

# A guide to Priority Credit Line

Before you borrow against your securities, it is important to review your financial situation, investment objectives, risk tolerance, time horizon, diversification needs, and liquidity objectives with your financial advisor. This guide will help you better understand the features, risks, rewards, and costs associated with Priority Credit Line as well as how your financial advisor and Wells Fargo Advisors are compensated when you borrow. As always, if you have any questions about Priority Credit Line, please contact your financial advisor.

*As a client of Wells Fargo Advisors, or Wells Fargo Advisors Financial Network, LLC (hereinafter collectively referred to as “Wells Fargo Advisors” or “WFA”), you may have access to Priority Credit Line, a securities-based lending product that allows you to borrow against the value of eligible securities in your brokerage account at Wells Fargo Advisors. A Priority Credit Line can be used to provide liquidity for personal or business borrowing.*

## What is a Priority Credit Line?

A Priority Credit Line is a type of non-purpose margin loan that cannot be used to purchase, carry, or trade securities, also known as a non-purpose loan. A non-purpose loan may offer greater borrowing power than traditional margin against stocks, mutual funds, and exchange-traded funds (ETFs). Further, certain securities not eligible for margin may be eligible collateral for a Priority Credit Line.

## What should you know before you borrow against securities?

Borrowing against securities involves risk and may not be appropriate for all investors. You need to understand and carefully consider these risks before opening a Priority Credit Line. Although a Priority Credit Line may allow you to meet a borrowing or liquidity need without having to sell your securities, it is possible you can lose more funds than you initially deposited in your account. A decline in the value of securities that are collateralizing your loan may require you to provide additional funds or securities to WFA to avoid a forced sale of your securities in your account(s).

**Investment and Insurance Products are:**

- Not Insured by the FDIC or Any Federal Government Agency
- Not a Deposit or Other Obligation of, or Guaranteed by, the Bank or Any Bank Affiliate
- Subject to Investment Risks, Including Possible Loss of the Principal Amount Invested

# Using a Priority Credit Line

A Priority Credit Line can be used for any personal or business need except to purchase, carry, or trade securities or to pay down or pay off a margin account.

## Borrowing for personal or business needs

You can borrow against securities in a Priority Credit Line to meet personal or business liquidity and borrowing needs. You can use a line of credit and withdraw or borrow funds from your account against the value of your securities held as collateral. Your Priority Credit Line can be accessed automatically via checks, automated clearing house (ACH), or wire transfers.

## A Priority Credit Line can be used for a wide variety of non-investment needs

When used prudently, borrowing against your securities can be an alternative to other credit products and can be used to meet a wide variety of liquidity and capital needs including:

- Unplanned expenses
- Real estate
- Debt consolidation
- Education expenses
- Business financing
- Taxes

## Potential benefits of borrowing instead of selling securities

Allows you to remain invested in the market so you don't forego potential market gains

- Avoids triggering capital gains and associated taxes that may result if you sell appreciated securities
- May give you more control over when to sell securities
- Avoids transaction costs often associated with selling and buying securities (you will be charged interest on any Priority Credit Line debit balance)

## Potential risks of borrowing instead of selling securities

- You can lose more funds than you deposit in your pledged account.
- WFA can force the sale of securities or other assets in your account(s).
- WFA can sell your securities or other assets without contacting you.

- You are not entitled to choose which securities or other assets in your account(s) are liquidated or sold to meet a maintenance call.
- WFA can increase its “house” maintenance requirements at any time and is not required to provide you advance written notice.
- An increase in interest rates will increase the overall cost of borrowing.

## How do Priority Credit Lines work?

Before opening a Priority Credit Line you should understand the account requirements and how Priority Credit Lines work along with the characteristics and risks. When you open a Priority Credit Line, you will receive a risk disclosure and will need to sign a Federal Reserve Form T-4 and the single signature page, which covers the loan agreement and Priority Credit Line disclosures.

