BUSINESS PROPOSAL

LIQUID CAPITAL SERVICES CORPORATION

A Nonbank Tax-Liquidity Finance Platform

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Prepared for review by prospective founders, legal and tax counsel,
institutional equity investors, warehouse lenders, and implementation partners

Version 1.0 | August 2026

Contents

The proposal separates the commercial thesis from the legal permissions, capital structure, and implementation controls required to operate LCSC.

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CONTROLLING RECOMMENDATION. Form LCSC as a Delaware C-corporation holding company with a separately licensed nonbank lending subsidiary. Do not seek a bank charter and do not accept deposits. Launch only after legal opinions, licensing, institutional funding, and a capped pilot are in place.

Executive Summary

RECOMMENDATION. Proceed to a controlled formation and feasibility phase for Liquid Capital Services Corporation (LCSC) as a nonbank specialty-finance company. The company will finance verified federal tax payments arising from recognized gains; it will not assume the taxpayer's federal liability, change a statutory payment date, prepare the return, recommend securities, or accept deposits.

LCSC addresses a narrow liquidity problem. An owner who sells appreciated marketable securities may wish to diversify or redeploy the proceeds, but a material portion of the sale proceeds must remain available for federal tax. LCSC converts part of that near-term cash requirement into a secured, full-recourse, amortizing private loan. Treasury is paid under current law. The borrower receives liquidity and incurs debt. LCSC earns interest and fees and accepts the resulting credit, collateral, funding, regulatory, and operating risks.

The recommended launch product is the Individual Tax Liquidity Facility: $250,000 to $2.0 million, four-year fully amortizing, federal-tax-only financing for high-net-worth U.S. individuals with broker-reported long-term gains on publicly traded securities. The borrower contributes at least the lesser of the verified federal liability or 10% of the qualified gain, subject to a higher risk-based contribution. The loan is supported by controlled cash, U.S. Treasury securities, or diversified eligible securities; full recourse and independent repayment capacity are mandatory.

A Corporate Tax Liquidity Facility is included as a Phase 2 product, not as part of the initial pilot. Its strongest prospects are closely held C corporations, taxable holding companies, and operating businesses whose gain-related estimated-tax payment competes with a defined capital project. Public companies and well-banked corporations are lower-priority prospects because ordinary revolvers generally provide cheaper and more flexible liquidity. Partnerships, S corporations, funds, trusts, estates, and entities with a mismatch between borrower and taxpayer remain outside the initial scope.

Proposed institutional form

Entity	Function	Launch position
LCSC Holdings, Inc.	Delaware C-corporation parent; raises equity, owns intellectual property, appoints the board, and sets risk appetite.	Form first.
LCSC Finance LLC	State-authorized operating lender and servicer; originates, underwrites, services, and collects loans.	Form after the licensing matrix is approved.
LCSC Funding SPV I LLC	Bankruptcy-remote owner of eligible receivables pledged to a warehouse lender.	Activate before warehouse borrowing.
Independent bank/custodian	Holds controlled cash and collateral and executes tax-payment instructions.	Contracted third party; LCSC does not hold deposits.

Capital and economics

Formation requires $4-$6 million of seed equity for legal work, licensing, executive recruitment, technology, insurance, and 18 months of operating runway. The pilot capital structure retains the preliminary model of $15 million equity plus a $35 million secured warehouse line, supporting a maximum $43 million loan portfolio and at least $7 million of cash, reserves, and unused capacity. This is a planning case, not a financing commitment.

The base financial model produces break-even near $200 million of average loans when the net contribution margin after warehouse cost, expected credit loss, custody, and direct servicing is approximately 4% and annual fixed operating cost is approximately $8 million. The five-year case reaches an average portfolio of $350 million and approximately $3.8 million of pre-tax operating income in Year 5. Profitability is highly sensitive to the borrower spread, warehouse advance rate, utilization, loss experience, and compliance cost; those variables must be validated before capital is raised for lending.

Market and distribution

IRS preliminary data reported $1.603 trillion of net capital gain in adjusted gross income for tax year 2022, including approximately $1.433 trillion on returns with AGI of $250,000 or more. The Federal Reserve reported $64.8 trillion of directly and indirectly held household corporate equity in the first quarter of 2026. These figures establish economic scale but are not LCSC's addressable market because they include ineligible assets, gains requiring no financing, and taxpayers with cheaper alternatives. [14]-[16]

Distribution will be professional and referral-led: tax attorneys, CPAs, RIAs, multi-family offices, independent trust companies, and selected broker-dealer or custody relationships. LCSC will market payment timing and liquidity, not tax reduction, guaranteed investment returns, or government affiliation. Referral compensation, co-marketing, and use of customer data require written legal and compliance approval.

Primary decision

The immediate decision is not whether to begin lending. It is whether to fund a six-month feasibility and formation program that will deliver: (1) federal and state legal opinions; (2) a state licensing matrix; (3) validated customer demand; (4) warehouse-lender indications; (5) final underwriting and collateral policies; (6) a five-year integrated model; and (7) a board-approved pilot plan. Customer solicitation and loan commitments begin only after all mandatory gates are satisfied.

1. Business Definition and Recommended Decision

1.1 Defined purpose

CORPORATE PURPOSE. LCSC will provide secured, full-recourse financing for verified federal tax payments attributable to recognized gains on eligible marketable securities, allowing qualified borrowers to preserve transaction liquidity while maintaining full and timely payment of federal tax.

The business is credit intermediation. It is not tax deferral, tax settlement, tax preparation, investment management, a securities trading platform, a deposit account, or a government program. The distinction governs the charter, licenses, contracts, accounting, marketing, technology, and founder capabilities.

1.2 Recommended decision architecture

1. Approve Phase 0 - legal, market, capital, and operational feasibility - with a capped $4-$6 million seed budget.
2. Authorize formation of LCSC Holdings, Inc. only after corporate, tax, securities, and founder-equity documents are approved.
3. Form and license LCSC Finance LLC only in jurisdictions supported by written counsel memoranda; do not use entity formation as a substitute for lending authorization.
4. Launch the individual product first. Keep the corporate product in design and controlled relationship testing until the individual operating model is stable.
5. Require a committed equity base and warehouse facility before any customer loan commitment.
6. Treat the Unlocking Capital Act (UCA) and LCSC as complementary: UCA is a proposed public payment framework; LCSC is a current-law private lender.

1.3 Investment thesis

LCSC can create value if it originates a standardized, well-secured receivable that customers cannot obtain as conveniently or on comparable terms from existing private-bank and brokerage products. The receivable must generate enough spread and fee income to absorb specialty-finance compliance costs while producing low loss volatility and institutional-quality collateral control.

The thesis fails if qualified borrowers overwhelmingly prefer cheaper SBLOCs or bank revolvers, if use of retained proceeds routinely creates restrictive purpose-credit treatment, if state licensing prevents an efficient multistate launch, if customer acquisition depends on prohibited or uneconomic referral payments, or if warehouse lenders require advance rates that make customer pricing uncompetitive. These are diligence questions, not drafting issues.

2. Economic Problem, Opportunity, and UCA Context

2.1 The financing problem

A sale of appreciated securities does not create new cash for the economy; it transfers cash from buyer to seller and the security from seller to buyer. The relevant friction is the seller's loss of immediate liquidity when tax becomes payable. LCSC finances that timing gap. Its economic value depends on whether the borrower's use of retained proceeds justifies the loan's interest, fees, collateral, and leverage risk.

Federal estimated-tax rules may require an increased payment in the period in which a substantial gain is realized, and underpayment can generate penalties. Corporate taxpayers generally make estimated payments in the fourth, sixth, ninth, and twelfth months of the tax year. LCSC's workflow therefore must be transaction-timed and tax-verification-led, with the custodian transmitting payment before the applicable deadline. [3], [21]

2.2 Relationship to the Unlocking Capital Act

Dimension	Proposed UCA	LCSC under current law
Legal mechanism	Federal statute changes the timing of payment to Treasury.	Private credit funds the payment required under current law.
Taxpayer	Remains liable for the full federal tax.	Remains liable for the tax and separately owes LCSC.
Creditor	United States government.	LCSC after Treasury is paid.
Rate	Statutory Capital Activation Index adjusts the immediate payment.	Risk-based loan pricing and borrower contribution are contractual.
Public risk	Federal receivable and budget effect require legislation and scoring.	No federal credit exposure; LCSC investors and lenders bear private risk.
Scale	Potentially broad statutory eligibility.	Limited by demand, underwriting, capital, collateral, and state authorization.

LCSC can operate before enactment and can provide market evidence about demand for payment flexibility. If UCA is enacted, LCSC could finance the statutory first payment, provide collateral administration, or service secured private obligations that sit alongside the federal balance. It cannot act as Treasury's delegate or market itself as federally approved without specific authority.

2.3 Stakeholder value

Stakeholder	Value	Cost or protected interest
Individual borrower	Preserves sale liquidity for diversification, business investment, debt reduction, or another documented purpose.	Pays interest and fees and assumes repayment and collateral risk.
Corporate borrower	Matches a tax cash outflow to business cash generation or a defined capital project.	Adds leverage and covenants; may have cheaper bank alternatives.
Federal government	Receives full payment under current law and bears no LCSC credit risk.	No claim of incremental receipts unless LCSC causes realizations that otherwise would not occur.
Capital providers	Obtain exposure to a collateralized specialty-finance asset class.	Bear credit, market, funding, legal, and operational risk.
Professional partners	Gain a documented liquidity option for suitable clients.	Must preserve independence, licensing boundaries, and disclosure duties.

3. Products, Transactions, and Customer Economics

3.1 Phase 1 - Individual Tax Liquidity Facility

Term	Recommended pilot position
Borrower	U.S. individual with documented long-term gain from a direct sale of publicly traded securities; high-net-worth segment.
Facility	$250,000 minimum; $2.0 million normal maximum; exception authority capped at $2.5 million and subject to board Credit Committee policy.
Use	Direct funding of a verified federal estimated-tax or return payment attributable to the eligible sale.
Contribution	At least the lesser of verified federal liability or 10% of qualified gain; higher when credit, collateral, volatility, or concentration requires.
Term	Four years, fully amortizing; three- and five-year cases modeled. No balloon and no prepayment penalty in the pilot.
Pricing	Market index plus 350-600 basis points and 1%-2% origination fee as modeling ranges; final pricing follows capital-market and demand validation.
Collateral	Controlled cash, U.S. Treasuries, or diversified eligible securities at an approved custodian; full recourse and independent repayment capacity.
Excluded	Private securities, crypto assets, derivatives, disputed basis, pass-through allocations, related-party sales, nonmarketable property, trusts, estates, and offshore borrowers.

3.2 Phase 2 - Corporate Tax Liquidity Facility

The corporate product is a separately underwritten business-credit facility for taxable entities whose federal estimated-tax payment arises from a documented disposition and competes with a defined operating use of cash. It is not simply the individual loan placed in a corporation.

Term	Phase 2 position
Borrower	Domestic C corporation or taxable holding company that is itself the taxpayer and has audited or reviewed financial statements.
Facility	$1 million minimum; $10 million maximum after portfolio and warehouse limits; initially senior secured and full recourse.
Use	Federal corporate estimated-tax payment attributable to an eligible disposition; retained cash tied to approved capex, acquisition, working-capital, or debt-reduction plan.
Term	12-36 months, amortizing from operating cash flow or a verified liquidity event. No reliance on speculative investment appreciation.
Security	First-priority lien on designated liquid assets and, where appropriate, business assets, deposit accounts, or parent guarantee.
Excluded	Partnerships, S corporations, funds, pass-through gain allocations, shell entities, unresolved beneficial ownership, and any borrower/taxpayer mismatch.

