

Client Background and Suitability Checklist for SBLOC Business

ACCOUNT NUMBER ASSOCIATED WITH SBLOC	MAXIMUM LOAN AMOUNT APPROVED
AMOUNT THAT CLIENT PLANS TO UTILIZE	LENDING INSTITUTION
SOLICITED/RECOMMENDED <input type="checkbox"/> YES <input type="checkbox"/> NO	

1. Does the client(s) have sufficient knowledge and experience to be capable of evaluating the risks associated with a Securities Backed Line of Credit (SBLOC)? YES NO
 - a. Describe their knowledge and experience

2. Did you discuss with the client about the risks and features of an SBLOC and that the lender can force the sale of those securities? YES NO

3. Does the client have the financial ability to bear the risk of an SBLOC? YES NO
 - a. Describe their financial situation including type and value of assets.

4. Describe why the client is utilizing an SBLOC and what the plan is for paying off the associated loan.

5. Is the account associated with the SBLOC an advisory or brokerage account? YES NO

6. In what capacity is the advisor acting? Registered Rep Investment Advisory Rep

7. Describe how the client decided to utilize an SBLOC.

By signing below, Client acknowledges that the purchase of the SBLOC is appropriate given their investment objectives, risk tolerance, and further that Client assumes all responsibility for the purchase of the product. Client further acknowledges receipt of the Securities Backed Line of Credit Disclosure document.

Client Signature _____ Date of Delivery _____

Joint Signature _____

Advisor Signature _____

LFAS Principal Signature _____

Securities Backed Line of Credit (SBLOC) Disclosure Document

Weigh Potential Advantages and Risks

An SBLOC may allow you to avoid potential capital gains taxes because you don't have to liquidate securities for access to funds. You might also be able to continue to receive the benefits of your holdings, like dividends, interest and appreciation. Marketing materials for SBLOCs also promote the flexibility of spending that comes with an SBLOC as a key feature. And, some firms market SBLOCs as part of a retirement income strategy to fund short-term expenses.

However, as with virtually every financial product, SBLOCs have risks and downsides. Be aware that marketing materials touting the advantages of SBLOCs may suggest benefits that you may not achieve given the risks. For instance, if the value of the securities you pledge as collateral decreases, you may need to come up with extra money fast, or your positions could be liquidated. So even if an SBLOC may be an appropriate solution for you, it always pays to ask questions.

10 Questions to Ask Before Taking Out an SBLOC

Before you use your assets as collateral for an SBLOC, take time to understand the risks, and get answers to important questions about how this type of lending arrangement could impact your long-term investment goals.

- 1) **When I take out an SBLOC, what am I agreeing to?** Make sure you fully understand the details of any SBLOC offered to you, including the terms of your agreement with the lender and how the lending arrangement will impact your holdings, including potential tax consequences, maintenance call requirements, and other costs. You need to know what aspects of the arrangement are out of your control. For example, the interest that you pay on your loan may change every day. In addition, your firm may decide that a security that was previously eligible as collateral for an SBLOC is no longer eligible. If this happens, your credit limit will be adjusted to reflect the change, leaving you with less money to borrow than you planned for. You also may be required to post additional assets to shore up the account if the remaining eligible securities cannot cover the balance. In addition, some SBLOC agreements permit the lender to increase the percentage of equity you must keep in your pledged accounts, which would require you to deposit additional securities or cash into the account or pay down the loan.
- 2) **Who is the lender?** Before you sign up for an SBLOC, understand who you are doing business with (your brokerage or advisory firm, one of its affiliates, a clearing firm or a third-party lending institution). Many brokerage firms offering SBLOCs do so through a bank affiliate, so your broker may not be the point of contact for your loan and may not know much about how the program works. Make sure you know who to contact with questions about the SBLOC and ongoing account services. If your securities firm is offering the SBLOC for a third-party lending institution, ask your firm how they will continue monitoring your account and how, and when, you will be notified if a collateral shortfall or other issue may impact your assets. You should understand that options on potential lenders may be limited and there is no assurance that you could not have gotten a better interest rate elsewhere.
- 3) **Should I use my investments as collateral?** While SBLOCs' low rates and quick access to cash may be appealing, remember that your investment portfolio may not be the best option for loan collateral. The prices of securities in your portfolio are constantly shifting, which means that the collateral backing your line of credit may be volatile. If the market is up and the value of your assets increases, then great. But nothing guarantees that the market, or the value of your assets, won't go down.

