Securities-Based Lending: Portfolio Loan Account

SUMMARY

Your investment portfolio is a reflection of what you have worked hard to acquire. Putting the value of those assets to work in order to make new things possible, however, may at times be challenging. A Portfolio Loan Account can help you unlock those assets by leveraging their value to establish an efficient source of funding for both strategic opportunities and unanticipated needs.[1]

As a component of managing your wealth, a Portfolio Loan Account lets you take a strategic approach to borrowing. Using the eligible securities in your Morgan Stanley investment account as collateral for a loan or a line of credit can provide liquidity for certain business or personal opportunities—the ones you have planned for and the ones you have not.

PORTFOLIO LOAN ACCOUNT QUICK FACTS

	Variable Rate Revolving Line of Credit	**Fixed Rate Loans**	**Standby Letter of Credit**
Minimum Draw[2]	No draw is required. $100 minimum disbursement	Initial draw must be made by wire transfer. $100,000 minimum draw	Minimum issuance amount is $100,000 No minimum draw
Origination Maintenance Fees	None	None	Issuance fee: 1.5% for $100,000—$1,000,000 1.0% for greater than $1,000,000
Index Rate	Spread based on daily 30-day LIBOR	Spread based on LIBOR swap rate matching the duration of the rate lock	N/A
Duration	On demand	6-month, 1-, 2-, 3-, 4-, 5-, 7-year interest rate lock	N/A
Access to Funds	PLA check or wire transfer	Wire Transfer	N/A

Unlock the Value of Your Portfolio

Saving and planning are often the most straightforward strategies for addressing significant financial goals and large expenses. Liquidating an investment account can be part of that plan but, in doing so, there are hidden costs to consider—such as taxes on capital gains,[3] the potential loss of future growth or an imbalance in your portfolio's overall asset allocation. When the time comes, or when an opportunity arises, an alternate financing strategy may be more practical.

How you borrow is an important component in maintaining your wealth and achieving your goals, and can be equal to the strategic role played by your investments. Whether presented with a unique opportunity or property—or faced with a large expense—you may be able to take advantage of the underlying value in your portfolio without disrupting your investment strategy (as long as the required level of collateral is maintained).

For those who qualify, a Portfolio Loan Account provides a single source of increased borrowing power based on the value of the eligible securities in your portfolio, including certain eligible international securities, offering a convenient alternative to costly and restrictive financing platforms. Portfolio Loan Account is also available to borrowers residing in eligible international jurisdictions and U.S. territories. You can:

- Be prepared for unforeseen events and opportunities, treating the account as a flexible, standby line of credit, for example.
- Achieve real estate objectives, whether they be investing in commercial property, purchasing a vacation home or funding a bridge loan.
- Manage and grow your business, using the account for day-to-day expenses such as working capital and inventory—or to achieve longer-term business objectives such as purchasing equipment and expanding.
- Fund luxury purchases, such as a boat or an automobile, while staying focused on your overall investment strategy.

THE BENEFITS. If you qualify, a Portfolio Loan Account lets you borrow against eligible collateral in your portfolio, giving you:

- **Competitive rates.** Interest rates on securities-based loans and lines of credit may be lower than alternatives such as traditional mortgages, commercial lending facilities or margin borrowing.
- **No set-up fees.** There are no set-up fees paid to Morgan Stanley to establish a Portfolio Loan Account. (Issuance fees may apply when establishing your PLA as a standby letter of credit.)
- **Simplified process.** If you qualify and hold eligible securities, setting up your account is typically a more streamlined process, in part because the collateral is liquid and a function of your long-term investment strategy. You can choose to fund your Portfolio Loan Account on a variable interest rate loan or a fixed rate loan. Once it is set up, as long as funds are available, you can make withdrawals from your Portfolio Loan Account via wire or by writing a check.
- **Flexibility.** You can use a Portfolio Loan Account for many purposes except

Portfolio Loan Account: Key Features

Minimum facility: **$100,000**

Initial draw for fixed rate loan: **$100,000** by wire

Minimum draw: **$100** on the variable line of credit, made by check or wire transfer

Proceeds used for just about any business or personal use, other than to purchase, trade, or carry margin stock, or to repay margin debt and cannot be deposited into a Morgan Stanley or other brokerage account to purchase, trade, or carry margin stock, or to repay margin debt and cannot be deposited into a Morgan Stanley or other brokerage account.

- **Better cash flow management.**[4] As long as you maintain sufficient collateral, you will have your payments automatically added to the balance on your variable line of credit, keeping your cash flow intact.

You can use your Portfolio Loan Account for many purposes — to explore business opportunities, purchase property, pay taxes, fund college costs, acquire luxury items — except to purchase, carry or trade securities or to repay margin debt and cannot be deposited into a Morgan Stanley or other brokerage account. Securities-based loans carry risks and may not be suitable, or feasible, for everyone.

HOW IT WORKS. After learning about your overall investment strategy, including borrowing needs, we can provide guidance on whether a Portfolio Loan Account is feasible for you based on your risk tolerance and collateral sources. We take a holistic view of your goals, and are well positioned to help you take a strategic approach to your borrowing needs and to help you unlock the value of your assets. If a Portfolio Loan Account meets your needs as part of your overall investment strategy, please fill out an application — and if you qualify, your Portfolio Loan Account can usually be set up within five business days.[5]

THE RISKS. The Portfolio Loan Account is a securities-based loan, which can be risky and may not be suitable, or feasible, for everyone.