3.3 Transaction workflow

1. Prequalification. Capture the asset, basis, sale timing, expected gain, tax period, requested advance, collateral, borrower contribution, repayment source, and use of retained proceeds.

2. Independent tax verification. A qualified tax professional certifies the incremental federal liability and payment date using broker records. LCSC does not prepare or sign the return.

3. Regulatory classification. Determine borrower state, consumer or business purpose, Regulation U status, collateral type, and any required license, disclosure, or purpose statement.

4. Underwriting. Verify identity, beneficial ownership where relevant, credit, liquidity, global cash flow, existing leverage, source of wealth, collateral, and downside repayment capacity.

5. Documentation and control. Execute the note, loan and security agreements, account-control agreement, payment authorization, tax acknowledgment, privacy notice, and applicable credit disclosures.

6. Funding and tax payment. The borrower deposits the required contribution and LCSC funds the approved advance into a controlled bank account. The bank or payment provider transmits the tax payment and returns confirmation.

7. Reconciliation. Compare the independently verified estimate with the filed return. The borrower remains responsible for any deficiency; overfunding is applied to principal or handled under documented instructions.

8. Servicing and exit. Collect amortization, monitor collateral and covenants, manage cures and defaults, apply prepayments, and release liens only after full satisfaction.

3.4 Illustrative individual transaction

Item	Amount
Gross sale proceeds	$10,000,000
Tax basis	$2,000,000
Recognized long-term gain	$8,000,000
Illustrative federal tax at 23.8%	$1,904,000
Borrower contribution at 10% of gain	$800,000
LCSC advance	$1,104,000
Immediate liquidity preserved; also initial debt principal	$1,104,000
Four-year level annual payment at 9%	$340,770
Total interest over four years	$259,081

The transaction creates liquidity, not wealth. The borrower retains $1.104 million that otherwise would have funded the tax payment and assumes an equal principal obligation plus interest and fees. The financing is economically rational only when the value of liquidity, diversification, or deployment exceeds the financing cost and leverage risk.

RETURN

3.5 Product boundary

7. LCSC does not promise a reduction, postponement, settlement, or forgiveness of federal tax.
8. LCSC does not recommend whether, when, or what security the customer should sell or purchase.
9. LCSC does not custody customer deposits, operate an investment account, or represent that funds are FDIC-insured by LCSC.
10. LCSC does not underwrite repayment on the assumption that reinvested proceeds will appreciate.
11. LCSC does not accept a loan application until the applicable state and federal classification is confirmed.

4. Market Opportunity and Competitive Position

4.1 Empirical market reference

The market reference is large and concentrated. IRS preliminary data for tax year 2022 reported $1.603 trillion of net capital gain in AGI on 16.85 million returns. Returns with AGI of $250,000 or more accounted for approximately $1.433 trillion. An IRS research paper reports that 75.7% of total capital gains flowed to the top 10% and 45.3% to the top 1% over its sample period. The Federal Reserve's first-quarter 2026 household balance sheet reported $64.8 trillion of directly and indirectly held corporate equity. [14]-[16]

INTERPRETATION. These figures define the economic setting; they do not establish LCSC demand. The eligible market is limited to broker-documented long-term securities gains, borrowers needing term liquidity, acceptable collateral and cash flow, authorized states, and customers for whom the facility is superior to cheaper alternatives.

4.2 Market-sizing construction

Case	Eligible share of $1.433T	Advance as % of gain	Adoption	Annual originations
Low	15%	10.0%	0.25%	$54 million
Base	25%	13.8%	1.00%	$494 million
High	35%	15.0%	2.00%	$1.50 billion

This is a transparent screening construction, not a forecast or valuation. The base case assumes that 25% of high-income realized gains meet pilot asset criteria, the average advance equals 13.8% of gain, and 1% of that constructed pool is originated annually. Customer interviews, advisor-channel testing, declined-application analysis, and priced term-sheet testing must replace these assumptions.

4.3 Competitive alternatives

Alternative	Customer advantage	LCSC implication
Securities-backed line of credit	Fast, familiar, often lower-priced, and available before a sale; may pay a tax bill but generally cannot fund securities purchases.	Primary individual competitor. LCSC must offer fixed maturity, amortization, transaction-specific tax verification, multi-custodian execution, or collateral flexibility.
Margin loan	Directly supports securities activity and is integrated with a brokerage account.	Carries market-call and forced-liquidation risk; LCSC must not compete by relaxing Regulation U or collateral discipline.
Private-bank or family-office credit	Relationship pricing, broad collateral, and integrated wealth services.	LCSC will lose the most bankable clients unless advisors value independence or the tax-specific workflow.
IRS payment arrangement	Government-administered payment over time for eligible unpaid balances.	Generally addresses inability to pay after a balance arises; interest and penalties can continue. LCSC is designed to pay on time and avoid tax-debt status.
Corporate revolver	Usually cheaper and flexible for established businesses.	Corporate LCSC product should target borrowers without adequate revolver capacity or with transaction-specific collateral and urgency.

Alternative	Customer advantage	LCSC implication
Cash payment	No interest, fee, leverage, or collateral risk.	The default and often best alternative. LCSC is suitable only when liquidity has a documented higher value.

SEC and FINRA investor guidance describes SBLOCs as non-purpose, securities-collateralized revolving loans that can pay a tax bill but may be callable and subject to collateral maintenance and forced liquidation. LCSC's fixed-term product is differentiated only if customers value amortization, tax-linked execution, and independence enough to pay for them. [17]

4.4 Positioning

POSITIONING STATEMENT. For qualified taxpayers who choose to realize a large, documented securities gain and need to preserve part of the sale liquidity, LCSC provides a secured, amortizing tax-payment facility with independent verification and institutional collateral control. Unlike a demand SBLOC or general-purpose revolver, LCSC is structured around the tax transaction and a defined repayment schedule.

4.5 Demand-validation program

12. Complete 40-60 confidential interviews with high-net-worth taxpayers who realized at least $1 million of gain in the preceding three years.
13. Complete 30 interviews with tax attorneys, CPAs, RIAs, multi-family offices, and independent trust companies; document referral and compliance objections.
14. Test 20 anonymized historical transactions against the term sheet and underwriting policy.
15. Obtain at least 10 nonbinding customer indications totaling $10 million and five professional-channel letters of interest before warehouse launch.
16. Reject the base market case if fewer than 15% of qualified interviewees would consider the product at the modeled all-in cost or if cheaper existing credit is available to more than two-thirds of qualified prospects.

5. Customer Segmentation, Marketing, and Distribution

5.1 Individual segments

Segment	Need and qualification	Message and channel
Public-company founders and early employees	Concentrated low-basis public stock; planned diversification; external income or liquid assets support amortization.	Tax-liquidity planning after the sale decision. Reach through tax counsel, RIAs, equity-compensation advisors, and multi-family offices.
Executives with vested stock	Broker-reported gain and a defined reinvestment, business, or debt-reduction use; no reliance on future employer stock.	Fixed payment schedule and independent collateral control. Reach through executive financial-planning and CPA networks.
Family-office and UHNW principals	Large taxable portfolios, multi-custodian relationships, strong liquidity, and demand for institutional documentation.	Independent specialty facility without investment management. Reach through family offices, trust companies, and tax attorneys.
Entrepreneurs funding operating businesses	Securities sale provides capital for a controlled business use while tax creates a near-term drain.	Match the tax payment to business cash generation. Reach through business counsel, private equity operating networks, and CPAs.
Retired or estate-planning investors	Large gains but repayment capacity may depend on liquid reserves rather than salary.	Conservative suitability and liquidity review. Reach only through fiduciary and tax professionals; no mass marketing.

5.2 Corporate segments

Segment	Priority	Reason and approach
Taxable holding companies and family investment corporations	High	Borrower and taxpayer can align; liquid collateral and owner guarantees may be available. Direct outreach through family-office counsel and private bankers.
Closely held operating C corporations	High	A gain-related tax payment may compete with capex, acquisition, or working capital. Approach through corporate CPAs, M&A counsel, and CFO networks.
Sponsor-backed portfolio companies	Selective	May have restricted debt capacity and consent requirements. Approach only with sponsor and senior-lender coordination.
Public corporations	Low	Generally have revolvers, treasury teams, and lower-cost capital. Pursue only where a transaction-specific structure provides clear value.
Partnerships, S corporations, funds, trusts, and estates	Excluded initially	Taxpayer and borrower can diverge; allocation, guaranty, and consumer/business classification become materially more complex.

5.3 Channel strategy

The launch is advisor-led, not direct-response consumer lending. Large gain transactions are episodic, private, and time-sensitive; the customer's tax and wealth professionals influence the financing decision. LCSC should therefore build a controlled professional network before investing in broad brand advertising.

Channel	Role	Control
Tax attorneys and CPAs	Identify qualifying transactions and independently verify attributable tax.	No contingent compensation for tax opinions; separate verification engagement and conflict disclosure.
RIAs and family offices	Introduce suitable clients and coordinate collateral and liquidity planning.	No securities recommendation by LCSC; referral fees require legal review and written disclosure.
Custodians, trust companies, and broker-dealers	Provide account control, data, payment, and client access.	Contractual data permissions, no implied endorsement, and securities-law review of compensation.
Corporate advisors	Introduce CFOs and transaction-driven corporate borrowers.	Business-purpose classification, commercial-finance disclosures, and anti-kickback review.
Direct educational content	Explain the product and allow qualified prospects to self-screen.	Compliance-approved content; no tax-savings claim, government affiliation, or return promise.

5.4 Segment-specific marketing

Founders and executives. Use transaction examples showing sale proceeds, borrower contribution, loan amount, amortization, and collateral stress. Avoid generalized claims about unlocking wealth.

Family offices. Emphasize institutional documentation, multi-custodian capability, confidentiality, prepayment flexibility, and no investment-advisory conflict.

Entrepreneurs. Link the repayment schedule to conservative business cash flow and show the cost of financing against the planned operating use of retained proceeds.

Corporate borrowers. Use CFO-grade materials: cash-flow timing, covenants, collateral, accounting, estimated-tax schedule, and comparison with the existing revolver.

Professional partners. Provide a technical guide, eligibility checklist, example certification, referral protocol, and a clear statement that the advisor retains professional responsibility.

5.5 Marketing controls and performance metrics

Metric	Pilot target or rule
Qualified professional partners	At least 15 active referring firms; no partner contributes more than 20% of applications.
Qualified-to-application conversion	At least 25% after eligibility screening.
Approval-to-funding conversion	At least 60%; lower conversion triggers pricing and process review.
Customer acquisition cost	Less than 1% of funded principal, inclusive of approved channel compensation.
Time to conditional approval	Five business days after complete tax and collateral package.
Complaints and corrections	All logged; material complaint reported to Compliance within one business day; zero tolerance for tax-reduction or guaranteed-return misrepresentation.

6. Legal and Regulatory Authorization

6.1 Entity formation is not operating authority

LEGAL CONCLUSION. A Delaware certificate of incorporation creates a legal entity; it does not authorize that entity to make loans nationwide. LCSC's authority will arise from the corporate charter plus state lender licenses or documented exemptions, foreign qualifications, federal securities-credit compliance, and the laws governing each borrower, collateral account, marketing channel, and capital raise.

