THE PRIVATE BANK

WELLS FARGO

Five Credit Strategies

What can strategic use of credit do for you?

Credit strategies can play an important role as part of your wealth management plan. When used appropriately, credit can help:

1. **Optimize cash flows** to provide greater efficiency, flexibility, and convenience within your plan
2. **Increase tax efficiencies*** while preserving and growing your wealth
3. **Finance purchases** while avoiding depleting your cash reserves
4. **Manage investment allocations** to seek asset diversification and lower portfolio risk
5. **Realize estate financial planning goals**, such as efficient asset transfer between generations, while preserving personal liquidity

The specialists at Wells Fargo Private Bank focus on your financial goals and needs—current and future—while working with you to integrate credit strategies into your wealth plan.

*Wells Fargo & Company and its affiliates do not provide legal advice. Please consult your legal advisors to determine how this information may apply to your own situation. Whether any planned tax result is realized by you depends on the specific facts of your own situation at the time your taxes are prepared.

Click on the numbers above and on the left panel to navigate through this document

Together we'll go far

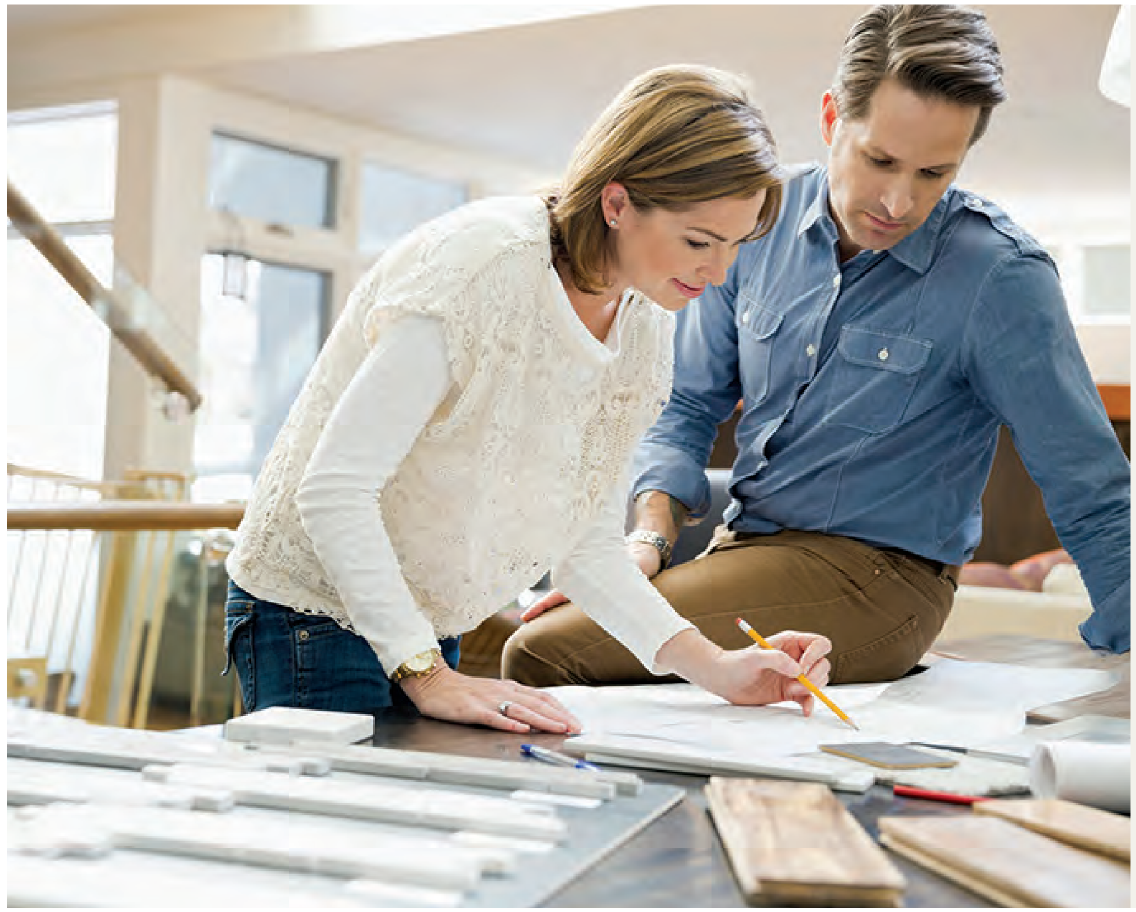
Credit Strategy #1

Optimize cash flows

Credit can be a useful tool to optimize your cash flows by helping:

- Smooth out cyclical cash flow patterns
- Meet financial commitments without depleting cash reserves
- Empower achievement of life and family goals
- Maintain liquidity for unexpected events

All credit solutions should be discussed as part of your planning process, rather than in isolation, to determine whether strategic use of credit will offer you flexibility to help meet your needs.



FINANCING A MAJOR HOME RENOVATION

Robert and Jane were about to begin a major home renovation, including a new addition and complete remodel of their kitchen. Due to the nature of their family's business, their income comes in quarterly distributions and a large, one-time distribution at year-end. Because of their income schedule, the couple was considering liquidating some of their investments in order to cover the renovation costs.

Solution

After closely reviewing the client's situation, the private banker suggested a borrowing strategy that would allow the client to stay fully invested with their current asset allocation plan. Several considerations were taken into account, including how frequently funds would be disbursed, the purpose of the financing, value of the asset, possible tax deductibility, existing liens on the property, and time horizon for the financing.

In this case, the client selected a Wells Fargo Home Equity Line of Credit that provided flexibility for funds to be disbursed via check to the building contractor as work was completed.

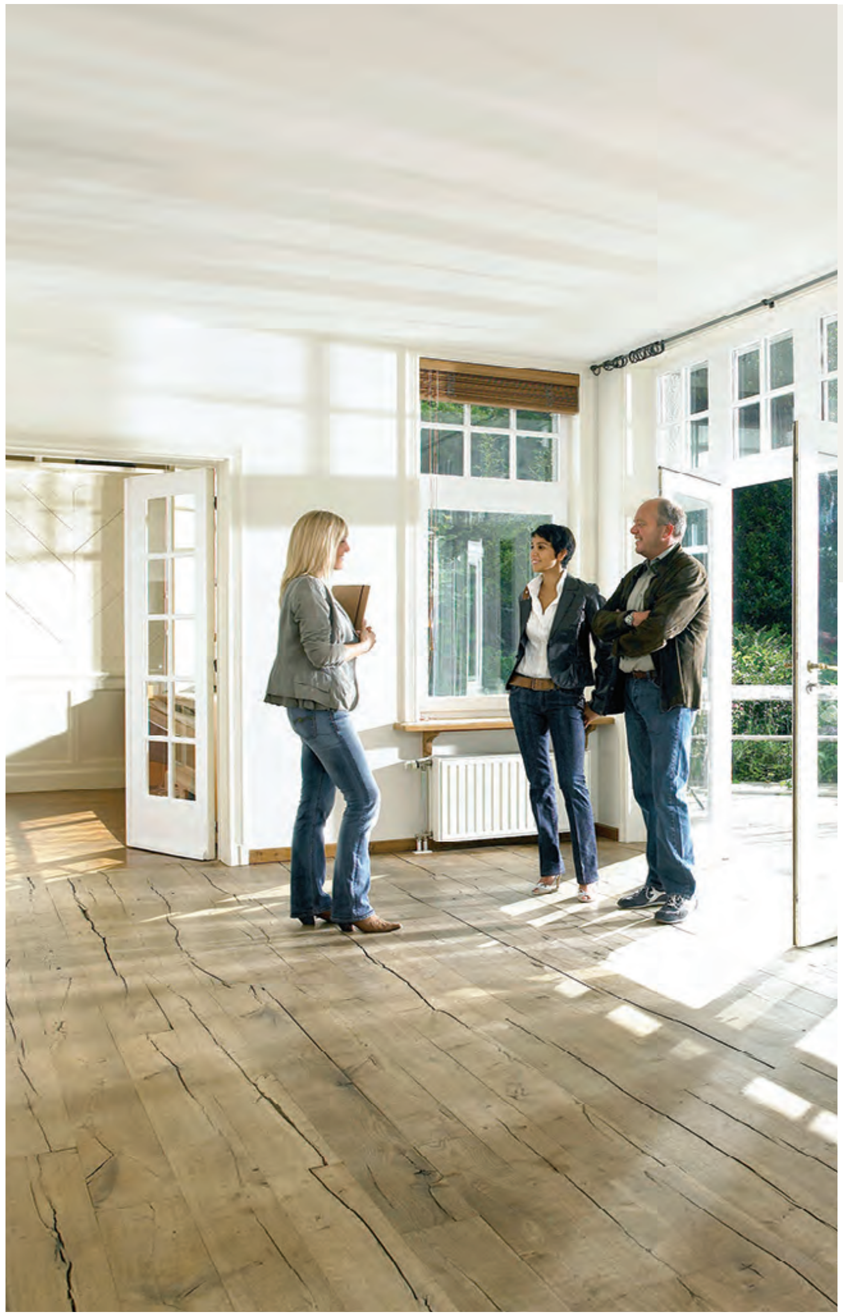
Credit Strategy #2

Maximize tax efficiencies

Strategic use of credit can help you maximize tax efficiencies—which may enable you to preserve and grow your wealth. Potential tax advantages of using credit include:

- Tax deductible home equity loans or lines of credit
- A mortgage deduction for primary residences and second homes using a secured line of credit
- Tax deductibility of interest expense paid on commercial real estate
- Using credit to arbitrage interest rates
- Transferring assets tax-efficiently, particularly if you have already reached the lifetime gifting allowance
- Transitioning a closely held business tax efficiently to the next generation
- Avoiding triggering capital gains tax on the original sale of real estate (supporting 1031 exchanges)

It's important that your planning advisor work closely with your tax advisor to help you fully understand the potential risks of credit tax-minimization strategies.



THOUGHTFULLY FINANCING A SECOND RESIDENCE