Borrowing against securities may not be suitable for everyone. You should be aware that securities-based loans involve a high degree of risk and that market conditions can magnify any potential for loss. Most importantly, you need to understand that:

- Sufficient collateral must be maintained to support your loan(s) and to take future advances.
- You may have to deposit additional cash or eligible securities on short notice.
- Some or all of your securities may be sold without prior notice in order to maintain account equity at required maintenance levels. You will not be entitled to choose the securities that will be sold. These actions may interrupt your long-term investment strategy and may result in adverse tax consequences or additional fees being assessed.
- Morgan Stanley Smith Barney LLC or its affiliates (the Firm) reserves the right not to fund any advance request due to insufficient collateral or for any other reason except for any portion of a securities-based loan that is identified as a committed facility.
- The Firm reserves the right to increase your collateral maintenance requirements at any time without notice.
- The Firm reserves the right to call your securities-based loan at any time and for any reason.

A HOLISTIC APPROACH TO BORROWING. Morgan Stanley understands that how you borrow is critical to managing your wealth. A Portfolio Loan Account is an opportunity that allows you to take advantage of the potential of the eligible securities in your portfolio to finance business opportunities or achieve personal goals without disrupting your long-range investment strategy.

We can help you take an integrated approach to borrowing that keeps your goals in sight and gives you an opportunity to use the assets you already own to achieve something new. At Morgan Stanley, we are invested in much more than the next transaction—we are invested in you.

Case Study #1

Client Need	A daughter's wedding and bridge financing for a home
Eligible Collateral	Eligible concentrated securities held in an individual account; a second joint investment account
Loan Structure	Variable rate loan totaling $1 million
Why a Portfolio Loan Account?	• Rate ended up being less than the comparable alternatives of a mortgage refinance or home equity line of credit • Ability to link multiple brokerage accounts as collateral against a single loan • Ability to lend against eligible concentrated securities

A client needed $1 million for personal use: His daughter was getting married and he needed bridge financing to purchase a home. The client had a total of $2 million split between three joint investment accounts and another $2.5 million in an individual account with a concentrated position.

After exploring his options together with his Financial Advisor and Tax Advisor, the client decided it would be better to leverage the eligible assets that he already owned, rather than liquidate a portion of his portfolio. He applied for a Portfolio Loan Account, which could link to the three joint investment accounts and his individual account.

Case Study #2

Client Need	Financing to buy controlling interest in a business partnership
Eligible Collateral	Eligible marketable securities
Loan Structure	Fixed rate five-year facility of $1.5 million
Why a Portfolio Loan Account?	• Time sensitive nature • Competitive rate versus financing alternatives • No covenants placed on loan

After exploring other loan options, and reviewing the potential benefits as well as risks of a Portfolio Loan Account, the client decided to apply for a Portfolio Loan Account. The client felt that leveraging eligible assets through the Portfolio Loan Account could provide him with the funds needed now and flexibility going forward.

Case Study #3

Client Need	Down payment for a second home, to serve eventually as primary home in retirement
Eligible collateral	Eligible marketable securities
Loan Structure	Variable rate loan of $250,000
Why a Portfolio Loan Account?	• Flexibility • Time sensitive nature • Avoid liquidating retirement investments

During a vacation, a married couple nearing the age of retirement stumbled upon their dream vacation home. Coming up with a large down payment on the second home would be a stretch in the short term without liquidating a portion of investments earmarked for retirement income or selling their current home.

Instead, they opted to apply for a Portfolio Loan Account, which could enable them to leverage the value of their investment portfolio to cover a down payment.

* Case Studies are hypothetical in nature and are for educational purposes only. All loans are subject to application and approval. Not a commitment to lend.

[1] Portfolio Loan Account ("PLA") is a securities-based loan/line of credit product offered by Morgan Stanley Bank, N.A. A PLA loan is a demand loan. All credit facilities are subject to the underwriting standards and independent approval of Morgan Stanley Bank., N.A. PLA loans/lines of credit may not be available in all locations and may not be appropriate for all clients. Rates, terms and conditions are subject to change without notice. The contents of this document should not be construed as a commitment to lend. To be eligible for a PLA loan/line of credit, you must have a brokerage account at Morgan Stanley Smith Barney LLC, which shall serve as collateral for the PLA. The ongoing availability of the PLA is contingent on you maintaining sufficient eligible collateral. Morgan Stanley Bank, N.A. is an Equal Housing Lender and a member FDIC that is primarily regulated by the Office of the Comptroller of the Currency.

[2] Regulation Z Exempt Transaction status requirements: An extension of credit to a natural person that exceeds the applicable threshold amount or in which there is an express written commitment to extend credit in excess of the applicable threshold amount, in the case of a Portfolio Loan Account $100,000 at closing and in excess of the minimum threshold amount identified on the day of closing during the life of the loan.

[3] Morgan Stanley, its affiliates, and Morgan Stanley Financial Advisors and employees are not in the business of providing tax or legal advice, and these materials and any statements contained herein should not be construed as tax or legal advice. Individuals are urged to consult their personal tax advisor or attorney for matters involving taxation and tax planning and their personal attorney for matters involving trust and estate planning and other legal matters.

[4] All interest accrued on the revolving line of credit and interest and/or principal payments on fixed rate loans are automatically paid by an advance from the revolving line of credit, subject to credit availability. Please note that under this structure you will accrue interest on interest. To avoid this increased interest expense, you can set up automatic clearing house (ACH) payments for the revolving line of credit and/or for each loan to pay the accrued interest and/or principal each month.

[5] All loans are subject to credit and collateral approval.

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