Delaware law permits a corporation to conduct any lawful business, but the Delaware Division of Corporations expressly recommends legal and accounting advice when choosing the entity form. LCSC must separately qualify and obtain lending authority in the states where it conducts regulated activity. [19]

6.2 Nonbank lender, not bank

The proposed business does not require a bank charter. LCSC will lend its own and borrowed institutional capital, will not accept customer deposits, will not offer checking or savings accounts, and will not claim FDIC insurance. Customer cash and collateral will remain at an independent regulated bank or qualified custodian under control agreements. A bank charter would add capital, examination, community, deposit, governance, and resolution obligations that are disproportionate to a specialized lending product.

The correct institutional classification is a state-authorized nonbank finance company with a Delaware C-corporation parent, a lending subsidiary, and bankruptcy-remote funding vehicles. A bank partnership can be evaluated later for payment execution, custody, or origination, but it is not the launch model and must not be used to evade state lending law or obscure the true lender.

6.3 Core federal requirements

Authority	Application to LCSC	Required response
Securities Exchange Act Section 7; Regulation U and Regulation X	Credit secured directly or indirectly by margin stock and used, immediately, incidentally, or ultimately to buy or carry margin stock can be purpose credit. A nonbank lender generally becomes subject after extending $200,000 in a quarter or having $500,000 outstanding in margin-stock-secured credit.	Register on Form G-1 when triggered; obtain and retain Form G-3; file Form G-4 annually; cap purpose credit at the collateral's maximum loan value, currently 50% for margin stock. Design the pilot as though the rule applies when retained proceeds will be reinvested in margin stock. [4]-[5]
Equal Credit Opportunity Act; Regulation B	Applies to commercial and personal credit and governs discrimination, application handling, notices, records, and credit policies.	Use neutral written underwriting; test exceptions; issue compliant adverse-action notices; retain records; implement fair-lending monitoring. [6]
Truth in Lending Act; Regulation Z	The general 2026 exemption threshold is $73,400; intended LCSC individual facilities are at least $250,000 and are not real-property secured. State consumer laws and other federal duties can still apply.	Obtain a written classification memorandum; provide transparent cost disclosures even where Regulation Z does not govern; recheck the annual threshold. [7]
Fair Credit Reporting Act; Regulation V	Use of consumer reports, adverse action, risk-based pricing, identity, and dispute processes can create duties.	Use permissible-purpose certification, notices, vendor controls, and dispute procedures.
ECOA Section 1071; Regulation B Subpart B	Covered small-business lending data collection is scheduled for Jan. 1, 2028 under the CFPB's May 2026 reconsideration rule, subject to coverage tests and further change.	Build corporate product data fields and firewall capability before Phase 2; reassess coverage before launch. [8]

Authority	Application to LCSC	Required response
Gramm-Leach-Bliley Act; FTC Safeguards Rule	Finance companies are financial institutions under the rule and hold sensitive tax, wealth, and account data.	Written information-security program; qualified security lead; risk assessment; encryption; MFA; vendor oversight; incident response; required breach notification. [9]
Military Lending Act and Servicemembers Civil Relief Act	Individual borrowers may have military status even in a high-net-worth program.	Status screening, rate and contract analysis, protected-rate and enforcement procedures.
OFAC, fraud, and financial-crime controls	A finance company may face sanctions, identity, tax-fraud, source-of-funds, and beneficial-owner risk even where a specific bank BSA program is not directly imposed.	Risk-based identity, sanctions, source-of-wealth, beneficial-owner, suspicious-activity escalation, and law-enforcement response procedures.

6.4 State lending and commercial-finance law

State law controls the practical launch perimeter. Requirements vary by borrower location, consumer or business purpose, principal amount, rate, fee, solicitation method, servicing activity, and collateral. California, for example, licenses finance lenders making both consumer and commercial loans and separately requires prescribed commercial-finance disclosures. New York's lender-licensing thresholds and usury framework differ materially. [12]-[13]

Workstream	Required deliverable before solicitation
Licensing matrix	State-by-state analysis of lender, broker, servicer, collection, branch, responsible-person, net-worth, bond, examination, reporting, and renewal requirements.
Rate and fee matrix	Civil and criminal usury, licensed-lender authority, default interest, late fees, origination fees, prepayment, and fee characterization.
Individual disclosures	Consumer-purpose, investment-purpose, high-dollar exemptions, privacy, e-signature, adverse action, automatic payments, and state notices.
Corporate disclosures	Commercial-finance APR or cost disclosures, small-business definitions, broker compensation, annual reporting, and unfair-practice rules.
Servicing and collection	Payment allocation, notices, call recording, complaints, modifications, repossession or liquidation, deficiency collection, and litigation venue.
Foreign qualification and tax	Authority to do business, registered agent, franchise or gross-receipts tax, payroll, and state income-tax nexus.

PILOT-JURISDICTION RULE. Select pilot states only after counsel scores licensing time, rate authority, enforcement history, borrower concentration, professional-channel access, and commercial opportunity. Founder convenience is not a sufficient basis for jurisdiction selection.

6.5 Securities and capital-raising law

LCSC equity, preferred stock, notes, warehouse participations, loan participations, and asset-backed interests are securities unless counsel concludes otherwise. Every offer and sale must be registered or qualify for an exemption. The initial equity raise should be a private institutional offering under a selected Regulation D pathway with a complete private-placement record, investor verification where required, Form D, state notices, anti-fraud review, and transfer restrictions. [10]

The holding company and each funding SPV require Investment Company Act analysis. Section 3(a)(1)(C) includes an issuer that owns investment securities exceeding 40% of total assets, excluding government securities and cash, on an unconsolidated basis. Counsel must determine whether loan assets, subsidiary interests, and issued funding securities fit an exclusion or exemption and must maintain the conditions continuously. [11]

6.6 UCC, collateral, insolvency, and true-sale work

17. Use Article 8 and Article 9 control agreements for securities accounts and deposit accounts; file UCC financing statements and obtain lien searches.
18. Establish eligibility, perfection, priority, substitution, valuation, cure, and liquidation mechanics before funding.
19. Document the transfer of receivables to the funding SPV and obtain true-sale and nonconsolidation analysis where the warehouse lender requires it.
20. Prohibit commingling of SPV cash and operating cash; maintain separateness covenants, independent manager provisions, and a transaction-specific waterfall.
21. Address borrower death, incapacity, divorce, bankruptcy, entity conversion, collateral transfer, and tax deficiency without assuming that a contractual lien defeats all statutory rights.

6.7 Tax and accounting

The borrower remains the taxpayer. The loan does not change basis, gain recognition, tax rate, estimated-tax due date, return liability, or deficiency exposure. Principal is not deductible. Interest deductibility depends on tracing and use of proceeds; LCSC will not market an interest deduction. The product requires post-filing reconciliation and clear treatment of overfunding, refunds, amended returns, and deficiencies.

LCSC interest and fee income enters taxable income. A domestic C corporation is generally subject to the 21% federal corporate rate under IRC Section 11, plus applicable state taxes. Funding-interest deductions are subject to IRC Section 163 limitations, and bad-debt deductions require IRC Section 166 analysis. Loan receivables require expected-credit-loss accounting, nonaccrual, modification, charge-off, recovery, and warehouse accounting policies. [20]

6.8 Mandatory legal opinions

22. Federal tax characterization and payment-transmission memorandum.
23. Regulation U and X purpose-credit and collateral memorandum.
24. Consumer-credit and commercial-credit classification memorandum.
25. Pilot-state licensing, usury, disclosure, servicing, and collection opinions.
26. Securities offering, broker-dealer, investment-adviser, and Investment Company Act memorandum.
27. UCC perfection, custody, insolvency, true-sale, and nonconsolidation opinions.
28. Privacy, cybersecurity, e-signature, call-recording, and data-retention memorandum.

7. Corporate Structure, Governance, and Founders

7.1 Recommended legal structure

Component	Ownership and role	Key controls
LCSC Holdings, Inc.	Delaware C-corporation parent; issues founder and investor equity; owns trademarks, software, policies, and subsidiary interests.	Board-approved risk appetite; reserved matters; investor rights; intellectual-property assignment; no direct customer lending.
LCSC Finance LLC	Wholly owned operating and licensed lending subsidiary; employs originations, underwriting, compliance, servicing, and collections staff.	State licenses; dedicated books; minimum net worth; compliance management; no unlicensed affiliate origination.
LCSC Funding SPV I LLC	Wholly owned bankruptcy-remote special-purpose vehicle that acquires eligible loans and grants warehouse security.	Independent manager; separateness; eligibility representations; controlled accounts; borrowing-base tests; no employees or unrelated liabilities.
Future state-specific lenders	Wholly owned entities used only where a state-specific structure materially reduces risk or is required.	Board and counsel approval; consolidated policies; no unnecessary proliferation.
Third-party bank/custodian	Holds cash and securities, controls accounts, transmits tax payments, and supports collateral liquidation.	Regulated counterparty; service-level agreement; data security; daily files; dual authorization; business continuity.
Independent tax verifier	Tax firm or qualified professional retained under a standardized scope to certify the attributable federal liability.	Independence, professional liability insurance, workpaper standard, conflict policy, and borrower acknowledgment.

7.2 Board and committees

The initial board should contain five directors: the concept founder, the finance-industry CEO, one institutional-capital representative, and two independent directors with credit/risk and regulatory/audit expertise. Expand to seven only when new capital or business complexity justifies it. A majority should be independent before the warehouse facility is drawn.

Body	Authority
Board of Directors	Strategy, capital, risk appetite, CEO appointment, annual plan, new products, material vendors, regulatory matters, and related-party transactions.
Audit and Risk Committee	Financial reporting, CECL, liquidity, interest-rate risk, cyber, insurance, internal audit, whistleblower, and enterprise-risk reporting.
Credit Committee	Credit policy, delegated authorities, exceptions, watch list, concentration limits, collateral schedule, modifications, charge-offs, and recoveries.
Compliance Committee	Licensing, fair lending, Regulation U, privacy, complaints, marketing approvals, regulatory change, and remediation.
Asset-Liability and Funding Committee	Warehouse utilization, borrowing base, liquidity, hedging, maturity profile, counterparty limits, and capital plan.

7.3 Three-lines control model

First line - business and operations. Owns accurate applications, underwriting execution, documentation, servicing, collateral monitoring, and issue escalation.

RETURN

Second line - risk and compliance. Sets policy, independently challenges decisions, conducts monitoring and testing, approves marketing, and reports directly to board committees.

Third line - internal audit. Begins through an independent outsourced function and tests governance, financial controls, compliance, data, vendors, and remediation at least annually.

7.4 Founder profile

FOUNDER PRINCIPLE. The concept originator should control the mission and public-policy coherence, but a regulated lender must be operated by executives with proven specialty-finance, credit, compliance, treasury, and servicing experience. No founder should have unilateral authority to override underwriting or compliance.

Founder or founding executive	Required profile	Proposed responsibility
Concept Founder / Executive Chair	Policy architect, systems thinker, credible public communicator, long-term mission steward, and institutional relationship builder.	Lev Neymotin, PhD, as proposed concept founder: strategy, relationship to UCA, professional and government engagement, board leadership, and protection of the model's purpose. Not the sole credit or compliance authority.
Chief Executive Officer	10+ years building or operating a nonbank lender, specialty-finance platform, private bank lending unit, or asset-backed finance company; fundraising and regulatory credibility.	Formation, executive hiring, capital, partner negotiations, board execution, and accountable operating leadership.
Chief Credit and Risk Officer	Securities-backed lending, HNW global cash-flow underwriting, collateral liquidation, portfolio risk, workouts, and warehouse eligibility.	Credit policy, delegated authority, risk appetite, exceptions, stress tests, watch list, and recoveries.
General Counsel / Chief Compliance Officer	State lender licensing, Regulation U, ECOA/FCRA/TILA, privacy, securities offerings, UCC, servicing, and regulator interaction.	Legal architecture, licenses, compliance management system, marketing approval, complaints, and board access.
Chief Financial Officer / Treasurer	Warehouse facilities, borrowing bases, liquidity, CECL, lender reporting, GAAP, tax, capital raising, and asset-liability management.	Financial model, capital plan, controls, warehouse compliance, audits, and investor reporting.
Chief Operating and Technology Officer	Loan origination and servicing systems, custodial integrations, payments, cybersecurity, vendor management, and scalable operations.	End-to-end workflow, system controls, data platform, service levels, and resilience.