### Account eligibility

Most personal, partnership, and corporate-owned brokerage accounts are eligible for a Priority Credit Line but are not permitted in the following account types:

- Estate accounts
- Retirement accounts
- UGMA/UTMA accounts and 529 plans
- Banks, credit unions, trust companies, mortgage companies, or insurance companies
- Accounts pledged as collateral to a creditor
- Investment clubs
- Prime brokerage accounts

### Eligible securities

Not all securities are eligible to be pledged for a Priority Credit Line but most stocks, mutual funds, and bonds are eligible. The following security classes are generally eligible:

- Exchange-listed equities, unit investment trusts (UITs), and mutual funds priced above \$2.00
- Investment-grade corporate and municipal bonds
- United States Government bonds, including zero coupon bonds
- Exchange-traded funds

General eligibility requirements are set by the Federal Reserve, FINRA, and WFA policy. Newly purchased mutual funds, UITs, and new-issue securities will not be assigned a loan to value for the first 30 days after purchase and therefore would not be eligible for the first 30 days of issue. Higher requirements may apply to concentrated positions, volatile and low-priced securities. Wells Fargo Advisors reserves the right to set a higher maintenance requirement at the individual security or account level.

## Borrowing power for Priority Credit Lines

Priority Credit Lines must be collateralized by fully paid for securities and cash in one or more accounts pledged to back your loan. The pledged accounts may be in the same name as the loan or be accounts belonging to a different person or entity guaranteeing the loan.

Because the loan may not be used to purchase or trade securities, you may be able to borrow more against certain securities than you can through a margin account. For instance, you may be able to borrow up to 60% of the value of eligible stocks, ETFs, mutual funds, and UITs. In addition, you may be able to borrow against cash, brokered CDs, and offshore mutual funds not normally eligible for margin loans.

Note, accounts pledged as collateral for Priority Credit Lines must be “cash accounts” and may not have margin privileges. Further, pledged accounts may not use Brokerage Cash Services (formerly Command) debit features such as check writing, debit cards or ACH transfers, but your Priority Credit Line loan account does offer check writing, ACH, and wire transfer capabilities.

## Maintenance requirements and account equity

In addition to initial requirements, Wells Fargo Advisors also sets maintenance margin requirements or maintenance requirements for each security class. Maintenance requirements are the minimum equity required to support a margin or non-purpose loan. For most securities, the maintenance requirement is less than the initial equity requirement. The lower maintenance requirement allows for price declines without forcing a call for additional collateral or reduction in the loan balance.

Equity maintenance requirements are calculated at the account level. In simplest terms, account equity is the value of the securities in the account less the loan balance. Account equity is typically stated as a percentage equal to the account equity divided by the market value of securities in the account. For instance:

- If the securities in your account are worth \$100,000, and
- your Priority Credit Line balance is \$20,000,
- then your account equity would be \$80,000 or 80%.  
( $\$100,000 - \$20,000 = \$80,000$ .  $\$80,000 / \$100,000 = 80\%$ )

Account maintenance requirements are calculated by adding the maintenance requirements for each individual security in your account and comparing to your overall account equity. If your account equity drops below the minimum maintenance requirement, Wells Fargo Advisors will issue a maintenance call (see below for additional discussion on meeting maintenance calls).

For instance, Wells Fargo Advisors' maintenance requirement for eligible stocks is generally 30%. Higher requirements may apply to concentrated positions, volatile and low-priced securities. Wells Fargo Advisors reserves the right to set a higher maintenance requirement at the individual security or account level. If you borrowed \$50,000 against a portfolio of eligible stocks valued at \$100,000 and you maintain the \$50,000 debit, you would receive a margin call if the value of your portfolio declines to below \$71,429 (30% equity). Account equity would equal \$21,429 or 30%:  $\$21,429 = \$71,429 - \$50,000$ .  $\$21,429 / \$71,429 = 30\%$ .

## Changes in maintenance requirements

Wells Fargo Advisors may increase its maintenance margin requirements at any time and is not required to provide advance notice to you. If maintenance margin requirements are increased, you will be required to promptly satisfy all maintenance calls.

## Maintenance calls

There are two types of margin calls — Fed calls and maintenance calls. Non-purpose loans, because they are backed by fully paid for securities, are generally only subject to maintenance calls.

- *Maintenance calls*, also known as *House calls*, generally result when the value of your securities declines to a point where the account equity is below the minimum maintenance requirement.

When a maintenance call occurs, you will be required to either pay down your loan or debit balance, deposit additional fully paid securities, or sell securities in the pledged account to bring your account equity to be greater than the maintenance requirements. If you are unable to meet the maintenance call, Wells Fargo Advisors can sell securities or other assets in any of your accounts (excluding IRA and ERISA accounts) held with us to cover the maintenance deficiencies. You will also be held responsible for any shortfall in the account after such a sale.

While we will try to notify you of your maintenance calls, we are not required to do so. Wells Fargo Advisors can sell your securities or other assets without contacting you. Even if we have notified you and provided a specific date by which you can meet a maintenance call, we can still take the necessary steps to protect our financial interests, including immediately selling the securities without notice to you.

