The Commodity Trading Platform of the Future

How It Works

• Securities information is provided from the borrower.
(A recent monthly statement works best.)
• The loan-to-value ratio and the interest rate are determined by what securities are pledged. The more liquid and actively the traded securities are the higher the loan-to-value ratio and the lower the interest rate.
• A Term Sheet/Loan Commitment is then issued.
• Borrower reviews and approves the Term Sheet/Loan Commitment.
• A conference call is placed between the borrower and lender to answer any questions.
• The Pledge Agreement and Contract are forwarded to the borrower for signatures.
• The securities are then transferred to the lenders brokerage account.
• Lender tracks the closing price of the shares for 3 days to obtain an average price.
• The loan is then disbursed based upon the loan-to-value previously agreed upon.
• Borrower makes Interest-Only quarterly payments.
• During the loan term prepayment of the loan is not allowed.
• Any dividends from the securities is credited to the quarterly interest-only loan payment first and any excess is returned to the borrower.
• Default trigger is set at 80% of the loan amount not 80% of the securities value like typical margin loans. For example: securities value of $1MM, loan of $800k, default trigger at $640k (80% of the loan amount). If the securities value fell below $640k the borrower could walk away from the obligation of repayment of the loan and keep the original loan proceeds ($800k) or contribute cash or securities to bring the value back up to $640k. The borrower would forfeit the collateral. Unlike margin loans this is a non-recourse loan so there is no personal liability should a default on the loan occur.
• At the end of the loan term the loan is paid in full and the same amount of shares originally pledged are returned to the borrower.
• The loan may also be extended or refinanced.

The time frame for funding may be as little as 5-7 days.

Product Highlights

This type of lending allows the borrower to use their investments (stocks, mutual funds, bonds, MTN's or other securities) to obtain funds for personal or business use. Using investments as collateral it is possible to borrow money at low interest rate financing for up to 10 years.

• Fixed interest rates between 2.5% and 4.5%
• Interest Only quarterly loan payments
• Loan terms of 3, 5, 7, or 10 years
• No closing costs
• No lenders fees
• No upfront due-diligence fees
• No credit check or income verification. It is not even asked for
• Funds may be used for any purpose including personal or business use
• Non-recourse loan. The only collateral are the pledged securities. Should the borrower default on the loan, the borrower keeps the loan proceeds and the lender only claims the collateral. The borrower's liability is limited to the collateral pledged for the loan. The lender has no right to proceed against the borrower for any deficiency.
• Loans available for up to 80% of the securities value
• The borrower retains all dividends and upside market appreciation that the securities generate
• Prompt response to a loan inquiry, usually within one business day of receiving the security information. Funds can be deposited into the borrowers account in three to five business days once the contract is signed and the transfer takes place.
• Flexible terms at loan maturity. The borrower may renew the loan, possibly refinance, or pay off the loan.

Simple Steps

• Complete the Express Quote Form listing the names of securities, their stock symbol along with the number of shares
• Upon receipt, a loan proposal will be quickly drawn up to determine loan amount and interest rate
• A Term Sheet (Loan Commitment) is issued and if the terms are acceptable then the Pledge and Loan Agreement are forwarded for signatures
• A conference call is placed with the borrower to answer any questions and to insure the borrower understands the complete loan transaction
• Arrangements are made for the quick transfer of the securities
• Values will be verified and within days loan proceeds are transferred into the borrowers bank account.
• At the end of the loan term the borrower may renew the loan, possibly refinance, or pay off the loan. Upon repayment of the loan the same securities originally pledged are returned to the borrower.

It's that simple!

Criteria

Securities that qualify as collateral are *Publicly and Actively* traded stocks, mutual funds, bonds, Treasury Notes and MTN's that are not restricted in any manner. Most foreign securities are acceptable.

What we are not able to use as collateral:
• 401(k)'s, IRA's or any restricted retirement fund
• Money Market Accounts*
• CD's*
• Annuities
• Gold or silver mines
• Commodities
• CMO's
• SBLC's
• Bank Guarantees or Warranties
• Private notes or private bonds
• Bonds that are coming due within 3 years
• Bearer Bonds
*can be converted to cash then securities may be purchased and used as collateral.

Minimum loan amount is $100,000
Minimum loan term is 3 years
Minimum average trading activity on stocks must be $50,000 per day. (Average volume x current share price.)

Borrower must have proof of ownership of the securities.
We do not ask for credit history, income, employment or the intended use of the funds.

