PFI
ADVISORS

LIABILITY MANAGEMENT:

Innovative Lending Solutions in the RIA Space for Breakaway Advisors

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INTRODUCTION

The breakaway movement continues to gain momentum in wealth management as captive advisors within the wirehouse community discover the many benefits of Independence.

Leading wirehouse advisors desire equity ownership, succession planning solutions, more control over the products and services they offer clients, better technology both for them and their clients, and escape from the dreaded and ever-changing "payout grid." These advisors often cite the cultural erosion of their once-beloved firm as the key driver forcing them out. They want to build their own culture at their own firm, with their clients' needs placed first and foremost. Before they can do that, however, they need to know how to offer the same products and services they always have.

One of the few hurdles that cause wirehouse advisors to pause when considering Independence is how to recreate lending solutions to their client base. As the wirehouses have more aggressively promoted cross-selling products over the past few years, advisors have offered more margin loans, mortgages, and non-purpose loans ("NPL") across their books of business. Management within the wirehouse community is always quick to tell advisors, "You won't have access to any of these rates as an independent advisor; you need to work directly for a bank in order to offer these products." The reality, of course is quite the opposite. Due to their growing success, independent advisors now have more creative lending capabilities at their disposal than ever before, with the added benefit of open architecture so that they do not need to rely solely on one institution for lending needs. Independent advisors can tap the expertise of multiple custodians, third-party banks, and mortgage specialists to find comparable yet sophisticated offerings for their client base.

The old adage, "If you aren't offering this to your clients, you can guarantee that someone else is," applies more to lending solutions than any other product in the wealth management space. It is vital to advisors that multiple types of client loans - from business lines of credit to home improvement loans, be available at their fingertips. The fact that they choose Independence should not limit their ability to meet the liquidity needs of their client base.

"THE NATURE OF HNW WEALTH REQUIRES THAT ADVISORY FIRMS EXPAND THEIR GUIDANCE BEYOND FINANCIAL PLANNING AND ASSET MANAGEMENT AND WORK THE LIABILITY SIDE OF THE CLIENT BALANCE SHEET"

- BEN HARRISON
MANAGING DIRECTOR
PERSHING ADVISOR SOLUTIONS

The purpose of this white paper, the third in our industry series, is to highlight lending solutions available to independent advisors while shedding light on the myths perpetuated by the wirehouse community regarding client lending capabilities in the independent channel.

INDEPENDENT LENDING SOLUTIONS

"Wirehouse advisors looking to go independent are really only looking for two things when it comes to lending," says Jeff Feldman, owner of Financial Recruitment Partners. "They need customized lending solutions, and those solutions need to offer competitive rates."

Many wirehouse advisors fear that by going independent, their clients will lose the "one-stop shop" solution for mortgages, commercial lending, cash management, and securities-based lending. "If it's all under one roof, it's easier not only for the client, but for the advisor as well," says Mr. Feldman. "I tell wirehouse advisors all the time, 'You have the convenience of everything being under one umbrella, but by going independent, you now become a client of the Street. You can provide **more** solutions with **better** rates by shopping around and not being restricted to what's offered at one single firm.'"

Independent advisors can turn to their custodian for competitively-priced margin loans, third-party banks for non-purpose loan solutions, or mortgage brokers for home loans. While it isn't "one-stop shopping," advancements in technology make finding the best, tailored solution for their client's unique lending needs easier than ever - with the added benefit that the independent advisor elevates his or her value in the eyes of the client as their trusted global advisor.

For loans that are already in place when an advisor looks to break away, the biggest concern is whether the size and rate of the loans can be matched in the independent space. Custodians, eager to earn the newly-established RIA's business, oftentimes can recreate the client's loan with the same or even better rate through a traditional margin loan.

"We were shocked when we left Merrill Lynch that our custodian was able to recreate every single one of our clients' loans under margin," noted one breakaway advisor interviewed as part of this research. "Margin loans only offer 50% loan-to-value, vs. a 70% release rate with a non-purpose loan, but our custodian was able to structure every loan so the rate matched or beat their existing rate, and the available credit line matched what they had with Bank of America."