Mark is the retired CEO of a closely held business. The company is family-owned with annual revenues of several hundred million dollars. Mark is considering financing for a second residence. A jumbo mortgage seemed like an obvious fit. However, he is concerned that he will exceed his maximum tax deductibility with this second property, which lessens the attractiveness of the jumbo mortgage option. Mark has considered liquidating assets to fund the purchase, but would rather not dilute his ownership at this time and also worries about triggering large capital gains taxes. He has no intention of keeping the debt long term and wants to pay an interest rate arbitrage.

Solution

A line of credit, secured by investments,[1] which Mark reviewed with his Financial Advisor from Wells Fargo Advisors regarding the suitability of pledging securities as collateral for a line, and with his tax advisor to comply with IRS regulations. The line of credit was structured so that the interest will be tax deductible on Schedule A as investment interest expense.[2]

In this case, Mark selected a line of credit that provided flexibility to use leverage or pay down the debt depending on his personal cash flow or the interest rate environment. In this situation, the secured line of credit was a suitable fit—it was priced attractively, allows accelerated payoff without penalty, and meets the tight purchase timeline.

[1] Pledging securities as collateral for a loan or line of credit carries risks that may not be suitable for you. See Strategy #4 for the full securities-based lending disclosure.

[2] You should discuss the tax implications of pledging securities as collateral with your tax advisor. Wells Fargo Bank, Wells Fargo Advisors and their affiliates are not tax or legal advisors.

Credit Strategy #3

Finance purchases of assets

Even if you have sufficient cash to fund an investment opportunity or a purchase, using credit to finance the purchase may make sense. Financing purchases using credit may:

- Provide a lower cost option for asset purchases
- Minimize disruption of investment goals
- Realize purchase plans without capital gains implications
- Prevent purchases from depleting cash reserves

INCORPORATING A COMMERCIAL PROPERTY INTO RETIREMENT PLANS

Mr. Smith and Mr. Combs would like to refinance the $5 million loan balance on a jointly owned office building and establish a $1 million line of credit to fund future tenant improvements on the property, such as the replacement of heating and air conditioning equipment. They expressed concerns about the possibility of rising interest rates and therefore are interested in converting from a variable rate to a fixed rate mortgage while keeping the flexibility to sell the property in approximately five years. Today, they are locked into a financing agreement with prepayment penalty at another bank.

During the conversation with their wealth advisor, both individuals expressed interest in transitioning their illiquid, real estate-oriented investments into liquid, balanced retirement portfolios in the future.

