Securities-based Credit Line (SBL) Financing FAQ

What do you provide, and what is Diamond Financial's role?

Diamond Financial, through its partner firm A. B. Nicholas, assists those who are in need of financing against their securities portfolios. We offer only non-transfer-of-title, institutionally managed credit lines through fully regulated and licensed U.S. SIPC-member firms. We work solely with FINRA-member financial professionals in good standing within those firms. We do not represent, nor are we compensated by any lender, but rather act as a support resource for our clients in need of financing of this type.

Our role therefore is to bring awareness of these programs to you as our (prospective) client, and to help you obtain the very best rates and service in the market. We have the know-how and experience to do so. Our goal is to ensure that you get a solid, legitimate, program that puts safety and value at the forefront, and to do so to your satisfaction.

How are credit line rates determined?

We offer two types of loans, although ALL financing begins as a credit line. Conversion to a fixed-rate term loan will occur only if the client instructs lender advisor to carry out the conversion.

1. *Securities-based credit lines* are technically variable rate interest-only loans with no set maturity date. There is no penalty for early payoff, and rates are typically 1%-3% lower than with fixed-rate loans.
2. *Securities-based fixed-rate loans* are term loans usually between 1 and 7 years. An early payoff penalty may be assessed depending on the length (term) of the loan and the time remaining to maturity.

Securities-based credit line interest rates are based on monthly LIBOR plus a lender-determined "house rate" that utilizes a basket of criteria for determination (e.g., rates forecasting, acceptable institutional profit ratios, etc.) Any change in this baseline rate would affect all outstanding loans, and the top-tier U. S. institution we work with for this financing has not raised this rate since 2008. At the time of this writing, there are no plans or expectations of a raise in the house rate, although of course the lender reserves the right to do so as it deems necessary.

Fixed-rate financing is quoted in years and is not an open-ended loan as with the standard (and more popular) credit line. As noted, the fixed interest rate will be based on monthly LIBOR plus a house-determined spread that adjusts for the duration and size of the loan. Fixed rate loans, in addition to having a set maturity date, are also more expensive; clients should expect a rate differential of at least 1-2 percent when converting a credit line to a fixed-rate loan.

Please note that all securities based lending transactions begin as credit lines; however, clients should always inquire of their licensed lender advisor before undertaking any conversion. Accurate fixed rates can only be obtained from your lender advisor after signing your term sheet demonstrating your understanding of your financing offer.

The best way to get an accurate rate is to submit your brokerage account statement via our online quote form or by contacting DFS directly. A firm quote in the form of a formal term sheet, including rates, will be delivered to you at no cost or obligation.

What is the minimum & maximum credit line or loan size?

$55K min. up to $10 million + (no maximum lending limits). Loan to Value (LTV) ranges from 65%–97%. Note that credit lines under $100K may require a 1-2% annual account management fee, which is waived for all credit line authorizations over $100k (even if you do not draw cash from your line)

How do I know if my stocks will qualify?

If your stocks, bonds, mutual funds, or other eligible securities trade at or near $10/share with at least 50,000 shares trading per day, regularly, then they will be accepted for the program provided that there are no tax or divorce liens present. Securities trading as low as $5 a share may also be accepted if bundled in portfolios with other stocks or, in some cases, if the underlying stock has excellent underlying metrics (future growth prospects, good management, etc.). Credit is not a factor in these lending vehicles, however securities must be free and clear. If you do have a margin loan on a part of the portfolio, it may in some cases be possible for the lender to arrange to pay off the margin loan amount outstanding while working with your institution to swiftly move your shares to your own individually owned account at your lender. In such case, you will have one account but two lines; Once with a credit line equal to the amount of funds already advanced to you by your lending institution to clear your margin loan; and the second for any remaining credit that is still available to you. Both lines will enjoy the same low rate.

Suppose I have other assets as well as my stocks. Can I bring them to the table?

Because your credit line is with a fully regulated and licensed U.S. institution (a major investment bank/brokerage), some other assets may qualify if they are restructured into eligible securities. We should keep in mind, however, that this is a simple asset-based (securities) credit line facility, not a mortgage or any form of mortgage-related financing. Real estate therefore is not acceptable collateral for this type of financing.

Those holding other types of assets that would like to make use of the "two asset class" style of financing we offer may wish to move their other assets (e.g., paintings, antiques, business ownership stakes, etc) into cash and then request an optimized term sheet (see below).