7.5 Founder selection and equity rules

29. Use four-year vesting with a one-year cliff for service-based founder equity; document concept and cash contributions separately.
30. Assign all relevant intellectual property, working papers, names, models, and software to the holding company under written agreements.
31. Adopt founder background, conflicts, outside-business, confidentiality, related-party, and regulatory-disqualification reviews before appointment.
32. Reserve board approval for new equity, debt, acquisitions, affiliated transactions, credit-policy changes, and any exception benefiting a founder or related party.
33. Create succession and key-person plans before institutional capital is accepted; purchase key-person insurance where economically justified.

7.6 Initial organization and staffing

Stage	Core internal team	Outsourced support
Formation	CEO, Executive Chair, GC/CCO, CFO/Treasurer, Chief Credit Officer, COO/CTO, program manager.	Corporate and regulatory counsel; tax counsel; licensing; market research; cybersecurity architecture.
Pilot readiness	Add 2 underwriters, servicing lead, compliance analyst, finance controller, operations analysts, partner manager, security lead.	Independent tax verification; internal audit; penetration testing; custody; loan system; background and credit data.
Pilot operation	Approximately 18-24 FTE, including underwriting, servicing, treasury, compliance, engineering/integration, finance, and partner support.	Specialty collections, litigation, audit, insurance brokerage, disaster recovery, and selected customer support.
Scale	Build regional licensing, portfolio analytics, capital markets, enterprise sales, data science, and vendor-risk functions as volume demands.	Retain independent audit, specialized counsel, and redundant critical vendors.

8. Risk Management, Underwriting, and Portfolio Controls

8.1 Risk-appetite statement

RISK APPETITE. LCSC will accept only risks that are identifiable, measurable, collateralized where practical, supported by independent repayment capacity, and priced to absorb expected loss and operating cost. It has no appetite for unsecured tax financing, disputed tax positions, speculative repayment, regulatory arbitrage, customer deposits, unlicensed activity, opaque beneficial ownership, misleading sales practices, or dependence on a single funding source.

8.2 Underwriting framework

Dimension	Minimum standard
Tax event	Executed or firmly scheduled broker-reported sale; verified basis, holding period, gain, federal liability, and payment date; no disputed characterization.
Repayment	Demonstrated ability to service debt from recurring income, contracted cash flow, scheduled liquidity, or liquid assets without relying on the financed investment's appreciation.
Liquidity	At least 12 months of scheduled LCSC payments in unencumbered liquid resources after closing, plus required emergency reserves.
Global leverage	All personal and entity obligations included; stressed debt-service coverage of at least 1.50x for individuals and 1.35x for qualifying corporate borrowers.
Credit history	No unresolved tax liens, recent bankruptcy, material delinquency, fraud, sanctions issue, or pattern of contingent liabilities inconsistent with the facility.
Collateral	Perfected and controlled; daily-valued if marketable; independently priced; subject to eligibility, haircut, issuer, sector, account, and custodian limits.
Use of retained proceeds	Documented and screened for purpose-credit status, legality, reputation, liquidity, and repayment impact.
Professional verification	Tax certificate and broker records; corporate resolutions and financial statements for entities; no self-certified basis for the pilot.

8.3 Collateral and advance policy

Collateral	Regulatory ceiling or planning advance	LCSC pilot advance
Cash at controlled bank	Good-faith value; subject to bank and setoff risk.	90%-95%, with operating and payment reserves excluded.
U.S. Treasury securities	Good-faith value; duration and price risk remain.	85%-95% depending on maturity and liquidity.
Diversified eligible equities / ETFs	50% maximum loan value for Regulation U purpose credit secured by margin stock.	35%-45% after volatility, liquidity, issuer, and concentration haircuts.
Single-name or employer stock	Potentially margin stock and highly correlated with borrower income or wealth.	0%-25%; normally supplemental only; concentration exception requires Credit Committee.
Corporate liquid assets	Depends on asset type, lien priority, and borrowing-base eligibility.	Risk-based; receivables, inventory, and equipment excluded from initial individual product.

Collateral	Regulatory ceiling or planning advance	LCSC pilot advance
Private stock, crypto, derivatives, collectibles	Complex valuation, liquidity, custody, or regulatory treatment.	0% in pilot.

The facility amount is the lowest of: verified tax less borrower contribution; product maximum; credit-approved amount; collateral borrowing base; Regulation U maximum; warehouse eligibility; and single-obligor or concentration limit. A compliant regulatory maximum is not a target advance rate.

8.4 Portfolio limits

Limit	Pilot ceiling or trigger
Single borrower	Lesser of $2.0 million, 5% of outstanding portfolio, or 15% of tangible equity; board exception never exceeds $2.5 million.
Top ten borrowers	35% of outstanding portfolio.
Single collateral issuer	10% of collateral value; employer stock 5% without specific Credit Committee approval.
Single custodian or bank	40% of controlled collateral or payment balances, with a transition plan for temporary excess.
Single referral source	20% of funded principal over a trailing twelve-month period.
Purpose credit	Tracked separately; no exception to Regulation U maximum loan value or purpose-statement requirements.
Delinquency trigger	30+ day delinquency above 2% or any material early default triggers originations review.
Net charge-off trigger	Annualized charge-offs above 1% trigger risk-appetite and pricing review.
Warehouse cushion	At least 10% borrowing-base availability and compliance with all concentration sublimits.
Liquidity	Greater of 12 months fixed operating expense, six months forecast warehouse interest and fees, or board-approved regulatory minimum.

8.5 Enterprise risk matrix

Risk	Exposure	Primary controls and owner
Credit	Borrower cannot amortize after retaining or deploying sale proceeds.	Full recourse; stressed global cash flow; liquidity covenant; collateral; CCO independent exceptions; Chief Credit Officer ownership.
Collateral and market	Price decline, concentration, illiquidity, or custodian failure reduces recovery.	Daily valuation; conservative haircuts; control agreements; maintenance thresholds; cure and liquidation rights; Risk and Treasury ownership.
Tax verification	Basis, gain, attributable liability, or due date is wrong.	Independent certification; broker data; borrower indemnity; post-return reconciliation; reserve for adjustment; Tax Operations ownership.
Regulation U	Retained proceeds or collateral convert a transaction to purpose credit or exceed maximum loan value.	Use-of-proceeds inquiry; G-1/G-3/G-4 process; counsel-approved rules engine; compliance testing; CCO ownership.
State authorization	Loan, marketing, or servicing occurs without required authority or within a prohibited rate structure.	State matrix; application geofencing; license inventory; product configuration; legal signoff; CCO ownership.
Funding and liquidity	Warehouse is unavailable, borrowing base shrinks, or maturity mismatch creates a cash shortfall.	Committed facilities; equity cushion; liquidity reserve; diversified funders; matched amortization; CFO ownership.

Risk	Exposure	Primary controls and owner
Interest-rate	Borrower yield and funding cost reprice differently.	Matched indices and resets; fixed/floating mix; caps or swaps; duration limits; ALCO ownership.
Operational and payment	Incorrect funding, misapplied tax payment, reconciliation failure, or servicing error.	Maker-checker controls; bank confirmation; daily reconciliation; exception queue; business continuity; COO ownership.
Cyber and privacy	Tax, wealth, identity, and account data are compromised.	Encryption; MFA; least privilege; monitoring; vendor risk; incident response; cyber insurance; Security Officer ownership.
Fraud and sanctions	False identity, manipulated broker record, source-of-wealth issue, or sanctioned party.	Identity, sanctions, beneficial-owner, document authentication, bank-account verification, and escalation; CCO ownership.
Conduct and reputation	Customer perceives tax avoidance, guaranteed return, government sponsorship, or hidden advisor compensation.	Plain-language disclosures; marketing approval; call monitoring; compensation controls; complaint root-cause analysis; CEO/CCO ownership.
Model	Tax, pricing, collateral, CECL, or stress model produces an unsupported decision.	Independent validation; version control; overrides; back-testing; board model inventory; CRO ownership.
Third party	Tax verifier, custodian, technology, credit, or payment vendor fails.	Due diligence; contract standards; audit rights; service levels; redundancy; exit plan; COO/CCO ownership.

8.6 Monitoring, default, and collections

34. Daily collateral valuation and availability; monthly borrower and covenant review; quarterly portfolio and concentration review.
35. Early-warning events include collateral deterioration, liquidity decline, tax notice, lawsuit, divorce, death, job loss, covenant breach, returned payment, and adverse public information.
36. A documented cure period precedes acceleration unless fraud, prohibited transfer, insolvency, or collateral dissipation requires immediate action.
37. Collections must preserve legal notices, fair treatment, military protections, complaint rights, and authorization to liquidate or debit controlled accounts.
38. Modifications require refreshed underwriting, no evergreen concealment, appropriate nonaccrual and CECL treatment, and Credit Committee approval above delegated limits.

8.7 Stress testing

Stress	Required test
Equity shock	30%, 45%, and 60% immediate declines; issuer concentration; two-day collateral cure; forced-sale discount and tax consequences.
Rate shock	+200 and +400 basis points; borrower and warehouse repricing lags; cap cost; payment affordability.
Funding shock	Warehouse advance-rate reduction, ineligible-loan increase, facility nonrenewal, and six-month no-origination runoff.
Credit shock	2%, 5%, and 10% delinquency; 1%, 2%, and 4% net charge-off; correlated borrower income and equity decline.
Operational shock	Payment file failure near an IRS deadline, custodian outage, cyber incident, data corruption, and tax-verifier failure.
Regulatory shock	Loss of a major state, fee restriction, marketing remediation, or reclassification of purpose credit.

8.8 Insurance

Before customer launch, LCSC should bind directors and officers, errors and omissions, cyber/privacy, crime/fidelity, lender-liability, employment-practices, general liability, and key-person coverage at limits reviewed by the Audit and Risk Committee. Insurance is risk transfer, not a substitute for controls, and policy exclusions must be mapped to the product.

9. Funding Strategy and Financial Framework

9.1 Funding stages

Stage	Capital	Purpose and condition
Formation seed	$4-$6 million common or convertible preferred equity	Legal opinions, licenses, founder team, technology configuration, insurance, market validation, and 18 months operating runway. No loan commitments.
Pilot	$15 million equity plus $35 million committed warehouse	Support up to $43 million loans, at least $7 million liquidity/reserve/unused capacity, and 2.5x maximum debt-to-equity. Warehouse draw follows loan eligibility.
Early scale	$25-$40 million cumulative equity plus $100-$150 million warehouses	Expand licensed states, reach $100-$150 million portfolio, diversify funders, and demonstrate 18-24 months performance.
Established platform	Retained earnings, institutional preferred equity, $250-$500 million warehouses, forward-flow or participations	Fund diversified origination while limiting maturity and counterparty concentration.
Capital-markets stage	Term asset-backed financing after sufficient data and legal readiness	Reduce funding cost and duration risk without weakening underwriting or retaining inadequate risk capital.

