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Beyond Borrowing: Using Leverage Strategically to Increase Your Wealth Potential

Access capital while preserving your long-term financial plan

Having significant assets creates opportunities, but some types of assets also present a challenge: how to access liquidity for major goals without disrupting your carefully constructed wealth management strategy or disrupting your business. Custom credit solutions can expand what you can achieve with your wealth through the strategic use of leverage. By using existing assets as collateral, it provides access to capital while preserving your long-term financial plan.

However, custom credit is more than a banking product such as a loan. It is a process that combines your personal, business, and financial objectives into a tailored liquidity solution. Rather than providing standardized lending terms, this process involves understanding your unique goals, assessing your complete financial picture, and designing a credit structure that works specifically for your situation.

Key takeaways

- Custom credit solutions can expand what you can achieve with your wealth through the strategic use of leverage
- Leverage allows you to borrow against your assets rather than liquidating them to achieve a variety of objectives
- The right approach requires careful evaluation of your specific assets, objectives, and risk tolerance

What is strategic leverage?

The word "leverage" may seem uncommon in this context, but it can play a role in your wealth strategy in surprising ways. Leverage allows you to borrow against your assets rather than liquidating them. Rather than selling investments or business interests, you can fund major purchases or achieve your goals while maintaining your long-term wealth-building strategy.

Typical scenarios for custom credit

Consider a common situation: you have substantial business interests that require you to travel for in-person meetings with international clients, employees, suppliers, and stakeholders. To optimize your time, you are considering high-ticket purchases, but you prefer not to liquidate business assets or disrupt operations.

Custom credit solutions help you use your assets for strategic leverage to access liquidity while preserving your business capital and investment strategy.

	Lifestyle considerations	Underlying benefits	Investment opportunities
Scenario #1	Leverage a concentrated or restricted stock position in a publicly traded company	Use custom credit to avoid liquidating investments	Unlock your wealth and avoid liquidating securities with a low cost basis
Scenario #2	Purchase a yacht for personal or business entertainment needs	Finance the purchase through installments to preserve cash flow	Review the potential deductibility of interest payments depending on how the yacht is used (e.g., for business, as rental income, or as a second home).
Scenario #3	Purchase a private jet to optimize travel efficiency for personal or business operations voting)	Access aircraft financing without waiting until you have the cash on hand	Evaluate after-tax financing costs while preserving other investments

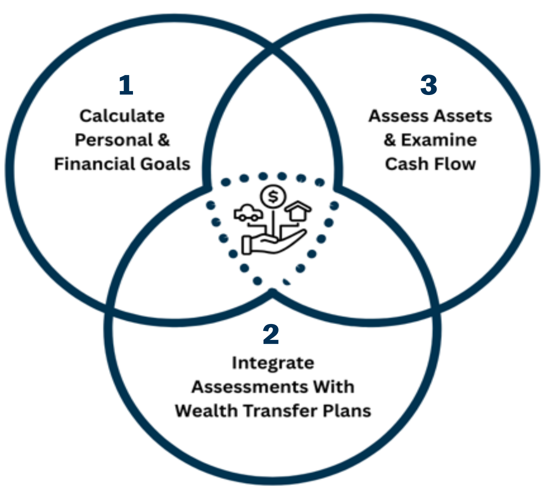
Equities, yacht purchases, and aviation are only a few examples. Custom credit can work with various asset types, including commercial real estate, trusts, fine art, and other assets. Depending on your goals, it can help finance these assets or leverage them as collateral for other credit needs.

These scenarios illustrate how custom credit represents a strategic approach to wealth management. The idea of "strategic leverage" reframes the relationship between your assets and your goals. Rather than seeing illiquid wealth as limiting, this perspective views your asset base as a foundation for expanded opportunities.

The strategic assessment framework

The right approach requires careful evaluation of your specific assets, objectives, and risk tolerance. This assessment typically follows a three-part process:

Strategic Leverage Summary



1. **Calculate personal and financial goals.** Your advisor reviews how custom credit can support short-term needs and long-term wealth objectives. During this assessment, you should consider how leverage can enhance estate planning, family inheritance strategies, and, if applicable, business exit planning without disrupting your core wealth strategy.

2. **Integrate with wealth transfer plans.** Your advisor then develops a custom credit implementation timeline based on your documented goals and objectives. Risk assessments analyze the cost of fixed or floating interest rates and the appropriate covenants for custom credit options. They should also include market volatility scenarios to gauge your risk tolerance and repayment flexibility, ensuring the strategy remains sustainable.

3. **Assess assets and examine cash flow.** An analysis of your existing cash flow, balance sheet and wealth structure determines your capacity for strategic leverage through custom credit solutions. A custom credit advisor works with you and your wealth advisor to evaluate and tailor various borrowing structures.

Additional considerations

Despite the many benefits, borrowing may not make sense in every situation. Successful implementation requires attention to risk, tax, and appropriateness to build a bespoke approach.

First, risk management helps you mitigate the impact of interest rate fluctuations that affect your borrowing costs over time. Your advisor can manage this exposure by balancing fixed rates, floating rates, and derivative instruments. Your advisor can also stress-test various scenarios to make sure your solution is still viable as economic and market conditions change.

In addition, tax implications play a significant role in deciding between strategic borrowing and asset sales. Interest may be deductible, but eligibility depends on how borrowed funds are used rather than the type of loan or borrower. In other words, these "interest tracing" rules mean personal loans can qualify for deductions when the funds serve certain deductible purposes. While this article cannot provide tax advice, your tax advisor can help you compare implications of strategic borrowing and liquidating appreciated assets.

Finally, customization to your needs is fundamental. Rather than one-size-fits-all lending, the most effective solutions are bespoke to your financial capacity, objectives, and timeline, helping ensure they enhance your overall wealth strategy rather than creating unintended longer-term challenges.

Begin a strategic leverage discussion

As the framework and considerations suggest, custom credit decisions are most effective when they integrate all aspects of your wealth strategy. Rather than treating financing as a standalone decision, the best outcomes emerge from coordinating with your wealth advisor, tax advisor, and estate attorney from the outset.

These key questions can help guide productive discussions with your advisory team:

1. *"How might custom credit solutions help me achieve my current goals?"*
2. *"Which custom credit arrangements would work best for my situation?"*
3. *"How would this integrate with my existing wealth management strategy?"*
4. *"What are the next steps in evaluating a custom credit solution?"*
5. *"What specific terms and structures should I consider?"*

To explore how custom credit might fit into your wealth management strategy, connect with Wilmington Trust to discuss your specific situation and goals.

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- Credit secured by marketable securities can increase your level of market risk
- The downside is not limited to the collateral value in your pledged account
- Assets held in your accounts may lose market value or may be afforded less collateral value by the lender at any time, resulting in a collateral call
- The collateral maintenance requirements can be increased at any time, which may result in a collateral call, and the lender is not required to provide you with advance written notice
- You are not entitled to an extension of time on a collateral call
- An increase to the variable interest rate will result in a higher periodic payment required and, if you are unable to make the higher periodic payment, could result in a collateral call; the sale of any securities in your account may be initiated, without contacting you, to meet a collateral call
- Your ability to withdraw assets will be subject to the consent of the lender
- The sale of your pledged securities may cause you to suffer adverse tax consequences; you should discuss the tax implications of pledging securities as collateral with your tax advisor. Neither M&T Bank Corporation, nor any of its subsidiaries, affiliates, or advisors, provide legal, tax or accounting advice; you should consult a legal and/or tax advisor before making any financial decisions.

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