For advisors seeking non-purpose loans, TriState Bank is an example of innovative solutions for RIAs to tap outside of their primary custodian. "We offer Non-Purpose Lines of Credit with both LIBOR-based variable rates, and fixed rate options," says Jim Mirasola, Director of Alliances for TriState. "With these facilities, your clients can pledge their investment accounts as collateral and can take advantage of many financing needs, with the exception of purchasing securities." These credit lines can solve for many short-term or long-term financing needs, such as: real estate acquisitions, business investments, luxury item purchases, debt refinancing, and so on. "Our facilities are available to a broad range of client types, including Individuals, Family Offices, Corporations, LLCs, LPs, and Trusts and Non-Profit Entities and Foundations," says Mirasola. Continued on pg 3

“The beauty of the NPL product is it offers access to liquidity without the need to sell securities, thus enabling advisors to maintain their client’s assets,” explains Mirasola. “By not selling assets to raise cash, you avoid triggering a taxable event for the client.”

LoanAdvance, available through Pershing LLC, is a securities-based line-of-credit that can be used for most personal, consumer or business needs. This solution allows clients to borrow up to 70% of the market value of qualified equity, mutual fund, and investment-grade corporate or muni bond securities, as well as up to 90% of the market value of U.S. Treasury securities. Assets in both retail and separately managed accounts can be used for LoanAdvance. “HNW credit needs often extend beyond what can be served by unsecured pledge loans and typically require leveraging existing assets through collateralized lending. Consequently, the credit side of the balance sheet becomes critical in the advisor-client relationship” says Gabriel Garcia, Managing Director, Pershing Advisor Solutions.

Manhattan West Asset Management launched in June 2016 when the principals of the firm left JP Morgan. “We have always used lending as a real tool to get new clients. Before we could look to go independent, we had to have a solution in place,” said Lorenzo Esparza, chief executive officer and founding principal of the firm. “Like many, I assumed the wirehouses were best at recreating the loans we had. We met with two large brokerage firms and neither could commit 100% to the size and rates we had. I thought, ‘If you can’t match these offerings during the recruiting phase, I can’t imagine what it would be like to work here long-term!’”

Once they submitted a spreadsheet to TriState Bank with the details of all client loans that needed to be moved, “They reviewed each line and were able to match or beat the size/rate of each one.” Esparza said. “They’ve been a tremendous partner for us and our clients.”

After recently leaving JP Morgan, the client transition was complete in only a few short months and as a result Manhattan West has already begun focusing on new clients. “I simply get TriState on the phone, say ‘I’ve got a client of this size, they need to borrow this much, can you do it and at what rate?’ They get back to us right away. It was never this easy at our former employer.”

“WHILE REMUNERATION ON CREDIT LINES HELPED OUR REVENUE AT THE WIREHOUSE, THE NET BENEFITS WE RECEIVE FROM HAVING MORE FLEXIBILITY AND OWNERSHIP OF OUR RIA MORE THAN MAKES UP FOR THE REVENUE DECREASE.”

- LORENZO ESPARZA
MANHATTAN WEST ASSET MANAGEMENT

PRIVATE BANKING SOLUTIONS

For advisors looking for that "one-stop shop" option, Pershing Advisor Solutions, a BNY Mellon company, can provide access to multiple solutions available through BNY Mellon, N.A.

"Typical private banking products include jumbo mortgages, securities-based lines of credit, life insurance premium financing, commercial real estate financing, and escrow services. To offer these solutions, independent advisory firms are often best served by affiliating with a custodian that can provide access to these added capabilities 'in-house' as opposed to the firm developing relationships with a private bank," says Robert LaRue, National Director, Private Banking, BNY Mellon.

For assets held in existing investment or custody accounts at Pershing Advisors Solutions, an Investment Credit Line (ICL) allows clients to access funds without depleting cash reserves or affecting their investment goals. This revolving line of credit is secured by qualifying marketable securities and liquid assets, and is an ideal solution for business owners and individuals who require flexible lending options.