9.2 Appropriate capital sources

Source	Fit	Principal concern
Founder and strategic seed equity	Funds formation risk and preserves mission.	Insufficient scale or founder concentration; must support professional governance.
Family offices and specialty-finance investors	Understand HNW credit, collateral, and long-duration company building.	Related-party borrowers, influence over credit exceptions, or unclear liquidity expectations.
Fintech and financial-services venture investors	Support technology, distribution, and licensing build.	Growth pressure can conflict with conservative credit and state-by-state launch.
Insurance companies and private-credit funds	Potential preferred equity, warehouse, forward flow, or term capital.	Demand covenants, data, scale, and return that may compress customer economics.
Banks	Warehouse lending, custody, payments, and treasury services.	Counterparty concentration, bank regulatory approvals, eligibility, recourse, and covenant control.
Retail investors or public notes	Potential later diversification.	Not recommended at launch; securities, disclosure, reputational, and liquidity risk are disproportionate.

9.3 Pilot uses of $15 million equity

Use	Planning amount	Purpose
First-loss and asset equity	$7.0 million	Supports receivables, warehouse overcollateralization, and ineligible-loan risk.
Operating runway	$4.0 million	Staff, licensing, technology, audit, insurance, and professional services beyond formation seed.

Use	Planning amount	Purpose
Liquidity and warehouse reserve	$2.0 million	Interest, unused fees, margin or borrowing-base cures, and payment timing.
Credit and tax-adjustment reserve	$1.0 million	Expected loss, collateral costs, tax reconciliation, and early servicing volatility.
Contingency	$1.0 million	Regulatory, technology, litigation, vendor replacement, and implementation variance.

9.4 Revenue and unit economics

OPERATING EQUATION. Pre-tax operating result = borrower interest + origination and servicing fees - warehouse interest and unused fees - expected credit loss - custody and servicing cost - compliance, technology, compensation, insurance, audit, and overhead.

The base planning case assumes a 4.0% market index, borrower yield of index plus 450 basis points, warehouse cost of index plus 200 basis points on 75% average debt funding, fee yield of 0.80% of average loans, expected credit loss of 0.50%, and custody/direct servicing cost of 0.35%. The resulting contribution margin is approximately 3.95% of average loans before fixed operating expense. These are model inputs, not customer pricing or financing commitments.

9.5 Five-year base planning case

$ millions	Year 1	Year 2	Year 3	Year 4	Year 5
Average loans	15.0	50.0	110.0	210.0	350.0
Year-end loans	25.0	75.0	150.0	270.0	430.0
Interest revenue at 8.5%	1.28	4.25	9.35	17.85	29.75
Fee and servicing revenue at 0.8%	0.12	0.40	0.88	1.68	2.80
Warehouse cost at 4.5% of average loans	(0.68)	(2.25)	(4.95)	(9.45)	(15.75)
Expected credit loss at 0.5%	(0.08)	(0.25)	(0.55)	(1.05)	(1.75)
Custody and direct servicing at 0.35%	(0.05)	(0.18)	(0.39)	(0.74)	(1.23)
Contribution before fixed expense	0.59	1.98	4.34	8.30	13.82
Fixed operating expense	(4.50)	(5.50)	(6.70)	(8.20)	(10.00)
Pre-tax operating result	(3.91)	(3.53)	(2.36)	0.10	3.82

The model reaches operating break-even in Year 4 at approximately $210 million of average loans. It excludes corporate income tax, extraordinary legal cost, equity compensation, securitization cost, and acquisition activity. It also assumes that growth capital and warehouse capacity are available as the portfolio expands. Appendix C states the formula and sensitivities.

9.6 Break-even sensitivity

Net contribution margin	Fixed expense	Break-even average loans
3.0%	$7 million	$233 million
4.0%	$7 million	$175 million

Net contribution margin	Fixed expense	Break-even average loans
5.0%	$7 million	$140 million
3.0%	$9 million	$300 million
4.0%	$9 million	$225 million
5.0%	$9 million	$180 million

9.7 Warehouse design

39. Committed revolving period followed by amortization; no dependence on overnight or immediately callable funding.
40. Advance only against eligible, perfected, performing receivables in the funding SPV; ineligible and delinquent loans funded by equity.
41. Borrowing-base reserves for concentration, collateral, tax adjustment, delinquency, and documentation defects.
42. Objective covenants for tangible net worth, liquidity, leverage, charge-offs, delinquencies, collateral, and servicer performance.
43. Back-up servicing, controlled collection accounts, daily cash reporting, and a negotiated transition plan after termination.
44. No broad cross-default that permits an unrelated holding-company issue to seize customer collateral without board and counsel review.

9.8 Funding go/no-go conditions

The pilot does not launch unless LCSC has committed equity sufficient for the full operating plan and a warehouse facility whose advance rate, eligibility, covenants, and term support the customer product under stressed conditions. Nonbinding interest or a warehouse term sheet without executed documentation is not launch capital.

10. Operating Model, Technology, and Control Environment

10.1 End-to-end operating model

Stage	Primary activity	Required control evidence
Referral and inquiry	Receive a professional referral or direct inquiry; deliver product, privacy, and non-affiliation disclosures.	Approved source, consent, channel attribution, compensation status, and marketing version.
Application	Collect identity, purpose, tax-event, income, liquidity, entity, ownership, and collateral information.	Complete application, beneficial-owner records, sanctions result, and authorization for credit and tax verification.
Underwriting	Verify gain, estimated federal liability, repayment capacity, collateral, proceeds use, and legal eligibility.	Independent tax-professional calculation, credit memorandum, collateral schedule, exception log, and approval record.
Documentation	Generate state-specific note, security agreement, control agreement, disclosures, authorizations, and closing certificate.	Counsel-approved document package, e-sign audit trail, and conditions-precedent checklist.
Funding and tax payment	Fund through a controlled account and transmit the authorized amount to the U.S. Treasury or reimburse only against verified proof of timely payment.	Custodian confirmation, IRS payment reference, account reconciliation, and use-of-proceeds certification.
Servicing	Bill principal and interest, value collateral, administer reserves, process tax adjustment, report credit, and manage customer requests.	Daily cash reconciliation, collateral feed, payment history, complaint record, and recorded approvals.
Collections and resolution	Apply graduated outreach, cure, collateral action, restructuring, litigation, and charge-off procedures.	Time-stamped notices, fair-treatment review, board reporting, and counsel authorization for enforcement.

10.2 Technology architecture

LCSC should configure established lending and finance systems rather than build a proprietary core during the pilot. The architecture must maintain a single loan identifier across origination, documents, custody, servicing, accounting, reporting, and the funding SPV. Application programming interfaces should connect the following controlled components:

45. Customer and advisor portal with secure document exchange, consent capture, status, disclosures, and payment instructions.
46. Loan-origination and decision platform containing rules, policy limits, adverse-action reasons, approvals, and immutable exception records.
47. Identity, business-verification, credit-reporting, sanctions, fraud, and beneficial-ownership services governed by permissible-purpose and vendor controls.
48. Tax-verification workbench that preserves the independent professional's calculation, gain source, payment amount, due date, and later reconciliation without allowing LCSC to prepare the return.
49. Custodian and market-data interface for eligible collateral, concentration, haircuts, control status, margin compliance, and alerts.
50. Loan servicing, general ledger, controlled bank accounts, CECL reserve, warehouse borrowing base, investor reporting, and management data warehouse.

10.3 Security, privacy, and resilience

Control domain	Minimum launch standard
Data classification	Classify tax returns, brokerage records, identity data, bank information, collateral, and credit reports as restricted; prohibit local downloads and unmanaged email transmission.
Access	Role-based least privilege, phishing-resistant multifactor authentication, privileged-access review, joiner/mover/leaver controls, and quarterly recertification.
Protection	Encryption in transit and at rest, managed endpoints, secure development and configuration baselines, data-loss prevention, logging, and retention schedules.
Monitoring	Centralized event logging, managed detection, vulnerability scanning, penetration testing before launch and annually, and tested escalation.
Incident response	Written response plan, counsel and insurer contacts, evidence preservation, customer and regulator notification decision tree, and annual tabletop.
Continuity	Documented recovery objectives, redundant payment path, daily backups, quarterly restoration tests, and manual servicing procedures.
Assurance	Independent security assessment before pilot; SOC 2 Type II or comparable assurance as a scale-stage requirement.

10.4 Financial reporting and control

The Chief Financial Officer owns a monthly close that reconciles loan principal, accrued interest, customer cash, custodian collateral, warehouse debt, controlled accounts, fees, charge-offs, recoveries, and equity. The Audit Committee approves revenue recognition, nonaccrual, modification, charge-off, CECL, consolidation, variable-interest-entity, transfer, and warehouse policies after review by the independent auditor. No funding SPV is treated as off-balance-sheet solely because it is legally separate.

Segregation of duties is mandatory across credit approval, collateral release, payment-file creation, payment-file approval, cash reconciliation, journal entries, vendor master changes, and wire instructions. Dual approval and out-of-band verification apply to all tax payments, customer disbursements, collateral releases, and warehouse transfers.

10.5 Third-party management

Custodians, banks, technology providers, tax-verification firms, credit bureaus, market-data providers, back-up servicers, collection firms, and referral partners are material third parties. Before engagement, LCSC must assess financial condition, licensing, information security, business continuity, conflicts, subcontractors, data location, complaint history, insurance, audit rights, termination assistance, and regulatory access. Critical vendors require performance metrics, annual review, concentration limits, replacement plans, and board reporting.

10.6 Service-level objectives

Process	Pilot objective	Escalation threshold
Complete individual application to conditional decision	Three business days	More than five business days or incomplete reason record
Approved file to tax payment	Two business days after all conditions and cleared funds	Any risk to a customer tax deadline
Daily cash and collateral reconciliation	Complete by next business day	Unreconciled item older than one business day

Process	Pilot objective	Escalation threshold
Collateral or covenant alert	Same-day review	Unassigned alert after four business hours
Customer complaint acknowledgment	One business day	Any allegation of discrimination, deception, privacy breach, or unauthorized transfer
Critical incident	Immediate containment and executive notice	Any uncontained event or missed regulatory-notification analysis

11. Development, Formation, and Implementation Roadmap

11.1 Stage-gated program

IMPLEMENTATION PRINCIPLE. LCSC advances only when the evidence required for the next stage is complete. Corporate formation does not authorize lending; product completion does not substitute for capital; and committed capital does not excuse licensing, control, or customer-demand failures.

Phase and timing	Principal work	Decision gate
Phase 0: feasibility Months 0-3	Confirm product-market fit; retain regulatory, tax, securities, and corporate counsel; obtain regulator-preemption and state-licensing analysis; test bank, custodian, warehouse, insurer, and vendor interest; build integrated model.	Board-designate or sponsor group accepts written legal perimeter, customer evidence, cost range, and capital plan.
Phase 1: formation and seed Months 3-6	Form Delaware parent; negotiate founder equity and IP; appoint independent directors; hire CEO, compliance/legal, risk/credit, and finance leads; establish policies; begin licenses and private equity process.	$4-$6 million seed closes; governance and conflicts framework effective; no lending.
Phase 2: build and authorization Months 6-12	Secure launch-state authority; finalize documents, underwriting, pricing, collateral, servicing, security, privacy, accounting, tax-verification, complaints, vendors, insurance, and warehouse documentation; conduct dry runs.	All mandatory launch conditions in Section 12.2 are evidenced and approved.
Phase 3: controlled pilot Months 12-18	Originate 25-50 individual facilities, capped at $25-$43 million outstanding; use manual second-line review; restrict states, assets, custodians, channels, and exceptions; report monthly to board and funder.	At least two full payment cycles; credit, compliance, service, economics, and referral quality within limits.
Phase 4: early scale Months 18-30	Expand selected states and referral channels; diversify custodians and warehouses; reach $100-$150 million portfolio; automate validated controls; prepare corporate-product legal and operational package.	Stable vintage performance and verified contribution margin support expansion; no unresolved material examination or control issue.
Phase 5: institutional scale Months 30-48	Add the approved corporate facility; expand portfolio and funding to $250-$500 million; evaluate forward flow, participations, or asset-backed financing; obtain external assurance and ratings-readiness analysis.	Board determines that risk-adjusted returns, governance, data, and capital justify the selected capital-markets structure.