Benefits

- Fixed interest rates between 2.5% and 4.5%
- Interest Only quarterly loan payments
- Loan terms of 3, 5, 7, or 10 years
- No closing costs
- No upfront fees
- No credit check
- No income verification
- Funds may be used for any purpose including personal or business use
- Non-personal recourse loan. The only collateral are the pledged securities.
- Loans available for up to 80% of the securities value
- The borrower receives all dividends and upside market appreciation on the securities
- Quick Fundings - usually in a matter of days

More Information

You should understand the fundamental characteristics of traditional securities-based loans which ensure the financial viability of the funding process for both the borrower and the lender. Based on our experiences over time and our success in returning collateral to the borrower, most stock loans have:

A loan-to-value ratio (LTV) of under 80 percent;
A term of 36 months or longer; and
A favorable interest rate with regular quarterly interest-only payments.

The more informed you are about the lending process, the greater likelihood that we can successfully create a tailored solution to fit your funding needs.

What to Avoid When Choosing a Securities-Based Loan

High LTV
Avoid unrealistically high loan-to-value ratios. In our experience, the closer the LTV approaches 100 percent of the total asset value, the less likely it is that the lender will be capable of hedging the position and generating sufficient support in order to return the securities at the end of the loan term.

Full recourse loans
Additional liability, fees, and penalties may be assessed.

Short loan term
Be cautious of loan terms that are less than three years, especially when the LTV is higher than 75 percent. That's because there is insufficient time for the lender to leverage pledged collateral conservatively in a financially profitable and sound manner for all concerned.

High interest rate
Certain lenders may offer a loan with no interest payments during the life of the loan. However, the interest is usually compounded and set at a higher rate and then becomes due in full upon loan termination. In this case, the "true" cost of funds may be hidden (either intentionally or unintentionally) from the borrower until the loan term ends and the borrower discovers that he or she owes significantly more than the actual loan value.

Poor documentation and communication
You should get detailed documentation and timely notification of interest payments due. A legitimate lender will also notify you promptly if your loan goes into default because of a significant decrease in collateral value. However, it should notify you how to "cure" your default and keep the loan current and viable.

Recent Closings

Loan Amount: $2,725,000
Loan Term: 3 Years
LTV: 75%
Interest Rate: 3.25%
Time from Term Sheet to Funding: 2 Weeks
Broker Compensation: $40,875.00

Loan Amount: $780,000
Loan Term: 3 Years
LTV: 75%
Interest Rate: 3.50%
Time from Term Sheet to Funding: 2 Weeks
Broker Compensation: $15,600.00

Loan Amount: $119,800
Loan Term: 3 Years
LTV: 71%
Interest Rate: 3.50%
Time from Term Sheet to Funding: 2 ½ Weeks
Broker Compensation: $1,995.00

Loan Amount: $505,000
Loan Term: 3 Years
LTV: 72%
Interest Rate: 3.75%
Time from Term Sheet to Funding: 9 Days
Broker Compensation: $12,625.00

Loan Amount: $627,000
Loan Term: 3 Years
LTV: 70%
Interest Rate: 4.00%
Time from Term Sheet to Funding: 2 ½ Weeks
Broker Compensation: $14,107.00

Loan Amount: $912,000
Loan Term: 3 Years
LTV: 71%
Interest Rate: 4.00%
Time from Term Sheet to Funding: 3 Weeks
Broker Compensation: $13,680.00

Loan Amount: $600,000
Loan Term: 2 Years
LTV: 65%
Interest Rate: 4.00%
Time from Term Sheet to Funding: 7 Days
Broker Compensation: $9,3950.00

FAQ's

Question: “Is there a restriction on the use of the loan proceeds?”
Answer: A borrower may do anything with the loan proceeds he chooses.

Q: "If the stock has a dividend during the loan will I receive it?”
A: The borrower receives a credit against the interest payment of all amounts equal to dividends, interest or other distributions on the stock during the term of the loan thereby increasing the borrowers cash flow.

Q: “Is the transfer of the stock for the loan a sale? Are there taxes associated with the transfer of the stock for the loan?”
A: No, this is not a taxable transfer. This type of transaction is specifically addressed in Internal Revenue Code § 1058 which specifically states that taxpayers who enter into a qualifying stock lending agreement receive non-recognition treatment with respect to any gain or loss at the time of the transfer of the securities. This section provides an exception to the general income recognition principles of Section 1001 of the Internal Revenue Code. This is a common transaction in the financial markets.