If you do have stocks or other assets that do not qualify, or if you have mostly cash, you can request an "optimized term sheet." In this case, we will issue a term sheet to you as if you had authorized your licensed lender advisor to work with you to purchase securities that provide maximum loan-to-value for your objectives (for Eligibility criteria and different types of securities we accept, along with LTVs, please inquire at DFS). By restructuring your holdings into cash and then into eligible securities, you can continue to hold securities while meeting your personal growth/risk standards yet tapping them for a credit line that will allow you to invest in your business, franchise, or other objective – in this way essentially putting two asset classes to work – your securities and your target investment – instead of just one (a cash investment in your business.)

What fees am I charged?

We get you the best securities-based financing possible by working with our partner lenders. The lending party we deliver will always be a financial source that is **1)** a major, SIPC/FIDC member top-tier, fully licensed and regulated firm; that has **2**) FINRA-member lender advisors who are dedicated to getting you funded in a manner that meets completely with your satisfaction and as represented in your term sheet.
There are no application fees, no up-front fees, no processing fees payable to Diamond Financial until your credit line has been opened to your satisfaction and ready for your use. At that time, a fully disclosed (on your term sheet) fee geared to the amount of credit we have obtained for you is due. This payment is due only when we've backed up our

offer with the line we've promised. (Note that we offer an optional “Early Bird” fee discount of 33% off for those willing to make their fee payments along with their signed term sheet.)

Don't nonrecourse transfer-of- title-lenders have better terms?

No. The terms you see from “nonrecourse stock loan” providers are basically bonus cash you are paying to them after they have sold your securities. Their profit is usually equal to the sale revenue they receive minus whatever “loan” cash they give you. When you undertake a nonrecourse stock loan, they will set the rates and costs just high enough that you will, they hope, “walk away” – that is, execute your nonrecourse clause – freeing them from any worry that you will pay off your loan and thereby force them to go into the market to buy your stocks back to give to you. No nonrecourse lender wants to do that, of course, since there is a clear risk that your portfolio might rise in value during your loan term, thereby forcing them to dig deep into their own pockets to buy the now higher-priced stocks to return to you.

In short? As the respected organization FINRA has stated clearly, individuals undertaking nonrecourse stock loans are basically undertaking sales, and no borrower should go into such a structure without recognizing that the IRS will ask that most such borrowers report these as sales at the moment the clients transfer stock title to the lender. Nonrecourse loan borrowers should also understand that interest rates on such loans are just bonus cash for the lender, and that many have not only gone out of business in recent years, but have done so without returning their clients’ shares, which they could not afford to purchase and return.

Are nonrecourse stock loans a bad idea? Virtually all experts agree they are, and should be avoided at all costs. We do not offer any such loan structure, but instead leave all ownership and title in the borrower’s hands; work solely with fully licensed institutions instead of the private, unregulated stock loan lenders that collapsed in recent years; and our advisors are all fully licensed, FINRA members in good standing. There is no sale of securities unless the client himself chooses to sell them.

Is this a margin loan?

No. Our securities-based credit lines and your conventional margin loans operate within licensed SIPC-member brokerage firms and involve the leveraging of your securities; that's where the similarity ends.

A margin loan is known as "purpose credit" - the purpose of which is to buy more stocks, and the federally mandated limit on such loans is 50% of the value of the stock or other securities being margined. These are common at brokerages everywhere and well known to most investors, who simply use the margin “credit” to increase the number of stocks they have working for them. Our securities-based lines of credit (as well as our fixed rate loans) are "non-purpose credit" type financial structures, meaning that *more* than 50% of the stock or portfolio’s value can be lent provided that the proceeds are not used to purchase marginable securities. This latter is a critical difference; If our lender learns that a client intends to put their loan proceeds into any form of stock or other marginable securities, the financing will be cancelled. The funding, however, CAN be used for any other legal purpose.

Can a corporation or trust be a signatory and legal borrower?

Yes. All of our programs allow a corporation or a trust to be the legally valid signatory/borrower.

Are my securities sold at any time during my loan term?

No. Your shares reside in *your* own account, in *your* own title, subject to *your* orders and actions exactly as with your current brokerage account. They are fully visible and accessible to you at all times. Your only restriction is that you make your interest payments on time as with any loan program. If you draw down less than your allotment, your rates will be based on the smaller amount drawn.