You may also be charged commissions for the selling of securities.

Furthermore, you are not entitled to choose which securities or other assets in your accounts(s) are liquidated or sold to meet a margin call.

## How do I cover a maintenance call?

You can meet a maintenance call by depositing cash to pay down the loan balance, depositing additional securities or by selling securities in your pledged account.

For example, you own \$20,000 of XYZ stock with a 30% maintenance requirement with a \$10,000 Priority Credit Line balance. Subsequently, the value of your XYZ shares declines to \$12,000 and you receive a maintenance call for \$1,600. You could meet the maintenance call by either:

- Depositing at least \$1,600 cash. \$1,600 would reduce the loan balance to \$8,400 and restore your account equity to 30%. ( $\$12,000$  market value less  $\$8,400$  debit balance =  $\$3,600$  account equity;  $\$3,600 / \$12,000 = 30\%$ )

- Depositing fully paid margin eligible stocks worth at least \$2,300 (the call amount divided by 70%, or 1 minus the 30% maintenance requirement). The \$2,300 in securities would restore your account equity to 30%. ( $\$14,300$  market value less  $\$10,000$  debit balance =  $\$4,300$  account equity;  $\$4,300 / \$14,300 = 30\%$ )
- Selling at least \$5,334 worth of XYZ stock (3-1/3 times the call amount or the call amount divided by the maintenance requirement). Selling \$5,334 would reduce your market value to \$6,666 and your debit balance to \$4,666, resulting in account equity of \$2,000 or 30%.

It is important to know that price fluctuations in your securities can both alleviate a maintenance call should the securities rise in value but also can negatively impact the size of your maintenance call should the positions continue to decline. It is important to rectify a maintenance call immediately.

Maintenance computations are complex especially when your account contains multiple security types. Consult your FA regarding maintenance requirements, computations, and firm margin policies.

*Examples above assume an all stock portfolio and maintenance requirements of 30%. For simplicity, commissions, fees, and interest charges are not considered.*

## Collateral/security interest

You are responsible for repaying the Priority Credit Line balance plus any accrued interest on the loan. All securities or other assets held in any of your accounts (excluding IRAs and ERISA accounts) at Wells Fargo Advisors can be sold to cover the maintenance deficiencies. You also will be responsible for any shortfall in the account after such sale. (Priority Credit Lines could include accounts from third-party guarantors.)

Priority Credit Lines are demand loans, which can be called at any time without prior notice.

## Cost of borrowing and interest charges

Interest will be charged to your account each month. The interest charge will be calculated on your relationship (determined on a daily basis) with Wells Fargo Advisors, using the Wall Street Journal Prime Rate (“WSJ Prime Rate”) adjusted by a spread. Your “relationship with Wells Fargo Advisors” is based on your household assets under management (AUM) with Wells Fargo Advisors. The spread will vary based on your relationship with Wells Fargo Advisors. Interest is calculated based on a 360-day year. For more information, please see the Credit Terms & Conditions section of the Wells Fargo Advisors’ client agreement that your financial advisor can provide.

# Risks and other considerations

Borrowing against securities involves risk and is not appropriate for all investors. You must be able to sustain significant losses should they occur, have a high risk tolerance, and have a deep understanding of how equity and bond markets work. If you do not respond to margin calls or are not able to satisfy margin calls, your securities may be sold under unfavorable market conditions, which can create substantial losses in your account.

Before opening a Priority Credit Line, you and your financial advisor should carefully review your investment objectives, risk tolerance, and ability to absorb losses, as well as the terms governing and the risk associated with your account. You are not required to open a margin account to purchase and hold securities.

Some of the risks and considerations include, but are not limited to, the following:

- **Your account is subject to market risk.** The value of individual securities and mutual funds backing your loan may increase or decrease in response to market fluctuations, the prospects of individual companies or industry sectors, interest rates, and general economic conditions.
- **You can lose more money than you deposit.** If the value of your securities declines to less than the Priority Credit Line balance, you will be responsible for any shortfall plus accrued interest.
- **Wells Fargo Advisors can change our maintenance requirements without prior notice.** This means the amount of account equity you are required to maintain can increase, and/or the amount you can borrow can decrease, for certain or all securities.
- **You are responsible for meeting maintenance calls.** You are required to have sufficient equity in your account on or before the settlement date to cover securities purchases. Further, a decline in the value of securities or increase in maintenance requirements may result in a maintenance call and require you to deposit cash or additional securities into your account.
- **Wells Fargo Advisors can force the sale of securities in your account(s).** If you do not meet a maintenance, Wells Fargo Advisors can sell all or some of your securities to meet the call.
- **The sale of securities can create tax liabilities.** If low cost-basis securities are sold to meet a margin call, capital gains liability could be created.
- **Wells Fargo Advisors can sell your securities or other assets without contacting you.** Wells Fargo Advisors will attempt to notify you of margin calls, but we are not required to do so. Even if we have contacted you and provided a specific date by which you must meet a call, we can still take necessary steps to protect our financial interests, including immediately selling the securities, without notice to you. This is especially true during times of volatile financial markets.
- **You are not entitled to choose which securities in your account(s) are liquidated to meet a margin call.** Because the securities are collateral for the loan, Wells Fargo Advisors reserves the right to decide which security to sell in order to protect our interests.

- **Priority Credit Line accounts are susceptible to interest rate risks.** Rising interest rates can cause your interest rate to increase without notice, therefore increasing the cost to borrow.
- **The cost of borrowing can exceed your returns.** There are no guarantees that the returns on your securities and securities account will exceed your borrowing costs. If the cost of the loan is greater than your returns, this is known as a “negative cost of carry”.

#### Take time to:

- Thoroughly understand how Priority Credit Lines work, their risks, and requirements.
- Know the rate of interest you will be charged and what circumstances trigger a call.
- Reduce risk of market volatility by borrowing against more stable securities.
- Borrow less than the maximum amount allowable against your securities to decrease your exposure.
- Diversify your portfolio by purchasing securities that balance your holdings and potentially offset losses on existing securities.
- Closely monitor your account, especially during volatile market conditions to anticipate a potential decline in value.

## Strategies for managing risks

There are steps you can take to help reduce the likelihood of a maintenance call. These include:

- **Borrowing in moderation** to potentially reduce the risk of a maintenance call. You should monitor your portfolio and degree of leverage, especially during fluctuating, volatile markets.
- **Leverage can increase your risk.** The greater degree of borrowing against a portfolio, the more likely calls and liquidation become.

#### Example of \$100,000 stock portfolio:

Original Portfolio	Debit Balance	Leverage	Call issued when value declines to:	Percentage decline before call:
\$100,000	\$60,000	60%	\$86,000	14%
\$100,000	\$50,000	50%	\$72,000	28%
\$100,000	\$25,000	25%	\$36,000	64%
\$100,000	\$10,000	10%	\$15,000	85%

Assumes 30% maintenance requirement

- **Borrowing against a diversified portfolio** of securities and mutual funds to potentially minimize your risk should any one security decline in value. Diversification may not avoid or reduce declines during times of broad market declines.
- **Borrowing against relatively stable securities** that are less susceptible to market volatility such as investment-grade and interest-bearing bonds and blue-chip stocks.

## Other considerations

When leveraging your securities to meet a liquidity or capital need, there are several factors you should consider including but not limited to:

- What is the purpose of the loan? Will the potential reward cover the cost of borrowing and risks to your portfolio?
- How much will you need to borrow — as a dollar amount and as a percentage of the securities backing the loan?
- How long will you need to borrow the funds?
- How do you plan to repay the loan?
- How could borrowing against your securities adversely impact your investment performance?



### **Additional information**

Before opening a Priority Credit Line, it is important for you to read and understand the account agreements, disclosures, and other documents. If you have any questions about a specific product or service, contact your financial advisor. To learn more about securities-based lending, contact your financial advisor or visit the following websites:

**Wells Fargo Advisors**  
wellsfargoadvisors.com

**Investment Company  
Institute**  
ici.org

**Financial Industry Regulatory  
Authority**  
finra.org

**U.S. Securities and Exchange  
Commission**  
sec.gov

**Securities Industry and  
Financial Markets Association**  
sifma.org

## How your financial advisor and Wells Fargo Advisors are compensated for Priority Credit Lines

Wells Fargo Advisors will receive interest based on your outstanding balance, or debit, of your Priority Credit Line. The interest rate may be individually negotiated instead of based on our standard rate. At the time any negotiated rate is established for your account, we will notify you of the expiration date, if any, to your negotiated rate. After the expiration date, if any, we may change your negotiated rate without giving you any prior notice of the change. We may charge a different interest rate based on factors determined by us in our sole discretion, including, but not limited to, account activity or your overall business relationship with us. Our standard rate is subject to change without notice.