Solution

The private banker and wealth advisor proposed a three-part financing approach to effectively provide a fixed rate on their existing loan and leverage the equity on the office building.

1. Pay off existing loan at the other financial institution and roll the balance and pre-payment fee into a new $5 million commercial real estate loan with the term of 10 years.
2. The private banker brought in the Wells Fargo Interest Rate Risk Management group to create a credit swap* on the new loan for five years providing the interest rate hedge and the ability to sell it in five years while minimizing a pre-payment penalty.
3. After underwriting the borrowers and the property, the private banker was able to leverage the equity on the property to open a $1 million revolving line of credit as a source of liquidity for future upgrades.

*Unless otherwise expressly agreed, swaps are offered by Wells Fargo Bank, N.A., a swap dealer registered with the Commodity Futures Trading Commission (CFTC) and member of the National Futures Association (NFA), and certain derivatives clearing services are offered by Wells Fargo Securities, LLC, a CFTC-registered futures commission merchant and NFA member.

Credit Strategy #4

Manage investment allocations

This credit strategy may be appropriate if you hold a large, concentrated position in a particular security that you are unable or unwilling to sell. Managing your investment allocations using credit could allow you to take advantage of timely investment opportunities. This strategy can also help:

- Avoid the sales of assets which could trigger large capital gains taxes
- Reduce portfolio risk through diversification
- Take advantage of timeline investment opportunities
- Invest in additional asset classes
- Better align your portfolio with your investment goals

Your Financial Advisor with Wells Fargo Advisors will review whether leveraging your portfolio is a suitable strategy for you.

MAKING THE MOST OF COMPANY STOCK

Sally is a senior executive at a large corporation who is looking forward to meeting with her relationship manager to discuss the annual update to her retirement plan—she is specifically interested in better protecting her family's wealth from her concentration in company stock currently valued at $8 million. Sally has several years before retirement and is subject to restrictions on selling the company stock. Also, the company is doing very well, so Sally wants to keep as much of the stock as possible and potentially increase her income through dividends (her company stock pays no dividends).

Solution

Sally's relationship team crafted a strategy to borrow against the company stock and use those funds to build a diversified investment portfolio which also provided dividend income. With the target portfolio outlined, a line of credit was established which was collateralized by the company stock.*

This allowed Sally to stay fully invested in the company stock, delaying significant capital gains taxes if the company stock were sold. The line of credit gave Sally a sense of comfort by providing diversification of her investments and dividend income.

*Securities-based lending has special risks and is not suitable for everyone. If the market value of your pledged securities declines below required levels, you may be required to pay down your line of credit or pledge additional eligible securities in order to maintain it, or the lender may require the sale of some or all of your pledged securities. 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. Wells Fargo Advisors and its affiliates are not a tax or legal advisor. All securities and brokerage accounts are subject to eligibility requirements. Please read all line of credit documentation carefully. The proceeds from an asset backed loan may not be used to purchase additional securities or pay down margin.

