Broadridge Wealth

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Securities-Based Lending: A Valuable Offering for Clients, a Competitive Edge for Advisors

Credit & Lending in Wealth Management

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What if financial advisors could offer their clients a product that could help build wealth, enhance liquidity and achieve important financial goals over the course of a lifetime? That product already exists—it's called Securities-Based Lending (SBL). But until now, most advisors haven't provided it.

WHAT IS SECURITIES-BASED LENDING?

Securities-based lines of credit allow investors to access the value of their securities for non-investment-related purposes without selling assets. Typically, most advisory client portfolios do not employ leverage to release liquidity. This low penetration rate represents a significant missed opportunity for both clients and advisors. Fortunately, things are starting to change. According to a recent Broadridge survey, securities-based lending penetration is expected to more than double over the next 36 months. This demonstrates a tremendous growth opportunity as innovations in digital technology make it easier and quicker for advisors to offer these loans to their clients.

As more advisors get comfortable with SBL, wealth managers are recognizing it as a strategic wealth product that can provide a range of benefits to clients while helping advisors deepen client relationships and safeguard AUM. SBL can also be a timely source of liquidity. It can be used to tap into the value of a portfolio without disrupting investment strategies or triggering tax implications normally associated with liquidating securities. Securities-based loans (or "non-purpose" loans) are often used as working capital, such as the financing of a business or for property or funding a tax or college payment.

WHY SBL IS A VALUE-ADD TO CLIENTS

One factor that makes securities-based lending attractive for advisory clients is the cost. In many cases, a fully-secured, securities-based loan will be the cheapest credit product available to an investor, including mortgages. That's a critical differentiating benefit at a time of rapidly rising interest rates. Speed to funding is an important differentiator too, with most borrowers getting access to cash within five working days or less.

SBL also offers compelling advantages for advisors. Providing leverage as part of a growth or debt consolidation strategy can deepen the client relationship. Having an SBL offering can attract new AUM to the business and creates stickier balances, since the secured assets are retained by the lender.

BARRIER TO ADOPTION AMONG ADVISORS

Despite growing demand for SBL products and the benefit if can offer to clients, this is still an under-utilized tool among advisors. Some advisors are concerned about burdening their clients with debt, making them hesitant to offer these services. While client interests must always be protected, in the case of SBL advisor reluctance may be at least partially misplaced. High-net-worth investors have long employed leverage in general, and securities-based loans more specifically, as an efficient way to finance expenditures at favorable rates and build wealth in their portfolios.

Other advisors consider SBL to be too complicated and until very recently, this was a valid concern. Today, advisors have access to end-to-end SBL solutions and self-service SBL referral products that make the process easy, secure and fast—even for RIAs and other advisors not affiliated to a bank. These platforms incorporate reliable evaluation and loan information, e-signatures and other digital tools to streamline the credit origination process.

Another factor limiting some advisors is a lack of knowledge or comfort about selling SBL or even initiating a credit conversation with a client. Lending is a complex business requiring a full understanding of the client's balance sheet, investment goals and tolerance for leverage, but technology offers a solution here too. Advisors now have access to comprehensive online learning tools that educate them about SBL benefits, risks and processes, in addition to emerging machine learning tools that help advisors identify clients most appropriate for a conversation about SBL and liquidity. Broadridge's recent survey indicates that advisors comfortable with SBL will write on average more than two loans per month.

Advisory firms are increasingly focused on promoting an understanding of the lending needs of their clients. Together with desktop solutions that provide a seamless front-to-back SBL service, these educational tools are making it easier than ever for advisors to confidently introduce SBL to their clients—including mass affluent clients, many of whom have not previously had access to SBL leverage.

Technology providers are in the process of integrating data analytics and machine learning to enable the advisor sales process and facilitate personalization of offerings to clients. In fact, as technology and training make it easier for advisors to gain an edge with SBL, advisors without a securities-based lending offering might soon find themselves at risk of losing out to competitors who can move more quickly to provide this valuable tool.

How well are you prepared for SBL growth?

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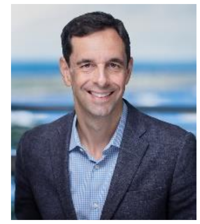

For a free SBL Training Program for Wealth Advisors, places click here.

https://www.broadridge.com/resource/wealth-management/securities-based-lending

You can get a copy of Broadridge's 2023 SBL Industry Report here:

https://www.broadridge.com/report/wealth-management/2023-sbl-industry-reports

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