Financial advisors will receive compensation on Priority Credit Line. Your financial advisor's compensation is based on the debit balance in your account. In addition, your financial advisor's compensation will be reduced if your interest rate is discounted below a certain level. This creates an incentive for financial advisors to recommend Priority Credit Line as well as an incentive to encourage you to maintain a larger debit balance and to discourage interest rate discounts below a certain level. Talk to your financial advisor about what other similar products may be available to you.

Wells Fargo Advisors and your financial advisor will be compensated for certain securities and investment advisory programs collateralizing your Priority Credit Line.

Industry practices will generally provide your financial advisor with an incentive to recommend the transfer of your account to a new firm. Before transferring your account, please review your choices, including portability of assets, termination charges, fees, rates, and product offerings carefully to ensure that they are consistent with your investment objectives and needs.

*Margin borrowing may not be appropriate for all investors. When you use margin, you are subject to a high degree of risk. Market conditions can magnify any potential for loss. The value of the securities you hold in your account, which will fluctuate, must be maintained above a minimum value in order for the loan to remain in good standing. If it is not, you will be required to deposit additional securities and/or cash in the account or securities in the account may be sold. Clients are not entitled to choose which securities in their accounts are sold. The sale of their securities may cause clients to suffer adverse tax consequences. Clients should discuss the tax implications of pledging securities as collateral with their tax advisors. An increase in interest rates will affect the overall cost of borrowing. Wells Fargo Advisors and its affiliates are not tax or legal advisors. Margin strategies are not appropriate for retirement accounts. Please carefully review the margin agreement, which explains the terms and conditions of the margin account, including how the interest on the loan is calculated.*

*Securities-based lending has special risks and is not appropriate for everyone. If the market value of a client's pledged securities declines below required levels, the client may be required to pay down his or her 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 the client's securities. Wells Fargo Advisors will attempt to notify clients of maintenance calls but is not required to do so. Clients are not entitled to choose which securities in their accounts are sold. The sale of their securities may cause clients to suffer adverse tax consequences. Clients should discuss the tax implications of pledging securities as collateral with their tax advisors. An increase in interest rates will affect the overall cost of borrowing. Wells Fargo Advisors and its affiliates are not tax or legal advisors. All securities and accounts are subject to eligibility requirements. Clients should read all lines of credit documents carefully. The proceeds from securities-based lines of credit may not be used to purchase additional securities, pay down margin, or for insurance products offered by Wells Fargo affiliates. Securities held in a retirement account cannot be used as collateral to obtain a loan. Securities purchased in the pledge account must meet collateral eligibility requirements.*

*Wells Fargo Advisors ("WFA") and its financial advisors have a financial incentive to recommend the use of securities-based lending products ("SBLs") rather than the sale of securities to meet client liquidity needs. Financial advisors will receive compensation on Priority Credit Line ("PCL") and other non-purpose SBL from Wells Fargo Bank. Your financial advisor's compensation is based on the outstanding debit balance in your account. In addition, your financial advisor's compensation will be reduced if your interest rate is discounted below a certain level. This creates an incentive for financial advisors to recommend PCL and other SBL products, as well as an incentive to encourage you to maintain a larger debit balance and to discourage interest rate discounts below a certain level. The interest you pay for the loan is separate from, and in addition to, other fees you may pay related to the investments used to secure the loan; such as ongoing investment advisory fees (wrap fees) and fees for investments such as mutual funds and ETFs, for which WFA and/or our affiliates receive administrative or management fees or other compensation. Specifically, WFA benefits if you draw down on your loan to meet liquidity needs rather than sell securities or other investments, which would reduce our compensation. When assets are liquidated pursuant to a house call or demands for repayment, WFA and your financial advisor also will benefit if assets that do not have ongoing fees (such as securities in brokerage accounts) are liquidated prior to, or instead of, assets that provide additional fees or revenues to us (such as assets in an investment advisory account). Further, different types of securities have higher release rates than others, which can create a financial incentive for your financial advisor to recommend products, or manage the account, in order to maximize the amount of the loan.*

*Your annual rate of interest may change, without prior notice to you, in accordance with changes in the Wall Street Journal Prime Rate.*

*Wells Fargo & Company and its affiliates do not provide tax or legal advice. Please consult your tax or legal advisors to determine how any credit 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.*

*Priority Credit Line is offered by Wells Fargo Advisors and lending and margin accounts are carried by Wells Fargo Clearing Services, LLC (WFCS).*

*Wells Fargo Bank, N.A., is a separate affiliate of Wells Fargo & Company.*