While you can trade in your account, you cannot day-trade (multiple daily trades for profit or positioning) and you cannot block trade (daily trades over $250,000). The latter is possible but at a higher per-trade fee.

You are subject to a “house call” only if the value of your portfolio, including equity, falls at least 5% below your release rate. If there is sufficient equity in your line (if you have repaid enough), this Call point can be significantly lower, while still maintaining your credit authorization in some cases. Inquire at your licensed lender advisor for details specific to your portfolio after you have signed your no-obligation term sheet.

Please note that no ABN client has ever incurred a call on their account over the years, largely due to the care with which we qualify eligible securities and the release rate your lending institution assigns.

What are my repayment options?

Credit lines are interest-only and can be paid monthly. Fixed-rate loans are paid quarterly have set maturity dates when principal must be repaid in full. Principal can be repaid at any time along with interest, if desired and in any amount the client wishes; however, for fixed rate loans, the principal must be repaid by loan maturity. Special constructions for principal and interest may also be constructed if client wishes, but the standard is interest only, monthly for credit lines, which make up over 90% of all financing processed through this lending facility.

I am opening a new account at my lender brokerage. Why?

This is to ensure your lender's interest in the collateral if you should default on the repayment of your credit. With everything the lender is providing you as the borrower, this is a very reasonable proposition. There is no other way to ensure repayment given the full range of rights that are provided to the borrower within this facility.

You should not have any concern over opening your account at the top-tier, household name lender brokerage with which we have partnered, no more than one would have with an E-trade or Scottrade or any other modern, licensed U.S. financial firm. (In fact, chances are good that you'll get better service than you are currently experiencing!)

Yes, it’s a new account – *your* new account, solely owned by you. But your new account allows you to trade, just like your current account. Your new account is in your (or your company's, if you prefer) name alone, just like your current account. Your new account lets you trade, again just as your current brokerage account presumably does. Your new account is SIPC-insured; your new account ensures that all dividends go directly to you; your new account comes with 24/7 online, phone, and in-person access and records on demand. Our lending brokerage and bank partner is a major financial institution that hopes you will become a long-term client. For many, it is an improvement over their current brokerage services even as a stand-alone brokerage.

How long must I wait to get access to my funds?

Almost all credit lines are open and ready to draw within 72 hours of receipt of shares in your account and signing of your credit line agreement. Transfer can be by wire, in-person transfer, or check. As the owner or your securities and the signatory to your financing, you can proceed as slowly or as quickly as you wish. Please note, however, that your initial draw must be at least $55,000. Subsequent draws can be as little or as much as you need, up to your credit line authorization.

Speed also depends on how fast you sign your term sheet and how fast your institution moves your shares to your new account. Your lender can make it easy for you by using a simple ACAT "call" from your new lending brokerage to your existing brokerage, with your consent, in effect bypassing your broker or other administrators at your current brokerage.

You are also free to use your stock certificates for this program, although they must first be transferred into electronic form. Your brokerage can do this for you; add a week to our typically 8-14 business days standard funding timeline.

Once the shares have arrived into your new account, your credit line agreement will be provided via the banking division of your lending institution and once signed, your line will be processed and opened. Once open, you may begin immediately drawing from your line.

The total process from opening of account to funding can take from as few as eight to ten days to up to 14 days (add about a week for unusual cases or stock certificates that must be cleared and transferred to electronic format). These are processing days, and unlike most nonrecourse transfer-of-title loans where the delay is to allow your shares to be sold into the market, if your account is in good standing your shares are never sold unless you yourself choose to sell them.

How do I access my loan funds?

You may have your cash wired for all programs by simply calling your lender advisor during business hours. You may access and transfer in person; or you may use a checkbook provided to all clients.

Are dividends paid and credited?

Yes, your dividends are paid directly to you like any dividends for any securities in a modern U.S. licensed brokerage facility. You also retain full voting rights. Other than the lender lien on the account, all of the normal features and rights pursuant to your shares remain just as they do as if there were not credit line against them. Provided that the terms of your line are maintained, you may trade and receive all the typical benefits of any modern brokerage account.

This is an especially attractive feature for those who own REITs or who are dependent on dividends for their retirement income.

Do I receive account statements?

Yes, again as with any modern licensed brokerage, your lender will make paper and/or electronic statements available to you. However, you also have 24/7 online access to your account and that means reports and statements on demand

Please contact us directly at **don@franchiseleasing.com** or call 877.508.2274 if you should have further questions.