# A Different Way to Borrow Money

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Many people do not realize that they can use their investment securities as collateral to borrow money at very competitive rates. If you are looking to start or expand a business, purchase a new car or boat, pay for a child’s education or even pay for unexpected healthcare expenses and you own investment securities, such as stocks, bonds, mutual funds or ETFs, you may want to consider setting up a line of credit or taking a loan against the value of some of your investment securities, especially if these are securities that you desire to hold as long term investments. Security based lines of credit are **not** margin loans and cannot be used to purchase additional investment securities, but they can be used for most other types of expenses. These loans typically allow you, the borrower, to borrow up to 70% of the market value of the pledged stocks, bonds and/or mutual funds.

As with any loan, this type of borrowing only makes sense if you have the means to repay it over time. Unlike unsecured lending from a bank or using your credit cards, secured lending based on the value of the securities that you pledge is usually at a competitive low interest rate. This is because the securities act as collateral for the loan. These types of loans typically do not have application, origination or filing fees that are normally associated with personal loans, home equity loans or business bridge financing. Another great feature of this type of borrowing is that there are often no specific repayment terms or prepayment penalties. You pay the loan and interest back at the rate that is most convenient for you.

Here are two examples of where this type of borrowing might make sense:

Sally is has to finance additional inventory but is still waiting for some of her customers to pay her. Rather than sell her receivables to a factoring company for a discount she sets up an account with her brokerage firm and pledges some of her investment securities as collateral against a line of credit. She then uses the line of credit to purchase the business inventory she needs. As her customers pay her she uses that money to pay off the credit line. As long as her interest costs are less that the discount she would have to give to sell her receivables, she is better off.

Jeff and Amanda have found a new home that they would like to purchase. They are planning to use the equity from the sale of their current home as part of the down payment for this new home. Unfortunately, the seller has another offer and will not accept a sale contingency. Jeff and Amanda can use their investment accounts as collateral and borrow against them for the necessary capital to make the down payment. They can then take the necessary time to sell their current home for the best price and when it is sold use the proceeds to pay off the loan collateralized by their investment securities without having to go through the hassle and paperwork for a bridge loan

Security based loans can be a great source of funds, but as with any loan, it is important that you understand all the requirements and features. It can pay off to shop around.