Q: "Who owns my stock during the loan?" or "Who has title to my stock during the loan?"
A: The stock is transferred to the holding company which has full title, but the borrower retains all beneficial interests in the securities. The borrower will receive any dividends, interest or any other benefits that flow from the stock during the term of the loan.

Q: “Is the interest I pay deductible like a mortgage?”
A: The answer to this question is entirely dependent on what the borrower does with the loan and how they structure the loan. The borrower will have to consult with their own tax advisor for the final answer. However, there are generally recognized rules which we can share.

I. Interest on ordinary personal debt, like a credit card, is not tax deductible. No deduction is allowed for personal interest.

II. In regard to mortgage interest, this is only deductible if the debt giving rise to the interest is secured by a mortgage on the taxpayer's qualified residence. Since the loan is a non-recourse loan and not secured by a mortgage, the interest does not qualify for the mortgage deduction.

III. A borrower may be able to take a tax deduction for interest paid on a loan to fund business or investment activities; to the extent investment income exceeds investment interest. So, under the Securities Lending Agreement, where the borrower invests the money and pays interest to the lender, the borrower's interest payments could be tax deductible as investment interest. Likewise, interest payments may be tax deductible if the loan proceeds are used for business purposes.

Business or Investment activities could be considered as:

a) interest paid or accrued on indebtedness properly allocable to a trade or business;

b) any investment interest, which generally includes interest paid or accrued on indebtedness properly allocable to property held for investment; and

c) interest taken into account in computing income or loss from a passive investment activity.

The borrower should consult with his or her tax advisor prior to entering into this loan if this is a concern. There are simply too many individual variables and circumstances for us to give any kind of tax advice. This is not tax advice, but only a general discussion of the issues.

Q: “What happens if I default on the loan?”
A: On a non-recourse loan the borrower has no personal liability. The stock is simply forfeited.

Q: Is there any tax consequence should I default on the loan?
A: There are general rules we can share regarding tax treatment of a default. The amount realized is the difference between the loan amount and the cost basis in the stock.

Example:

1) Assume the market value of the stock was $150,000 and the loan amount was $100,000.

2) Assume the borrower had a cost basis in the stock of $20,000.

3) The amount subject to tax is the difference between the loan amount $100,000 less the cost basis $20,000. The amount subject to tax is $80,000.

Q: "Am I personally liable for this loan or can the company come after me on this loan if I do not make the payments?"
A: No, this is a "non-recourse" loan; we cannot come after you personally. There is no personal liability associated with this type of loan. The only security for the loan is the stock and the only recourse the lender has is against the stock. The borrower has no personal liability exposure.

Q: “Is this loan reported to the credit bureaus or reporting services?”
A: No, the loan is not reported to the credit bureaus and there is no public record of this loan. Even if the borrower elects to walk away from the loan and default because, for example, he or she has more money than the stock is worth, it is not reported.

Q: “What happens if I fail to make my required interest-only payments on the loan?
A: If the borrower does not make the interest payments when due or fails to repay the principal when due, the lenders only recourse is against the stock. The loan will be terminated and cancelled. The borrower gets to keep the money received for the stock and the lender gets to

keep all interest in the stock. The default or termination is not reported to any credit bureaus.

Q: “What if the value of the stock falls significantly? Or “What does this default provision in the loan mean?”
A: If the value of stock falls below the agreed minimum value in the contract, then there is an event of default. The minimum value is 80% of the loan amount.

For example, assume the stock had a full market value of $10 per share when the loan was made. Also, assume the loan terms established a 70% LTV, so the loan was for 70% of the full market value or $7 per share. If the value of the stock falls below 80% of the loan amount, here $7, then there is a default which can be cured by the borrower. In this example, the share price would have to go below $7 x 80%, or $5. 60 per share. For a default to occur, the share price in the example must fall more than 44%.

While the interest rate and interest payment remain constant, due to the volatility of the collateral, the contract may require the borrower to contribute additional cash or shares to keep the loan viable. The decision to tender additional cash or securities is solely in the borrower's hands. The borrower could choose not to risk more support and terminate the loan or the borrower could choose to keep the loan in good standing by curing the default caused by the loss in value of the collateral.

The additional cash or shares tendered to cure the default do not become part of the collateral for the loan and are not subject to repayment or refund at any time. At origination, the borrower and the lender agreed to a minimum fair market value for the collateral of the loan. The payment of the additional cash or securities establishes a new lower minimum fair market value and higher risk threshold or the lender and borrower alike. Those funds "buy-down" the price of the security to set a new floor for the stock and thus maintain the minimum value ratio between the amount of money loaned and the minimum value of the security for which the lender is willing to be at risk.