Pershing Advisor Solutions also provides access to a broad range of jumbo mortgage solutions through BNY Mellon, N.A., including a full array of adjustable-rate and fixed-rate mortgages, flexible features like interest-only payments, and customized programs such as construction financing, hybrid solutions and 100% financing for qualifying clients. All are available nationwide on primary residences, vacation homes, and investment properties.

HYBRID SOLUTIONS

Another popular all-encompassing solution for independent advisors is offered by Raymond James.

Raymond James offers advisors three distinct channels of independence: a W2 model that allows advisors to be employees of Raymond James (similar to working for a wirehouse); an independent broker-dealer model; or advisors can work with the Investment Advisor Division and simply use Raymond James as a third-party custodian. Regardless of the platform an advisor chooses, they will have access to the same lending solutions for their clients, with the same pricing across all three channels.

Traditional margin loans, with 50% borrowing power, are offered through Raymond James, while Raymond James Bank can provide clients with a Securities Based Line of Credit which offers up to 65% borrowing power and proceeds can be used for multiple purchases excluding securities. The Securities Based Line of Credit can be collateralized by multiple Raymond James accounts, giving increased borrowing power and competitive pricing. “This provides an alternative source of liquidity, to be used for a variety of needs from launching a new business venture to paying for tuition, without disrupting your client’s investment strategies,” says Bill Geis of Raymond James Bank.

Raymond James Bank also offers experienced and knowledgeable mortgage consultants who can walk clients through a full complement of mortgage lending solutions, available in all 50 states. “Our team will walk clients through the entire process, from choosing a mortgage that best suits their needs, to the application, to the underwriting, all the way through closing,” says Geis.

The Raymond James Bank Deposit Program (RJBDP) allows client funds to be swept into accounts at up to 12 different banks, providing up to $2.5 million in FDIC protection. Advisors can combine this program with the Client Interest Program (CIP), where interest is paid on money waiting to be invested. Deposits are made first in the RJBDP for FDIC coverage, and any uninsured balance automatically sweeps into the CIP the next day to receive SIPC/Excess SIPC protection.

“By offering all of these solutions under one roof, we are in the unique position to price these products based on the collateral in the account, and not merely the loan value. For example, an outside bank would price a $100,000 loan based solely on the loan value, while we can price that loan based on the $1 million pledged to the loan or include assets in the clients Capital Access (Cash Management). This allows us to be offer a more competitive solution without requiring the client to seek a larger loan then they may feel comfortable with,” says Geis.

CONCLUSION

Despite the fear that lending options for independent advisors is not on par with the bank-owned wirehouse firms, our research clearly shows that the opposite is true. Due to the success and growth of the independent space, financial institutions are aggressively building and designing innovative lending solutions in an open architecture manner that facilitate implementations of advisor recommendations.

Breakaway advisors owe it to their staffs and themselves to continue to investigate independent solutions so that they can provide the best and highest service levels to their clients. While there is no "one size fits all" 800 number for independent advisors to dial, with a bit of research and white papers like this one at their disposal, advisors can rest assured that loans can not only be recreated from what was offered within the wirehouses, but they can provide competitively-priced unique solutions to their client base. Through the myriad of options available to RIAs, lending may very well become the distinguishing attribute of a firm's service offering that attracts both new clients and additional wallet share from existing ones.

ABOUT PFI ADVISORS

PFI Advisors, LLC ("Pure Financial Independence") was founded in 2015 with the following mission in mind:

To further evolve the RIA industry from a collection of "practices" to "businesses," and to be a continued voice in validating the industry as a legitimate landing spot for billion-dollar teams and their clients.

PFI Advisors is pioneering an operational consulting service that supports the unique back-office, technology, and operational needs of RIAs in growth mode. PFI Advisors conducts Technology Assessments, manages Technology Conversions, and provides M&A Preparation and Integration Services.

For breakaway advisors, PFI Advisors manages full RIA set up and transition to Independence, including office build-out, RIA infrastructure, client transition, and billing services, all for a simple consulting fee. There is no complicated long-term AUM fee structure or equity stake required to build the firm's future and provide advisors **Pure Financial Independence.**