account monitoring perspective. If you're managing your own account under Fidelity's roof, you're going to continue to be able to trade and change investments like normal within your account. And if Fidelity's managing your account for you, the account will continue to rebalance like normal, like you're used to seeing. We'll continue to monitor your assets and your allocation for you. We continue to hold your assets under our roof, like I said.

Our two partner banks—they are the ones that are ultimately underwriting the loans. They're taking your application. They're reviewing the assets that you're pledging as a line of credit. They're deciding what your maximum credit line would be, based on those assets. They're determining the interest rates. And they're facilitating all the transactions.

So when you're ready to use your line, you're going to contact the partner lender directly. Both of our partner lenders have dedicated teams with 800 numbers that are there for you during normal business hours. They're also going to help facilitate interest payments and credit line payoffs and terminations if you do want to close your credit line and ready to be done with them. So they're there for you. Dedicated lending team. We all work together as a group to make sure that you're getting what you need and getting a great experience as a client of Fidelity.

DON: Steve, can—I know you shared this earlier, but can you remind our investors who those two partner banks are?

STEVE: Yes, yes. One more time, that's US Bank, a pretty common name, and then Leader Bank—again a regional bank out of Boston, where Fidelity is headquartered, where we have very good relationships with them as well.

DON: And I know, Steve, you shared that a lot of this is a digital process now, which is great. Can you go over a little of that with us? Can you share maybe what that might look like?

STEVE: Absolutely, yes. Let's take a look at what that looks like. So as we mentioned, if you are wanting to move forward, talk to your advisor. They can get you an application link right online. It's going to look like this. I'm going to click the link here that says "Get loan estimate." We're in a test environment here. So we can see this person has lots of accounts. Again, we can reiterate that we can combine our different accounts together, choosing the ones that we want to pledge toward the credit line.

Once I have the accounts selected that I want to use, I come down to the bottom and click Get Loan Estimate. This is going to take me through and choose one of our partner banks. We'll see the quote at the top here once this comes through. Great.

So here's a quote from US Bank showing our maximum loan amount. It's showing our all-in rate. This is an annual rate. And it's showing our estimated monthly payment if we were to withdraw our entire credit line balance—in this case, $1.44 million. Let me reiterate again—you're only paying interest on what you're actually borrowing at any given time. There's no force draw. The line sits there with a zero balance until you actually use it.

If I click this arrow here, this is going to break out and show me a little bit more about where my rate's coming from. I mentioned our securities overnight finance rate before. You can see here—this is as of today. 5.33% is the variable rate. And then I'm paying a fixed spread over top of that, based on the size of my credit line.

Again, we mentioned this before, Don. But it's very important to remember that the larger your credit line, the better your fixed rate is going to be, and the lower, ultimately, your rate is going to be.

Another important point here is that your credit line size—not how much you're borrowing—determines your interest rate. So again, in our example, we've got a $1.44 million credit line. That's putting us in the 2.35% tier here. OK that doesn't mean I need to borrow $1 million to get to the 7.68% rate, all in. The first dollar that I borrow is going to be at this quoted rate. Again, it's all about my credit line size, not how much I'm borrowing, that determines my effective rate.

If I like what I see here, I'm comfortable with these terms, I'm ready to move forward, down at the bottom here, we have a link that says "Start loan application." That's going to take you to US Bank's loan application screen where you can complete your loan application. Again, we said it takes about 15 or 20 minutes to complete, at most. And these digital applications are usually turning around within two to three business days.

DON: Steve, you shared, on the previous page, where an investor can pick and choose which accounts they may consider to pledge. You also mentioned, on one of the previous slides—on the consideration slide—that some of the features will be turned off—bill pay, checkwriting, debit card. I know a lot of our investors really enjoy those features. Would you think, then, an investor could open up a separate account to keep those features and just not pledge that account? Is that what investors are doing in that case.

STEVE: Absolutely right, Don. Absolutely right. So on the last page, we said that we could choose the accounts that we want to pledge. We don't have to pledge all of our accounts. Remember, it's free to open accounts with Fidelity. You can have as many accounts under our roof as you want. So if you do like those features—bill pay, checkwriting, automatic withdrawals—you can absolutely segregate your assets between different accounts, keep those features on one account, and then pledge accounts two, three, four, five, however many accounts you want to ultimately pledge.

DON: That's great. We do have some questions if you can help us with a little bit of the QA. You did a lot to already answer this question as far as applying. But if I did apply and I have this open line, and maybe like the example you were sharing earlier about—I'm looking to use a line to use as a purchase on a home, as a bridge to potentially, a mortgage—how do I access the funds? What's that process look like for me?

STEVE: Yeah, let's talk about it. Let's talk about it, and let's take a look at our digital experience. So when you are ready to access funds, like we mentioned, you're going to want to contact our partner lenders directly. They're going to release a bank wire for you to any destination that you want. So with just a phone call, you can get access to the money same day.

Let's look at what this looks like on Fidelity.com. Here's an example of a client that has an active credit line. We're in a test environment here, so not all the information is perfectly reflected. The rate information that we're looking at is a little bit stale here, just as a heads-up. But this is the kind of view that you would see if you had an open line.

So I'm on the Accounts page on Fidelity here. You can see me scrolling down the left side. I have an extra account here on the bottom left of my screen, and this is going to give me all the information that I need to see about my line. So I can see what my active drawn balance is. I can see what I have available if I want to take additional draws. I can see what my effective rate is. And I can see if I have a payment due.

Remember, we talked earlier, as well, about your assets and how they are not locked up. Here, on the right side, I have this link to withdraw assets from my account if I want to take my own money out of my account. If I've got some cash sitting that I want to withdraw, I can absolutely do that through this link.

