Liability Management Best Practices

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What will using liabilities yield for me?

Lending is an important component of a comprehensive wealth management plan

Planning Goals that Can Be Accomplished with Borrowing strategy:

• Accumulate and preserve wealth
• Maintain liquidity
• Create additional flexibility

Do wealthy clients borrow money?

• Lending solutions are available to all clients but are typically utilized by the wealthy.
How clients use financing strategically

How clients have used lending to help achieve their financial goals

### How and why have clients borrowed?

- To pay taxes and consolidate other debt
- As bridge financing, down payments or as permanent financing for commercial or residential property
- To manage business cash flow or expand business
- To cover large personal expenditures like education, medical expenses or pursue a hobby
- To pledge assets to help support a child, a business or a charity
- As an estate planning and/or wealth transfer tool—for example, as part of the estate liquidation process
Case Study Discussion #1: Intergenerational Lending

Adult children's ability to borrow using parents' collateral

Scenario

- Sarah and Joe are UBS clients with sizeable assets. Their daughter Kim is expecting twins; she and her husband Mike need to build an addition to their home.
- Sarah and Joe would like to help, but have some concerns:
  - They have large unrealized gains and do not want to sell positions just yet
  - Eventually they will gift assets, but want Kim and Mike to show financial responsibility
  - Selling assets will reduce their cash flow from bond income and stock dividends

Potential Solutions

- Liquidate assets and gift funds to children
- Combine lending and gifting using Credit Line

Benefits of Borrowing

- By using a credit line, Kim and Mike are able to borrow using Sarah and Joe's accounts as collateral.
  - Sarah and Joe will each gift money to both Kim and Mike annually to make principal payments. Kim and Mike pay the monthly variable interest.
  - Sarah and Joe have earned income from invested assets and over time transferred wealth.

This scenario is hypothetical only.
Case Study Discussion #2: Mortgages

A change of plans for Kim and Mike…

Scenario

• Kim gets a promotion and rather than building an addition, she and Mike need to relocate and purchase a new home.
• Kim and Mike do not have enough money to make the down payment her bank requires.
• Sarah and Joe would like to help but do not want to sell appreciated securities or lose the income flow from their UBS accounts.

Solutions

• Sarah and Joe can sell assets and gift proceeds to children
• Mike and Kim can consider renting or less expensive housing options
• Combination financing – UBS Mortgage Plus

Benefits

• Kim and Mike are able to purchase their new home, in an area close to new work and Kim’s family
• Sarah and Joe’s assets stay invested and the income flows uninterrupted.

This scenario is hypothetical only.
Case Study Discussion #3: Estate Planning

Lending as an estate management tool

Scenario

- Mary is an elderly client who inherited a concentrated stock position over 20 years ago.
- Over the years, the position has appreciated significantly.
- She wants to transfer some of her wealth to the next generation.
- She is concerned about the tax implications.

Solutions

- Sell the stock
- Pledge the stock as collateral for a loan in a family member's name, rather than selling or gifting it.

Benefits

- Mary is able to provide additional liquidity to her children.
- Upon passing, the cost basis in the stock will be stepped up to the stock's then-current price and the beneficiary will inherit the new cost basis.

This scenario is hypothetical only.
Questions to think about

Ask yourself these questions

• Do you or your close family members have major expenses in the near future—such as a real estate transaction?

• Do you anticipate any changes in your current cash flow?

• How do you plan on financing unexpected needs or events?

• Are you interested in helping your younger family members borrow or grow their current/future assets?

• Do you or any of your family members have loans today? At what rate do you borrow? Would you or your family members be interested in restructuring any current loans?

• Are you a philanthropist? How do you plan to create your legacy?

• What are the tax implications of your current estate plan?
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