

COLLATERAL ACCOUNT / **DISCLOSURE**

Dear Prospective / New Client:

We are pleased to have the opportunity to offer our service to you. In order to better serve your needs and to meet all U.S. Securities Laws, below you will find important disclosures that will assist you in better understanding **Collateral Accounts**. Please read carefully and if you have any questions do not hesitate to ask your account representative (Este documento también está disponible en Español).

What is a collateral account?

It's an account type you can open with VSI Securities where your assets are deposited and serve as security for a non-purpose revolving line of credit that you can establish with VBT Bank & Trust. In legal terms you are known as the "obligor", VBT Bank & Trust is known as the "secured party", and the parties known as the "securities intermediary" are VSI Securities (your introducing broker) and Pershing LLC (the custodian of the assets).

Are there limitations on using proceeds?

Proceeds from the collateralized loan may not be used to purchase securities or pay down margin lines of credit, and may not be deposited into another brokerage account.

What are fees and charges for opening a collateral account?

There are no application or account set-up fees to open a collateral account with VSI Securities. The only fees are the standard quarterly administrative fee which is charged to all accounts which is held with VSI Securities. Standard trading commissions and wire transfer fees apply to all collateral accounts.

What are some characteristics of a collateral account?

This type of account allows you use your assets as security for a loan. Thus you can use the money you receive from a loan instead of using the assets in your account for money. Because you do not sell the assets in your account to receive money you can avoid potential capital gains taxes caused by selling. Also in your account you are able to continue to receive the benefits of your stock and bond holdings, like dividends, interest and appreciation. Also a security loan may not require a credit check which saves you time and cost. Also the maximum loan limit amount may solely be based on the value of your portfolio not your credit background. Further, collateral loan interest rates are often lower than those you would be able to qualify for with a personal loan or line of credit from your bank or by using a credit card to fund purchases. Interest rates charged typically follow broker-call, prime or LIBOR rates plus some stated percentage or "spread" – and you will be responsible for interest payments on an on-going basis. Although interest is calculated daily, and the interest rate on your loan can change every day, it is usually charged monthly and will appear on your monthly account statement at VBT Bank & Trust. At certain times fixed interest rates may be offered.

What are some features associated with a Collateral Account?

The collateral account is an account controlled by you, the beneficial owner, but also you are able to instruct VSI Securities to transfer your authority of control over the account to a third party. The mechanism by which your control, and how much control, of the account is transferred to a third

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party is known as a “block” on the account. This block is a feature on the collateral account that allows a third party to receive the authority from you to “block”, to stop all activity in the account (deposits, withdrawals, buy and sell orders). The third party will be given by you the authority to place and remove a “block” on the collateral account. In this case you are transferring the authority to “block” the collateral account to VBT Bank & Trust.

What are the risks associated with a Collateral Account?

While your assets are under “block” in a collateral account the value of the assets may fluctuate up or down reflecting changes in the stock market. Should the value of the assets violate the loan covenants you agreed to with VBT Bank & Trust then action may be taken by VBT Bank & Trust to cause the account assets to change and meet the terms of the loan agreement. Below are some to the risks:

- ✓ A decline in the value of the securities in your collateral account may result in a reduction in your pledged assets, a demand that you deposit additional funds or securities into your collateral account (such demand is a "collateral maintenance call"), or the forced sale of securities in your collateral account. The loan with VBT Bank & Trust is a full recourse obligation, and you will still be responsible for satisfying any obligation that remains outstanding after such sale.
- ✓ The lender can force the sale of securities in your collateral account to satisfy your loan obligation.
- ✓ Your collateral account secures your obligations under the loan agreement with VBT Bank & Trust.
- ✓ VBT Bank & Trust can sell your securities without contacting you.
- ✓ You are not entitled to choose which securities in your account are liquidated or sold if you fail to meet a collateral maintenance call.
- ✓ You are not entitled to an extension of time to meet a collateral maintenance call.
- ✓ You may incur adverse tax consequences if your securities are sold.
- ✓ There may be alternative ways of borrowing funds that are less expensive and involve less risk.
- ✓ Forced liquidation or assets that are prohibited from owning could impact you're your long term investment goals.

CLIENT ACKNOWLEDGMENT AND AGREEMENT

By my signature(s) below, I acknowledge and represent that I have read and fully understand the above Disclosure Document and all the representations and agreements set forth in the above disclosure document.

Client Name (Please Type or Print)

Client Name (Please Type or Print)

Client Signature

Date

Client Signature

Date

For Broker Dealer Use Only

AP Signature_____

Account number: 5QH_____