DON: Remind us, Steve, how long did you just say that process typically takes, just in case an investor missed that earlier?

STEVE: Sure. Normal processing times. Normal processing times on being able to withdraw your own assets from your account. Again, here's our phone number for US Bank. This is if we want to use our credit line, if we want to transact on our credit line, we're going to make a dial directly to US Bank. They're going to release the funds to us or to wherever we indicate.

DON: Steve, here's a question. If I'm an investor and I have a line of credit away, is that something I can transfer to Fidelity?

STEVE: Yes. Yes, Don. You absolutely can. So if you have a line of credit at another firm, it's something that we can help you facilitate, paying off that existing credit line and then transferring your assets to Fidelity. What that process looks like is we will work with you to complete an application with one of our partner banks. Our partner bank will then underwrite a new loan for you. They will go ahead and pay off the existing loan in the background without you needing to take any additional action. We can transfer the old loan to the new loan.

Once the new loan is under our partner bank's roof and on their books, then you can facilitate a transfer of assets over to Fidelity. So we are able to do that for you, all without you needing to pay off your loan before transferring.

DON: Steve, can you tell us a little bit about how the bank determines the loan amount?

STEVE: Sure. Yeah, absolutely. So our partner banks are going to look at your specific situation and your specific positions in your account when they are determining the loan amount. He said that there are lots of different types of eligible collateral. Stocks, mutual funds, ETFs, fixed income and individual bonds, and cash are all eligible types of securities that can be used as collateral.

In a diversified portfolio, our banking partners are normally going to release 65% to 70% of what you provide as collateral. If you have a concentrated position, it might be a little bit less than that. Usually more like 45% to 50% of what you supply as collateral is what they will release as a loan to you.

When you're going through our loan application process, like we saw before, you can choose your accounts that you want to pledge. And the system is smart enough to look at your individual positions within your account and determine the most up-to-date loan size based on that. Ultimately, before you sign your loan contract, you will work with our banking partner, and they will have the ultimate decision to work with you to determine the exact loan amount.

DON: That's great, Steve. This might be another question that a lot of our investors that are watching this now are thinking about. Well, how's the interest calculated, and what are the terms? Are there terms for the loan that I should be thinking about too?

STEVE: Sure, sure. So the interest rate is based on an annual rate, and it's going to be charged every month. Now, what's most important to remember here, again, is that you are only getting charged interest on what you're actually borrowing at any given time. So you've got your interest rate determined by your spread, plus the overnight finance rate. And once you decide how much you want to borrow, then you're going to be charged accordingly. It's a simple interest calculation based on how much you're borrowing at any given time.

All right, Don. Should we summarize here?

DON: If we can, yes.

STEVE: Yeah, again, just to summarize on this—remember that this is an easy way for you to get liquidity. This is an easy way for you to get access to cash while still staying focused on your long-term investment strategy. We have a quick online application process, normally a fast turnaround. Usually our clients are getting access to cash in the same week that they apply.

And remember that you can use this for a variety of needs. As long as you're not using it to invest in additional securities, you can use this as a general purpose credit line for anything that you can think of and for multiple purposes at the same time. OK.

DON: That's great, Steve. Let's talk about next steps. For everyone on the presentation today, we appreciate you following along with us. We're grateful for your business. You can see here on the screen if you have interest in learning more or potentially moving forward, you can schedule an appointment with your local advisor. You can also get an estimate, like Steve was talking about earlier, by clicking on the link here or scanning the QR code that we have on the page.

I'll take a moment, Steve, to thank, again, all of our investors for following along. Appreciate your business Steve, let me hand it over to you to, obviously, first, thank everyone as well. But lots of great information today, Steve. Thank you for the hard work and putting this together and helping our clients.

STEVE: Yep. We really appreciate everyone who's attended and taking the time to learn more about this. It's an exciting new product that Fidelity has been able to offer, and hopefully it allows you to maximize your portfolio, get the most out of your relationship with Fidelity.

Disclosures:

Non-margin loans are made by third-party lenders (the "Bank(s)"). Fidelity has a minority percentage, non-controlling ownership interest in Leader Bank; however, Fidelity does not recommend any of the Banks. There are many lenders in the marketplace—you should carefully and independently evaluate all your options and choose the one that's right for you.

Customers may choose to use a third-party lender of their choice to collateralize their accounts and may receive different services or pricing. Please note that the solutions as described herein refer to the Lending Solutions Line of Credit program which uses the third-party lenders with whom Fidelity has specific contractual agreements.

The Bank(s) are solely responsible for any information about the lending product offered, including any discussions about the loan product or any estimate or loans terms provided to you.

If you take out a line of credit with the Bank(s), the collateral securing your loan will be held in your account(s) subject to the terms of the Control Agreement between you, Fidelity, and the Bank(s). Loan proceeds cannot be deposited into a Fidelity account and cannot be used to purchase securities.

Fidelity is compensated by the Bank(s) in the Lending Solutions program for promoting the availability of their line of credit product, assisting with the loan application process, and providing ongoing support during the life of the loan. Fidelity's compensation will generally be equivalent to a percentage of any average outstanding loan balance. Fidelity associates will be compensated upon the loan being drawn down.

Interest rates for a line of credit offered by the Bank(s) in Fidelity's Lending Solutions program are offered in a tiered structure and will vary based on the amount of the loan commitment. The interest rate you will pay on your line of credit may be higher than the rate you would pay if you dealt directly with the Bank(s) and may be higher than the rate you would pay if you obtained a similar loan from another bank. Please note that not all banks in the program offer these line of credit products directly to the public.

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