11.2 Phase 0 deliverables

Workstream	Required deliverable	Accountable lead
Legal perimeter	Federal and state issue list, written opinions, licensing matrix, product classification, entity map, and prohibited-activity statement.	General Counsel / outside regulatory counsel
Customer	At least 40 structured interviews: 20 target taxpayers, 10 tax professionals, and 10 wealth or corporate advisers; anonymized demand and pricing results.	Chief Executive / commercial lead
Credit	Underwriting manual, collateral policy, stress cases, default workflow, and third-party valuation and control design.	Chief Credit and Risk Officer
Capital	Seed terms, warehouse request for proposal, two or more credible financing indications, uses of funds, and five-year integrated model.	Chief Financial Officer
Operations	Target operating model, vendor shortlist, implementation estimates, security architecture, servicing plan, and staffing model.	Chief Operating / Technology Officer
Governance	Board matrix, committee charters, founder agreements, delegated authorities, conflicts policy, and risk-appetite draft.	Executive Chair and lead independent director

11.3 Pilot design

51. Limit the pilot to individually liable U.S. borrowers with broker-reported long-term gain and controlled eligible collateral; prohibit trusts, entities, private assets, cryptocurrency, derivatives, foreign tax, and contested liability.
52. Launch in no more than three states selected for customer concentration, licensing certainty, enforceability, and operational capacity.
53. Use one primary custodian and one qualified alternate; no customer collateral may be held in an LCSC operating account.
54. Require second-line compliance approval of every file and independent credit-committee approval of every exception.
55. Cap total outstanding principal at the lesser of $43 million, the borrowing base, the board limit, or the amount supported by committed equity and liquidity.
56. Pause new originations after any material legal, licensing, data-security, customer-harm, covenant, liquidity, collateral-control, or servicing failure until remediation is independently validated.

11.4 Corporate-product development path

The corporate product receives a separate legal, credit, and commercial approval. Development begins during Phase 3 with interviews and nonbinding design partnerships; it does not share the individual pilot's approval by implication. Launch requires entity-level tax verification, board borrowing authority, beneficial-ownership and affiliate analysis, business-purpose documentation, financial covenants, fraud controls, lien and intercreditor review, Section 1071 readiness, and state commercial-finance disclosure analysis.

12. Performance Metrics, Decision Gates, and Unresolved Matters

12.1 Board performance dashboard

Dimension	Primary measures	Pilot interpretation
Demand and channel	Qualified inquiries, completed applications, approval and acceptance rates, time to fund, facility size, cost per funded loan, referral source, repeat referral rate.	Separates market interest from qualified, economical demand and identifies channel concentration.
Customer value	Estimated liquidity retained, disclosed all-in annualized cost, early payoff, complaints, satisfaction, and stated use of proceeds.	Tests whether the product provides value after interest, fees, collateral, and leverage.
Credit	Weighted LTV, stressed repayment coverage, policy exceptions, collateral calls, 30/60/90-day delinquency, nonaccrual, modification, charge-off, recovery, and vintage loss.	Measures independent repayment capacity and loss volatility; low realized loss does not excuse weak underwriting.
Liquidity and funding	Cash runway, unencumbered liquidity, warehouse utilization, borrowing-base availability, covenant headroom, collateral eligibility, funding concentration, and weighted funding cost.	Confirms that customer maturities are supported through stress and that no single funder controls continuation.
Economics	Borrower yield, fee yield, warehouse cost, expected loss, servicing cost, net contribution, fixed expense, cash burn, and return on equity.	Validates or rejects the planning assumptions in Section 9 and Appendix C.
Compliance and conduct	Licensing status, adverse-action timeliness, fair-lending outcomes, marketing exceptions, complaints, privacy events, sanctions hits, reportable incidents, and examination findings.	Any material breach can override growth and profitability metrics.
Operations and technology	Decision and funding time, reconciliation breaks, payment errors, collateral-feed latency, uptime, security findings, vendor SLA failure, and manual overrides.	Demonstrates reliable execution before automation or geographic expansion.

12.2 Mandatory launch conditions

The board may authorize the pilot only after the Chief Executive Officer, General Counsel, Chief Compliance Officer, Chief Credit and Risk Officer, Chief Financial Officer, and Chief Operating/Technology Officer certify their respective conditions. The Audit and Risk Committee must review the evidence and the full board must record its findings.

57. Written legal memoranda establish the federal product perimeter, purpose-credit treatment, state-by-state lending and servicing authority, enforceability, privacy, fair-lending, securities, investment-company, tax, and insolvency structure.
58. All launch-state licenses, registrations, bonds, responsible-person approvals, foreign qualifications, registered agents, and commercial or consumer disclosures are effective.
59. At least $15 million of unconditionally committed equity is funded and a $35 million warehouse facility is executed, available, and capable of supporting the product under the approved stress case.
60. Customer, tax, credit, collateral, pricing, servicing, collections, complaints, privacy, security, vendor, accounting, treasury, and business-continuity policies are approved and tested.
61. Bank, custodian, payment, market-data, identity, credit-bureau, servicing, back-up servicing, security, auditor, insurance, and counsel arrangements are executed with appropriate audit and regulatory access.

62. End-to-end dry runs have completed application, adverse action, approval, documentation, tax payment, collateral control, billing, payoff, delinquency, complaint, incident, reconciliation, warehouse, and financial reporting scenarios without an unresolved material defect.
63. Independent security and control testing finds no unresolved critical issue; required insurance is bound; complaint and incident response teams are trained.
64. The board-approved pilot cap, states, customer class, eligible collateral, pricing band, authority matrix, exception budget, concentration limits, and stop triggers are configured in production systems.

12.3 Pilot continuation and stop triggers

Trigger	Required response
Any lending without required authority; material deceptive marketing; sanctions breach; unauthorized use of customer funds; unperfected collateral on a funded loan	Immediate stop to affected and related originations; General Counsel and board notification; regulator, customer, insurer, and funder notification analysis; independent root-cause and remediation validation.
30+ day delinquency exceeds 2% of principal, annualized net charge-off exceeds 1%, or collateral-control exception exceeds 1% of accounts	Suspend policy exceptions and portfolio expansion; increase reserves and surveillance; present corrective plan to Credit and Risk Committee.
Available warehouse cushion below 10%, covenant headroom below approved buffer, or required liquidity below policy minimum	Stop new commitments except legally binding obligations; activate liquidity plan; cure, refinance, or reduce balances.
Critical cyber or payment incident; unreconciled cash break over one business day; missed or duplicate tax payment	Containment and incident plan; suspend relevant workflow; customer remediation and notification analysis; independent validation before restart.
Material adverse legal opinion, examination finding, vendor termination, or insurance loss	Restrict affected product, state, channel, or vendor; reassess viability and obtain board approval before resumption.

12.4 Unresolved matters requiring evidence

Decision	Evidence required	Latest decision point
Customer willingness to borrow at risk-adjusted pricing	Structured interviews, term-sheet tests, accepted pilot applications, and alternative-product comparison.	Before closing lending equity
Permitted customer use of retained proceeds	Regulation U/X counsel opinion, lender registration plan, customer certification, transaction monitoring, and warehouse eligibility.	Before product and collateral documents
Launch states	Borrower concentration, licensing time and cost, rate and fee limits, disclosures, usury, collections, and enforcement analysis.	Before license filings
Borrower contribution formula	Historical tax cases, fraud and reconciliation risk, customer acceptance, loss sensitivity, and funder advance treatment.	Before pricing approval
Warehouse terms	Executed facility or binding commitment with advance, eligibility, reserves, covenants, term, events of default, back-up servicing, and wind-down.	Before pilot authorization
Tax-verification model	Counsel-defined boundary between verification and regulated tax practice; engagement terms; professional-liability coverage; reconciliation workflow.	Before vendor selection
Corporate product	Separate demand, competitor, tax, credit, state law, 1071, documentation, lien, and fraud analysis.	After individual pilot evidence
Long-term funding channel	Performance history, investor demand, accounting and securities opinions, ratings analysis, retention and servicing economics.	Before forward flow or securitization

12.5 Success definition

SUCCESS. LCSC succeeds when it delivers a demonstrable liquidity benefit to qualified customers, collects its receivables with low volatility, complies with the governing lending and financial-services framework, preserves adequate liquidity through stress, and earns an institutional return without relying on legal ambiguity, aggressive collateral valuation, customer misunderstanding, or continuous equity subsidy.

13. Conclusion

LCSC is a feasible specialty-finance concept only if the organization is built around the legal and economic reality of lending. The company cannot defer federal tax, assume a customer's liability, promise investment gains, or rely on incorporation as authority to lend. It can provide a secured, full-recourse loan that funds a verified federal tax payment under current law and allows a qualified borrower to preserve more transaction liquidity for a limited period.

The recommended structure is a Delaware C-corporation holding company, a separately authorized nonbank lender and servicer, and a bankruptcy-remote receivables SPV supported by independent banks and custodians. A bank charter is unnecessary and inconsistent with the narrow model; accepting deposits, representing FDIC protection, or using customer cash as operating funding is prohibited. The individual facility is the appropriate pilot. The corporate facility is a later product requiring separate approval.

The economic opportunity is significant but unproven. National capital-gain and household-equity data demonstrate a large underlying pool, not a forecast of demand. Existing private-bank and brokerage credit is a strong substitute. LCSC must earn adoption through a fixed repayment schedule, tax-linked execution, transparent controls, independent underwriting, and professional referral channels. The base financial plan indicates that institutional scale is required: under the stated assumptions, operating break-even occurs near $200 million of average loans, after several years of deliberate portfolio growth.

The appropriate next action is a funded feasibility and formation phase, not immediate lending. That phase must produce the legal opinions, state permissions, customer evidence, capital commitments, product controls, and tested infrastructure stated in this proposal. A capped pilot may begin only after the mandatory conditions are certified and approved. This sequence gives prospective founders and capital providers a disciplined opportunity to validate LCSC while limiting customer, legal, funding, and reputational exposure.

PROPOSED DECISION. Authorize a six-month Phase 0 and Phase 1 program with a $4-$6 million seed-capital objective and the deliverables in Section 11. Do not solicit loan applications, promise credit, or commit customer funds until the board has approved the pilot on the evidence required by Section 12.

