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Top Trends in Securities-Based Lending

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2020 was a watershed moment for securities-based lending (SBL). Investors experienced unplanned liquidity needs caused by business disruptions or by opportunities to buy assets at a discount. But no investor wants to sell at the wrong time and disrupt their investment strategy. These factors have created an imperative for financial advisors to offer SBLs to their clients and fulfill the promise of advice beyond investing.

SBLs offer investors a way to open a line of credit using the value of their non-retirement investment portfolio as collateral. This can be an appealing lending option to meet liquidity needs while staying invested. SBLs can be used for any purpose except to purchase, carry, or trade securities and often have lower interest rates and higher advance rates than margin loans. Among investors, even high-net worth investors, there may be a lack of awareness of SBLs, giving advisors a unique opportunity to meet their clients' needs by taking advantage of the following key trends.

Wider Adoption of SBL by Advisors and Investors

With investment advice increasingly commoditized, taking a total balance sheet approach is a rising trend in wealth management. Investors are looking for holistic advice that covers their cash and lending needs. As a result, more advisors are embracing SBL and incorporating it into their conversations with their customers. SBLs are an appealing option when investors have liquidity needs such as a bridge loan or a real estate purchase that requires a large cash outlay. Many advisors have realized that having their clients borrow through them, leads to deeper relationships, satisfied customers, and retaining and growing assets under management (AUM).

Shift to In-house SBL

Some advisors still refer clients to custodians or a 3rd party for SBLs, thereby losing oversight. Having an SBL product in-house is a trend that gives advisors the tools and information they need to incorporate liquidity into their advice. Fiduciary advice for SBLs starts upfront with an eligibility assessment to determine loan suitability as well as a client's capacity to responsibly borrow. In-house SBL loan products come with competitive interest rates, generally lower than most 3rd party offerings. With an in-house SBL product, advisors can proactively monitor risk to see potential risks during the life of loan, creating opportunities to proactively determine mitigation strategies. Offering an in-house SBL

product offers an array of benefits to clients and advisors.

Bringing Transparency and Digital Collaboration

With 2020's stay-at-home orders and working from home arrangements, digital adoption was forced to accelerate across financial services. The silver lining for wealth management firms that embraced fully digital in-house SBL solutions is transparency for both advisors and clients. SBL products with modern digital experiences are easy to use and intuitive, and they also provide digital collaboration in meaningful ways.

Starting with the proposal, advisors can work online with clients to determine the right pledged accounts, loan size, and interest rate that suits their needs. Then an application can be completed and decisioned online in a process that can takes minutes not weeks. Once a loan is approved, clients are enabled to digitally self-service to complete draws and see account information 24/7, leaving advisors free to give white glove treatment on value-added services.

These trends will only accelerate in 2021, so don't miss out on the benefits of SBL. ■

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