- 4) **What if the value of my portfolio decreases?** The firm might sell your securities if you receive a maintenance call and are unable to meet it. SBLOCs seem like a great option for extra capital when markets are producing positive returns and interest rates are low, but a market downswing or change in interest rates could make it much less enticing, and this can happen at any time. The value of your holdings is always changing, so you can't assume that the price today will be the price tomorrow. And keep in mind that SBLOCs are classified as demand loans, which means lenders may call the loan at any time. If you are unable to repay some, or all, of the loan on demand, the firm can liquidate securities and reduce your credit limit.
- 5) **Does my investment mix matter?** Consider the extent to which your portfolio is diversified. If your portfolio is concentrated in a particular stock or sector, a single market event could cause your portfolio value to drop precipitously and trigger a maintenance call. Then you might be forced to liquidate your assets at the bottom of the market. Other assets may be more appropriate to serve as collateral for a loan, and without terms that allow the lender to liquidate your investments at a moment's notice. With that in mind, if you do decide to pursue an SBLOC, consider taking out less than the maximum amount of credit offered to you.
- 6) **What if my securities are liquidated to meet collateral requirements?** There might be tax consequences. For example, if your lending firm notifies you that securities will be liquidated to maintain collateral at a sufficient level to support your SBLOC, you could be faced with paying capital gains taxes on the proceeds from these sales, depending on your cost basis in the stock and other factors affecting your tax status. Lenders often are permitted to make these decisions without giving you any notice. One way to protect yourself and your assets is to limit the amount you borrow. If you are offered an SBLOC based on a high percentage of the value of your assets, consider taking a lesser amount than what you are offered, so that you are not putting such a substantial portion of your portfolio on the line.
- 7) **What impact will an SBLOC have on my pledged investments?** If you pledge securities that typically receive dividend payments, you should determine whether those payments will be credited to your loan balance and what, if any, circumstances will cause ownership of your holdings to change. In addition, certain account features may change with securities pledged for an SBLOC, such as check-writing privileges and recurring distributions. Some firms cancel check-writing privileges for your account when you take out an SBLOC because you will be issued a new set of checks directly tied to the SBLOC.
- 8) **What about interest rates?** If interest rates rise, it could cause a spike in the broker-call, prime or LIBOR rates that apply to your SBLOC. If this happens, the cost of your SBLOC may increase significantly. Also, for accounts that have money market funds or bank sweeps, depending on your firm's SBLOC policy, the debit in your account from the interest charge may be paid from redemptions, effectively reducing your cash or money fund balances. Interest payments may be rolled into the balance, which, over time, can erode the value of your account (particularly if the SBLOC is sizeable), or increase your indebtedness. In addition, depending on the interest rate environment, if you have a money market fund or cash in your account, you may be paying more in interest for your SBLOC than you are earning. You may be subject to monetary penalties for early repayment of a fixed rate SBLOC.
- 9) **How is my broker compensated with SBLOCs?** Your broker or adviser may receive additional compensation, or a portion of the fees generated by SBLOCs sold to customers. **At the present time neither LFAS nor its advisors receive compensation for the sale of SBLOCs.** Some firms pay salespersons on a quarterly basis depending on how much money

you have borrowed on the line of credit. Your broker or adviser also will benefit from your SBLOC because you don't have to liquidate assets in your account to pay for things with cash, which would diminish the assets held in the account and the potential fees and commissions that could be earned by your broker or adviser from holding or engaging in future transactions with those assets. For example, with a fee-based account, by encouraging investors to take out an SBLOC to fund some purchase or financial need rather than liquidate securities, the firm continues to earn fees on the full account value, and may also earn revenue from the new loans. It should also be noted that Level Four Financial, LLC ("LFF") does receive revenue share from custodian Raymond James & Associates, Inc., ("RJA") member New York Stock Exchange/SIPC to pay LFF a portion of the interest earned on securities-based lending loan balances in brokerage accounts and advisory accounts through Level Four Advisory Services, LLC with the exception of any advisory accounts maintained on the RJA ICA platform,

- 10) **Can I move to a new firm if I have an SBLOC?** It is not as easy to pick up and move your assets to a new firm if they are pledged as collateral for an SBLOC. This makes an SBLOC a "sticky" product because it makes it more difficult to leave your current brokerage or advisory firm. To move, you will likely have to pay off the loan.

Today, financing opportunities come in all shapes and sizes. Remember to exercise caution and consider the risks before pledging your securities as collateral. You worked hard to build your investment portfolio.

Client custodians may offer LFAS clients the ability to enter into Securities Backed Lines of Credit (SBLOCs), which provide borrowers with a borrowing alternative to selling assets in order to access cash.

Conflict of Interest: Although the decision to open a SBLOC is driven by the client, a conflict of interest may exist in the event LFAS recommends that a client open a SBLOC in lieu of withdrawing funds as LFAS could continue to charge asset management fees based on those assets while creating a substantial risk of loss to the client. Further, LFAS would be conflicted if such a recommendation is made. LFAS would also be conflicted in the management of the advisory client's account as LFAS' fiduciary duty to manage the account according to the agreed upon investment objective and risk tolerance may not be consistent with LFAS' obligation to manage the account in a manner that will maintain adequate collateral. In order to mitigate this conflict, LFAS will follow the general fiduciary responsibility as the guiding principle for management of the account. In the event any information arises during the SBLOC application process that would indicate a need for any revisions to the account including the investment objectives and or risk tolerance, the account will be accordingly updated to ensure that it continues to be managed in accordance with the client's needs. Further a conflict of interest is created due to the revenue share received by Level Four Financial, LLC from RJA as disclosed in Item 9 above. In addition to the fact that representatives do not receive or otherwise directly share in the interest payments received by LFF from RJA, the firm addresses these conflicts of interest by ensuring that recommendations of products and strategies are only made in your best interest and by disclosing these conflicts to you.