Appendix A. Preliminary Product Term Sheets

A.1 Individual Tax Liquidity Facility - pilot

Term	Preliminary pilot provision
Borrower	U.S. citizen or resident individual domiciled in an approved state; full legal capacity; verified source of wealth and funds; no unresolved sanctions, fraud, bankruptcy, tax-collection, or material litigation concern.
Eligible event	Recognized long-term capital gain from an arm's-length sale of publicly traded marketable securities with broker-reported basis and proceeds. The gain and federal estimated-tax requirement are verified by an independent CPA, enrolled agent, or tax attorney engaged by the borrower.
Purpose	Finance timely federal tax payment attributable to the verified eligible event. The custodian pays Treasury directly when operationally available. The loan does not alter tax liability, due date, return position, or taxpayer responsibility.
Facility size	$250,000 minimum; lesser of $2.0 million, the verified federal payment, the amount supported by repayment capacity, applicable margin limits, collateral advance, concentration limits, and the portfolio limit. Board exceptions may not exceed $2.5 million.
Borrower contribution	At least the lesser of the verified federal payment or 10% of qualified gain, with a higher contribution for concentrated collateral, variable income, tax-estimate uncertainty, exception history, or weaker liquidity.
Term and amortization	Four years; monthly fully amortizing principal and interest; no balloon. Prepayment permitted without penalty unless state law and final pricing expressly support a limited institutional break-cost provision.
Pricing	Floating benchmark plus a risk and operating spread, subject to state law and a transparent all-in-cost disclosure. Base planning assumption: benchmark plus 450 basis points and up to 0.80% annualized fee yield; final pricing requires board approval.
Recourse	Full personal recourse. No approval solely on collateral value. Independent recurring income, liquid reserves, and stressed debt-service capacity are required.
Collateral	First-priority perfected security interest and control over approved cash, U.S. Treasuries, or diversified publicly traded securities held at an approved custodian. Private securities, cryptocurrency, derivatives, restricted stock, options, and illiquid interests are ineligible in the pilot.
Collateral valuation	Daily market value, policy haircuts, issuer and asset concentration, purpose-credit rules, and custodian control. Borrowing availability is the lower of policy advance and applicable law.
Financial covenants	Minimum 12 months scheduled payments in eligible liquid resources after closing; no prohibited additional lien; continuing control of collateral; annual financial and tax update; prompt notice of material adverse change.
Tax reconciliation	Final return or professional schedule reconciles the financed estimate. An excess may be applied to principal or released only after liability, payment, collateral, and covenants are confirmed. A shortfall remains the taxpayer's obligation and is not automatically financed.
Default	Nonpayment, false statement, unauthorized collateral transfer, invalid lien or control, insolvency, prohibited use, covenant breach, or material illegality. Remedies remain subject to notice, cure, applicable law, and board-approved treatment standards.
Exclusions	No foreign tax, payroll tax, sales tax, estate or gift tax, tax settlement, disputed liability, short-term trading loss recovery, entity pass-through mismatch, tax-lien payoff, real-estate-secured loan, or investment recommendation.

A.2 Corporate Tax Liquidity Facility - Phase 2

Term	Preliminary Phase 2 provision
Borrower	Taxable U.S. C corporation or taxable corporate holding company in an approved state, with verified beneficial ownership, borrowing authority, financial statements, tax status, and no prohibited industry or sanctions issue.
Eligible event	Recognized gain from an arm's-length sale of a marketable security, business line, subsidiary interest, or other asset approved after valuation, basis, lien, proceeds, and tax verification. Publicly traded securities remain the most standardized event.
Purpose	Finance the corporation's federal estimated-tax payment attributable to the event. Retained proceeds must support a documented business purpose and may be restricted by purpose-credit, lender, corporate, or industry rules.
Facility size	$500,000 minimum; initial maximum $5 million and not more than 10% of portfolio or 20% of tangible equity, subject to lower lender and board limits.
Term	One to four years based on cash conversion, transaction proceeds, capital plan, and amortization capacity; no dependence on speculative refinancing or a single uncertain sale.
Repayment	Monthly or quarterly amortization aligned with operating cash flow; mandatory prepayment from tax refund, asset-sale proceeds, insurance recovery, or specified financing.
Collateral and recourse	First lien on eligible liquid collateral and, where appropriate, receivables, deposit accounts, or other business assets; corporate recourse; guarantees only after legal, tax, solvency, and conflict analysis.
Underwriting	Audited or reviewed financials as appropriate; tax returns; transaction documents; debt schedule; liquidity; leverage; fixed-charge coverage; customer and supplier concentration; projections with downside case; fraud and beneficial-owner review.
Covenants	Minimum liquidity and fixed-charge coverage, maximum leverage, reporting, permitted debt and liens, distributions, affiliate transactions, asset sales, acquisitions, change of control, and material litigation and tax notice.
Legal conditions	Separate state commercial-lending and disclosure analysis, ECOA and Section 1071 readiness, UCC and lien search, existing-lender consent, corporate authority, solvency certificate, and counsel-approved documentation.
Exclusions	Partnerships, S corporations, funds, trusts, estates, special-purpose acquisition vehicles, shell companies, borrower-taxpayer mismatch, disputed tax, insolvent or cash-burning companies without committed support, and transactions dependent on regulatory arbitrage.

A.3 Customer economics illustration

The following illustration explains loan mechanics; it is not a quote, tax calculation, recommendation, or forecast of investment return.

Illustrative item	Amount or assumption
Eligible long-term gain	$5,000,000
Independently estimated federal payment attributable to gain	$1,190,000
Borrower contribution under 10% of gain comparison	$500,000
Indicative LCSC principal	$690,000
Illustrative annual interest rate	8.50% floating
Term	48 months, fully amortizing
Illustrative monthly payment	Approximately $17,000
Approximate total interest if held to maturity and rate unchanged	$126,000, before fees

Illustrative item	Amount or assumption
Treasury payment	$1,190,000 from borrower contribution and LCSC loan proceeds

CUSTOMER DECISION. Borrowing is economically rational only when the value of preserved liquidity, diversification, or planned capital use exceeds the loan's interest, fees, collateral limitations, and leverage risk. LCSC and its referral partners must not represent that investment returns will exceed the borrowing cost.

Appendix B. Market-Sizing Construction

B.1 Construction, not forecast

IRS preliminary data for tax year 2022 reported approximately $1.433 trillion of net capital gain in AGI on returns with AGI of at least $250,000. LCSC's serviceable market is a small filtered portion of that reference pool. The construction below applies assumptions for an eligible-event share, the average loan as a percentage of gain, and adoption. It does not measure tax-payment timing, collateral, credit quality, jurisdiction, willingness to borrow, competing liquidity, or future capital-gain volume. [14]

Case	High-income gain reference	Eligible-event share	Average loan / gain	Adoption	Constructed annual originations
Low	$1.433T	15%	10.0%	0.25%	$54M
Base	$1.433T	25%	13.8%	1.00%	$494M
High	$1.433T	35%	15.0%	2.00%	$1.50B

Formula: reference gain x eligible-event share x average loan-to-gain percentage x adoption. The base case is: $1.433 trillion x 25% x 13.8% x 1.00% = approximately $494 million of annual originations.

B.2 Required bottom-up validation

Evidence set	Measurement
Tax-event sample	Number, size, asset, holding period, basis certainty, payment quarter, estimated federal amount, later reconciliation, and borrower contribution.
Credit eligibility	Income, liquid net worth, payment reserve, stressed debt service, liens, tax compliance, credit history, state, and acceptable full recourse.
Collateral eligibility	Custodian, asset type, market value, concentration, control, purpose-credit classification, haircut, and borrowing availability.
Customer behavior	Willingness to borrow, acceptable pricing, preferred term, use of retained proceeds, repayment source, early payoff, and alternative liquidity.
Channel productivity	Qualified events per adviser, conversion, time to close, compliance cost, compensation, repeat referrals, and concentration.
Competitive response	Private-bank, SBLOC, margin, home-equity, installment agreement, sale-timing, and self-funding alternatives by customer segment.

B.3 Segment prioritization matrix

Segment	Need	Ability to pay	LCSC fit	Priority
HNW individual with concentrated public stock and diversified repayment income	High	High	Strong standardized event, collateral, and referral path	Pilot priority
Founder or executive after a liquidity event	High	Variable	Strong if employer-stock concentration is reduced and repayment is independent	Pilot selective
Family office principal with existing private-bank credit	Moderate	High	Competes on certainty and structure; price sensitivity is high	Relationship test

Segment	Need	Ability to pay	LCSC fit	Priority
Mass-affluent investor	Moderate	Moderate	Loan minimum and compliance cost make the product uneconomic	Exclude initially
Closely held C corporation with asset-sale gain and funded capital plan	High	Variable	Potential Phase 2 fit after entity, lien, and cash-flow underwriting	Phase 2 priority
Public company or well-banked large corporation	Low	High	Existing revolvers are generally superior	Low priority
Partnership, S corporation, fund, trust, or estate	Variable	Variable	Taxpayer-borrower mismatch and legal complexity	Exclude initially

Appendix C. Five-Year Illustrative Financial Model

C.1 Base assumptions

Variable	Base input	Rationale and sensitivity
Borrower yield	8.50%	4.00% illustrative benchmark plus 4.50% spread. A 100 bp change affects annual revenue by $1.0 million per $100 million average loans.
Fee and servicing yield	0.80%	Subject to state law, customer acceptance, disclosure, and warehouse treatment; not assumed to be collected entirely at closing.
Average debt funding	75% of loans	Equivalent to 3.0x debt-to-equity on receivables; company-wide pilot remains capped at 2.5x debt-to-equity.
Warehouse rate	6.00%	4.00% benchmark plus 2.00% spread, producing cost equal to 4.50% of average loans at 75% debt funding before unused and legal cost.
Expected credit loss	0.50% of average loans	Planning provision; actual CECL requires life-of-loan estimation and economic scenarios.
Custody and direct servicing	0.35% of average loans	Excludes fixed personnel, technology, audit, legal, licensing, insurance, and governance expense.
Net contribution	3.95% of average loans	8.50% + 0.80% - 4.50% - 0.50% - 0.35%.
Fixed expense	$4.5M to $10.0M	Increases with licensing, people, technology, assurance, funding, and product complexity.
Corporate tax	Excluded from pre-tax table	Federal corporate tax generally applies at 21%, plus state tax, subject to deductions and loss carryforwards. [20]

C.2 Base planning case

$ millions	Year 1	Year 2	Year 3	Year 4	Year 5
Average loans	15.0	50.0	110.0	210.0	350.0
Year-end loans	25.0	75.0	150.0	270.0	430.0
Contribution at 3.95%	0.59	1.98	4.34	8.30	13.82
Fixed operating expense	(4.50)	(5.50)	(6.70)	(8.20)	(10.00)
Pre-tax operating result	(3.91)	(3.53)	(2.36)	0.10	3.82
Indicative year-end debt at 75%	18.75	56.25	112.50	202.50	322.50
Indicative receivable equity at 25%	6.25	18.75	37.50	67.50	107.50

C.3 Sensitivity at $210 million average loans

Net contribution	$7M fixed expense	$8.2M fixed expense	$9M fixed expense
3.0%	$(0.70)M	$(1.90)M	$(2.70)M
4.0%	$1.40M	$0.20M	$(0.60)M
5.0%	$3.50M	$2.30M	$1.50M

At $210 million of average loans, each 50-basis-point change in net contribution changes annual pre-tax result by approximately $1.05 million. A 25% reduction in average portfolio against unchanged fixed expense turns the base Year 4 case from approximately break-even to a material loss. Capital planning must therefore support slower growth and lower spread without breaching liquidity or warehouse covenants.

C.4 Model limitations

1. No historical LCSC originations, delinquencies, charge-offs, recoveries, prepayments, complaints, or servicing costs exist.
2. The model does not include a detailed monthly cash flow, debt draw, tax, working-capital, licensing, state-apportionment, equity-compensation, or liquidation waterfall.
3. Interest-rate movement can affect borrower demand, prepayment, collateral values, warehouse cost, and credit risk simultaneously; a static spread does not capture these interactions.
4. Loan growth requires additional equity, funder capacity, licensing, people, and vendors. Year-end debt and equity are indicative funding needs, not committed financing.
5. A fundable plan requires audited opening balances, monthly projections, downside and wind-down cases, covenant calculations, capital calls, cash runway, and investor return waterfalls.

