

Challenge

Gina was excited—the house she had been eyeing for months finally went on sale. It was an old Tudor-style house with a cobblestone walkway and a beautiful garden. It reminded her of a gingerbread house with its stucco walls and gray-brown trim. She knew the owners were preparing to downsize. Now that time was here. However, she already owned a house. What would her husband say? How could they afford to buy another home when they already owned one? They would likely not be able to sell their house in time. They had too many repairs and projects to get their house ready. She discussed the situation with her husband, Greg. They decided to ask their financial advisor at Allodium if there was something they could do.

Recommendation

Allodium met with Greg and Gina. Their Allodium advisor told them that because they had a taxable portfolio of at least \$100,000 at Schwab, they may have the ability to set up a flexible credit line using the taxable investment portfolio as collateral. The line of credit can be used for almost any purchase but is best used for shorter-term loans due to the variable nature of the markets. Therefore, because they want to purchase a new home but still own their current primary residence, they can open up a Schwab pledged asset line (PAL) and use that credit line to make a cash offer on the new home before having to sell their current home. Once the new home is purchased, they have the flexibility to sell their old primary residence on their terms and can use the proceeds of the home sale to pay off the outstanding line of credit. Greg and Gina can borrow up to 70% of the value of the pledged assets. If markets go down, part of the loan may have to be paid back to keep within the 70% requirement, or they could also pledge additional assets. The interest rate is usually lower than a bank loan and varies by the dollar value of the securities that are pledged as collateral. The higher the value of the securities they pledge, the lower the interest rate. The flexibility to draw on this line could help them avoid selling assets and potentially incurring capital gains taxes or tying up their cash.

Result

Allodium worked with Greg and Gina to secure the line of credit. As a result, Greg and Gina were able to make an offer on their dream home while they still owned their old house. They could take time getting their old house ready to sell while moving into the new home. The extra time relieved the stress from the situation as they no longer had to coordinate the timing of buying and selling the houses. Greg and Gina were able to fix up their old home, sell the house, and repay the line of credit. They now live happily in their new house.



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