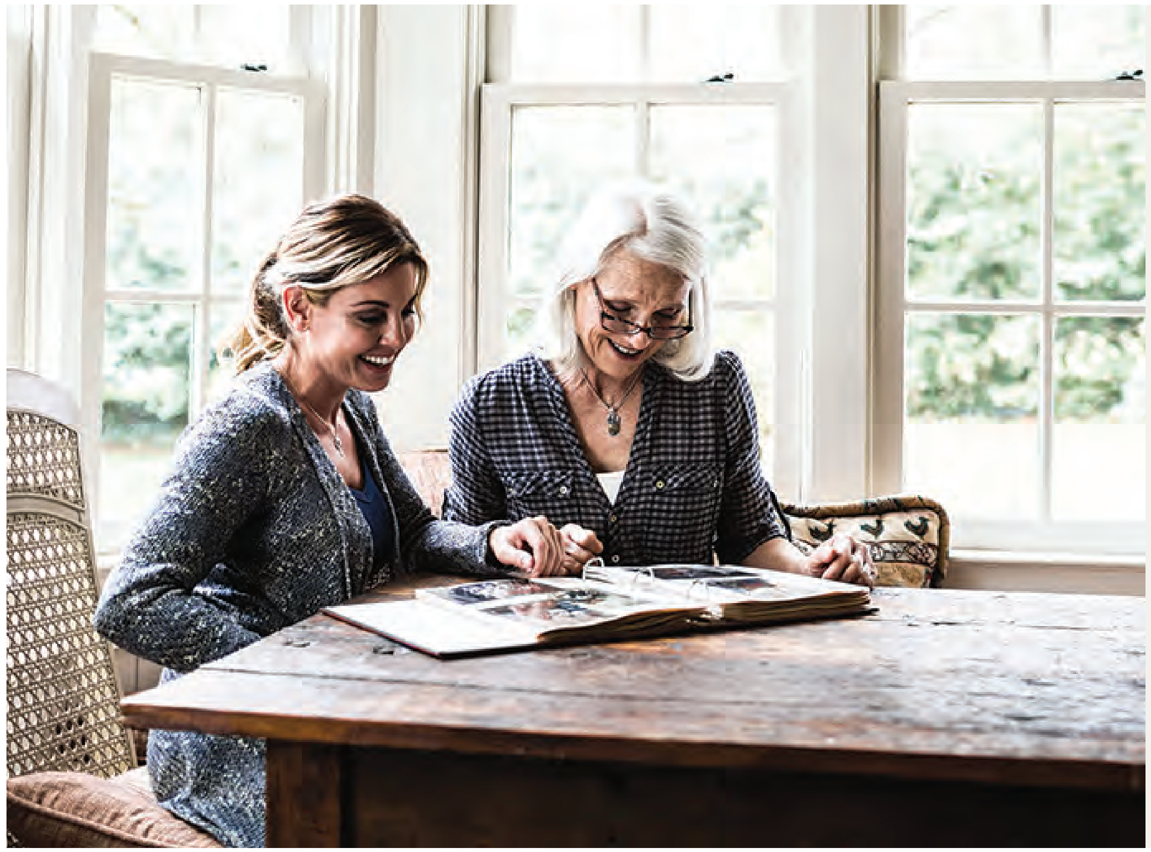
Credit Strategy #5

Realize estate financial planning goals

Credit strategies can help you realize estate financial planning goals. Here are some thoughtful borrowing ideas to consider:

- Transfer assets to children without reaching the lifetime gifting ceiling
- Enhance estate planning structures such as a Grantor Retained Annuity Trust or a Charitable Lead Annuity Trust
- Support business succession planning; for example the transfer of business assets via a legal entity such as a Family Limited Partnership (FLP) and the consolidation of loans/ lines of credit on business assets
- Fund life insurance premiums and provide a suitable long term liquidity strategy to pay estate tax liabilities

Work closely with your legal, tax, and wealth advisors to determine which type of estate financial planning options are most appropriate. Your wealth planner and other financial advisors can also help give you a clear picture of the risks and opportunities of using credit strategies to reach your estate planning goals.



PRESERVING FAMILY ASSETS

As the family matriarch, Linda was concerned about how to preserve the integrity of the family's assets, valued at $25 million, against future estate tax exposure. The family owns and operates hotels and resorts across the country, with much of the family's net worth retained in company real estate. Previous planning had involved gradual shifts of ownership share and approximately $11 million worth of life insurance policies to handle estate settlement taxes; Linda asked the bank to evaluate the family's strategy.

Solution

Working closely with the family's estate planning attorney, The Private Bank relationship team developed a long-term liquidity and funding plan centered on Life Insurance Premium Financing (LIPF). The team structured a custom line of credit to fund the estimated gift taxes as a result of the transfer of ownership of the company from the matriarch to the children.

A series of multiple life insurance policies were transferred to the children and in turn will loan the funds to the matriarch for the payment of incurred gift taxes.

By leveraging credit strategies in her estate financial plan, Linda was able to preserve and optimize wealth transfer to her heirs and protect family assets against future estate tax exposure.

Using credit strategically can help keep your overall wealth plan on the right track. We'll focus on your unique goals and needs when discussing how credit might be put to work for you. Please contact your relationship manager, or call 1-888-715-0380 for more information.

Private Banking credit products offered by The Private Bank include:

- Personal lines and loans of credit
- Real estate financing, including mortgages and commercial properties
- Specialized financing, including fine art, aircraft, and Life Insurance Premium Financing

EQUAL HOUSING LENDER

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