Wealth & Investment Management

Custom Credit Solutions

Offered through Wells Fargo Bank, N.A.

Employee stock ownership plan (ESOP) monetization loan

ESOP monetization loans

Planning for the future — for you and your company

Your company is the product of years of hard work. Now you need options for how and when to start liquidating your ownership shares. An employee stock ownership plan (ESOP) monetization loan may be the right choice for you and your company.

- Set the timing of your transition on your terms
- Choose a tax-efficient way to access liquidity
- Create an exit strategy that keeps you in control
- Help potentially reduce expenses, including interest payments
- Preserve wealth by diversifying holdings
- Plan for wealth transfer to younger generations
- Share ownership with senior management
- Foster loyalty among your most valued employees
- Help employees save for their own retirement

ESOP monetization loans

ESOP monetization loans could potentially be a good option for owners of privately held companies exploring a sale to an ESOP.

Depending on the situation, one or more owners can sell part or all of the company to an ESOP. That can help you plan for tomorrow or for 10 years down the road. It can also help you preserve family wealth, preserve corporate value, and help employees who helped build the business into what it is today. Moving these shares to the ESOP allows your employees to work toward ownership through their retirement plan. Research shows that this type of incentive helps to motivate employees and improve company performance.[1]

Wells Fargo Bank, N.A. has the resources to handle all components of the monetization process — efficiently and reliably. Your advisor works closely with a team of specialists who have deep knowledge and experience, to help ensure that the credit solution suits your broader investment and wealth plan.

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1 See summaries of nine research studies on the relationship between ESOPs and company performance:
https://www.nceo.org/articles/research-employee-ownership-corporate-performance

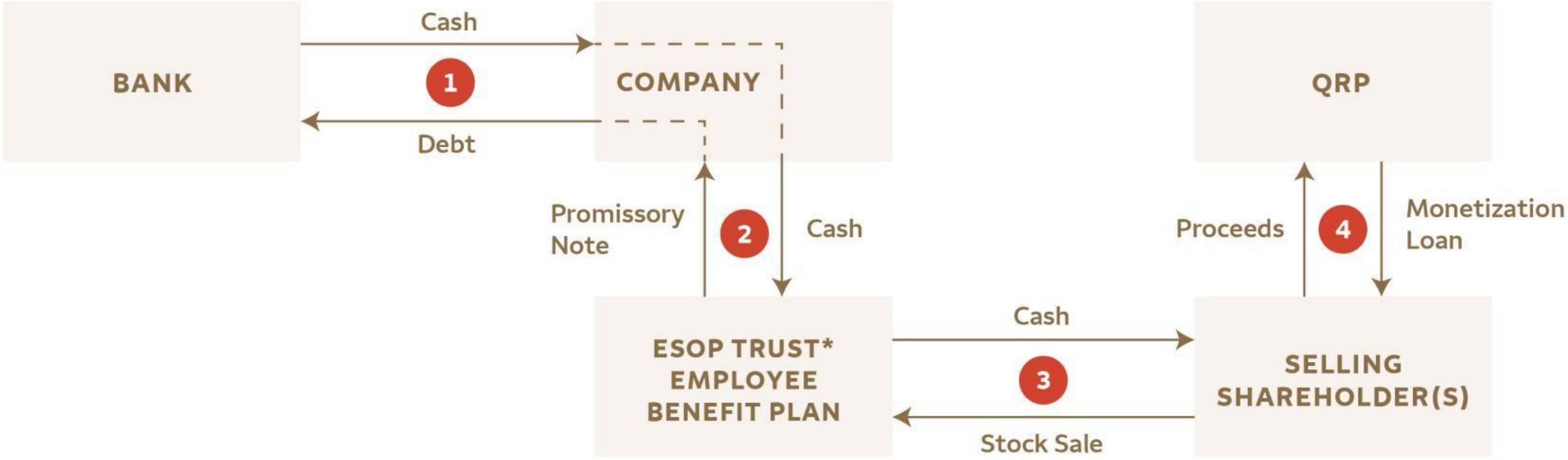
ESOP monetization loans

How it works

ESOP monetization transactions can be completed utilizing some of the cash proceeds from the ESOP sale, with the remainder financed by an ESOP monetization loan. Loan proceeds are invested in a diversified portfolio of qualified securities for efficient tax treatment.

Wells Fargo's deep and broad experience across the credit markets means that we have the flexibility to customize loan structures. We work with your tax and legal advisors to ensure the transaction and loan terms fit your situation.

1. The company borrows money ("external" loan) from a bank or other qualified lender.
2. The company lends the "external" loan proceeds to the ESOP ("internal" loan).
3. The ESOP uses the loan proceeds to purchase shares from an owner.
4. The owner elects to defer the capital gain on the sale by reinvesting in qualified replacement properties (QRPs). The reinvestment in QRPs is partially financed by an ESOP monetization loan allowing the owner to retain excess cash sales proceeds as unrestricted liquidity.



ESOP monetization loans

A scenario: A plan to potentially benefit all stakeholders

Jeff, the founding owner of a mid-size manufacturing firm, is beginning to plan his retirement and exit strategy from the firm. His goal is to use his company stock in a way that provides income for a comfortable retirement and benefits the firm's employees, many of whom have a long tenure with the company.

1

The situation

Jeff's wealth advisor can connect him with a team of specialists to review his options, including an ESOP sale. With this option, he would invest the proceeds in qualified replacement securities (or, QRP, under IRS Code, Section 1042), in order to defer capital gains taxes.

2

The solution

Wells Fargo can customize a loan for Jeff to purchase QRPs and realize the full deferral of all capital gains while providing additional unrestricted liquidity for discretionary spending.

3

The result

In addition to having access to funds to live comfortably during retirement, Jeff may receive additional unrestricted liquidity in future years from principal repayments on promissory notes (if applicable) as they will have already deferred related taxable gains.

This information is hypothetical and is provided for illustrative purposes only. It is not intended to represent any specific strategy, nor is it indicative of future results.

Disclosures

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