Appendix D. Risk-Appetite Statement

D.1 Governing statement

RISK APPETITE. LCSC accepts measured secured-credit, collateral, funding, operational, and regulatory risk only within a transparent nonbank lending model. It has no appetite for unlicensed activity, customer-fund misuse, misleading tax or investment claims, sanctions violations, unsupported credit, speculative collateral, deposit taking, concealed leverage, or dependence on a single refinancing event.

D.2 Pilot limits

Limit	Pilot standard	Authority and action
Single borrower	Lesser of $2.0M, 5% of principal, or 15% of tangible equity; exception maximum $2.5M.	Credit Committee within board ceiling; any exception reported monthly.
Top ten borrowers	Maximum 35% of principal.	Stop affected originations until cured.
Single collateral issuer	Maximum 10% of collateral value; employer or issuer connected to gain maximum 5% after closing.	Daily monitoring; haircut, substitution, or paydown.
Single custodian	Maximum 40% of collateral value at scale; temporary pilot concentration must have approved alternate and exit plan.	Board-approved pilot waiver only.
Single referral source	Maximum 20% of trailing-twelve-month funded principal at scale.	Commercial diversification plan; enhanced conduct review.
Portfolio leverage	Maximum 2.5x debt-to-tangible-equity at company level during pilot.	No new commitments above limit; cure with equity or paydown.
Warehouse cushion	At least 10% of committed capacity and required borrowing-base headroom after stressed ineligibility.	Liquidity escalation and origination stop.
Minimum liquidity	Greater of 12 months fixed operating expense, six months warehouse interest and fees, or legal/funder minimum, net of restricted cash.	Board-approved liquidity recovery plan.
30+ delinquency	Maximum 2% of principal.	Suspend exceptions and expansion; risk remediation.
Annualized net charge-off	Maximum 1% of average principal.	Re-underwrite segments; increase reserve; board decision.
Policy exceptions	Maximum 10% of quarterly originations; none involving licensing, sanctions, collateral perfection, or prohibited activity.	Independent approval; monthly trend and root-cause review.

D.3 Collateral advance framework

Collateral	Preliminary policy advance	Principal qualification
Cash in controlled U.S. account	90%-95%	Deposit institution and setoff analysis; no LCSC operating commingling.
U.S. Treasury bills and notes	85%-95%	Maturity, duration, custody, market liquidity, and price stress.
Diversified listed U.S. equities and broad ETFs	35%-45%	Daily liquidity, no restriction, diversified issuer exposure, and Regulation U maximum loan value.
Employer or single-name listed equity	0%-25%	Transaction-specific haircut and rapid concentration reduction; 5% portfolio collateral cap after closing.

Collateral	Preliminary policy advance	Principal qualification
Investment-grade municipal or corporate bonds	0%-60% after pilot approval	Independent price, duration, spread, issue size, and market depth; excluded from initial pilot unless specifically approved.
Private securities, restricted stock, cryptocurrency, derivatives, options, collectibles	0%	Ineligible in pilot regardless of third-party valuation.

The applicable collateral value is the lowest amount permitted by LCSC policy, Regulation U or other law, custodian practice, warehouse eligibility, and stress testing. An advance percentage is not a commitment to lend and does not replace repayment underwriting.

D.4 Credit standards

65. Individual borrower: stressed debt-service coverage of at least 1.50x and eligible post-closing liquid resources equal to at least 12 months of scheduled payments.
66. Corporate borrower: stressed fixed-charge coverage of at least 1.35x, positive operating cash flow or committed support, and minimum liquidity calibrated to the business cycle and facility.
67. Repayment may not depend solely on appreciation, liquidation of the pledged asset, an uncommitted financing, a hoped-for tax refund, or enactment of the Unlocking Capital Act.
68. Credit scoring supports but does not replace documented ability-to-repay, source-of-repayment, fraud, tax, and collateral analysis.
69. Any exception requires compensating factors, named authority, expiration or cure, and portfolio reporting; prohibited-activity and legal-perimeter rules are not waivable.

D.5 Stress and wind-down

Quarterly enterprise stress testing must combine a 40% listed-equity decline, 300-basis-point interest-rate increase, 20% collateral ineligibility, 5% delinquency, 2% net charge-off, 50% origination decline, six-month warehouse nonrenewal, major custodian outage, payment-file failure, and one material state restriction. The board must identify the capital, liquidity, covenant, servicing, customer, and collateral actions required under the combined case.

A board-approved wind-down plan must preserve tax-payment records, customer servicing, collateral control, complaints, privacy, regulatory reporting, and funder obligations without new originations. It must identify the back-up servicer, controlled accounts, customer communication, staff retention, vendor transition, collateral release, records retention, and capital required through final payoff.

Appendix E. Legal and Regulatory Work Plan

E.1 Counsel workstreams

Workstream	Required written product	Gate
Corporate and fiduciary	Delaware formation, charter and bylaws, founder and IP agreements, equity plan, board and committee charters, indemnification, conflicts, authority matrix, foreign qualifications.	Before seed close and operations
Federal credit	ECOA/Regulation B, TILA/Regulation Z classification, FCRA permissible purpose and notices, Regulation U/X purpose-credit and registration, MLA/SCRA, sanctions, electronic contracting, telemarketing and communications.	Before product approval
State lending and servicing	Fifty-state activity and licensing matrix covering borrower location, consumer/business purpose, amount, rate, fees, disclosures, solicitation, broker/referral, servicing, collections, credit reporting, usury, and exemptions.	Before any activity in each state
Privacy and cybersecurity	GLBA privacy and safeguards, state privacy and breach laws, tax and credit data, consent, retention, sharing, incident notice, vendor clauses, and regulator access.	Before collecting prospect data
Securities and capital	Private equity exemption, offering documents, broker-dealer/finder analysis, Form D and state notices, warehouse and participation securities analysis, Investment Company Act, Advisers Act, and transfer restrictions.	Before any capital solicitation
Tax and tax-practice boundary	Entity tax, loan and fee treatment, bad debt, interest limitation, state apportionment, customer reporting, tax-verification engagement, Circular 230 and state practice perimeter, payment and reconciliation design.	Before final model and vendor engagement
Commercial finance	Loan documents, control and custody agreements, UCC perfection, intercreditor, true sale, bankruptcy remoteness, nonconsolidation, servicing, bank and custodian contracts, warehouse, back-up servicing, enforcement, and wind-down.	Before first funding
Marketing and distribution	Claims substantiation, non-affiliation and no-tax-advice disclosures, referral compensation, RESPA/non-RESPA confirmation, lead generation, testimonials, adviser and financial-institution contracts, CAN-SPAM/TCPA/telemarketing, complaint handling.	Before public or professional marketing
Employment and founder conduct	Executive agreements, licensing and background checks, restrictive covenants, compensation, whistleblower, code of ethics, personal trading, outside activities, political activity, and related-party lending.	Before executive service

E.2 State authorization method

The state matrix must analyze the activity actually performed, not merely the contract label. For each state, counsel must identify whether making, arranging, brokering, soliciting, servicing, collecting, purchasing, or enforcing the facility requires a license or registration; which entity and responsible persons must qualify; applicable bonds, net worth, office, record, examination, annual report, and change-control requirements; and the effect of borrower type, business purpose, amount, collateral, rate, fees, and location.

State launch criterion	Required evidence
Authority	Effective license, counsel-confirmed exemption, or legally valid bank-partnership structure specifically approved for the product and activity.
Economics	Permitted interest and fee structure, default charges, late fees, prepayment, broker compensation, and disclosure cost support target contribution.
Documents	State addendum, notices, language, electronic consent, payment authorization, adverse action, privacy, complaints, servicing, and collections approved.
Enforceability	Choice of law, venue, usury, UCC, control, guaranty, confession-of-judgment prohibition, remedies, cure, repossession or liquidation, and judgment enforcement analyzed.

State launch criterion	Required evidence
Operations	NMLS or other filings, responsible persons, background checks, bonds, registered agent, books and records, examination access, reporting calendar, and complaint route configured.
Change management	Monitoring owner assigned for laws, rules, bulletins, regulator interpretations, rate thresholds, privacy, commercial-finance disclosure, and annual renewals.

E.3 Required legal opinions before pilot

1. LCSC Finance LLC is authorized to originate and service the pilot product in each launch state and the pricing, fees, disclosures, solicitation, and collection provisions comply with applicable law.
2. The intended and monitored use of retained sale proceeds is classified under Regulation U and Regulation X; registration, purpose statement, collateral maximum-loan-value, and reporting requirements are operationalized.
3. Loan, security, custody, control, payment, tax-verification, servicing, warehouse, and SPV documents are valid and enforceable, subject to customary bankruptcy and equitable limitations, and create the intended perfected interests.
4. The equity raise and warehouse or participation instruments are validly offered under selected securities exemptions, and LCSC entities satisfy or are structured to satisfy applicable Investment Company Act exclusions or exemptions.
5. The SPV transfer, consolidation, servicing, account-control, and creditor-rights structure achieves the intended bankruptcy and funding treatment; accounting conclusions are separately documented by the auditor.
6. Marketing, referral, data sharing, adverse action, privacy, cybersecurity, electronic signature, credit reporting, sanctions, and tax-verification procedures conform to the approved product perimeter.

E.4 Regulatory-change discipline

This proposal describes the legal framework as of August 24, 2026. Final counsel must recheck every cited authority, effective date, threshold, exemption, enforcement position, and state rule immediately before formation activity, capital solicitation, customer marketing, and product launch. LCSC must maintain a regulatory inventory with an owner, source, effective date, control mapping, test, evidence, issue, and remediation due date.

Appendix F. Selected Authorities and Sources

Sources were selected to anchor the business proposal in the originating documents and primary government materials. Statutes, regulations, agency interpretations, and effective dates require confirmation by qualified counsel before reliance. Accessed August 24, 2026 unless otherwise stated.

[1] Liquid Capital Services Corporation - Preliminary Concept Draft - Original internal concept paper. Source architecture for the initial lender, product, capital, risk, and implementation concept.

[2] UNLOCKING CAPITAL - Position Paper for Formal Review - Internal policy paper. Source for the proposed federal payment framework and distinction between the UCA and LCSC.

[3] Estimated Taxes: Frequently Asked Questions - Internal Revenue Service. Federal estimated-tax timing and underpayment framework. Source

[4] Federal Reserve Regulation U Compliance Guide - Board of Governors of the Federal Reserve System. Nonbank registration, purpose statements, reports, and margin-stock credit overview. Source

[5] 12 C.F.R. Part 221 - Credit by Banks and Persons Other Than Brokers or Dealers for the Purpose of Purchasing or Carrying Margin Stock - Electronic Code of Federal Regulations. Operative Regulation U definitions, limits, and compliance requirements. Source

[6] Official Interpretations of Regulation B, Section 1002.1 - Consumer Financial Protection Bureau. Regulation B applies to business and personal credit unless otherwise specified. Source

[7] 2026 Dollar Thresholds for Truth in Lending and Consumer Leasing - Consumer Financial Protection Bureau. General exemption threshold used in the preliminary product-classification discussion. Source

[8] Small Business Lending Data Collection Rule - Consumer Financial Protection Bureau. Current rule materials, effective dates, and compliance resources for ECOA Section 1071. Source

[9] FTC Safeguards Rule: What Your Business Needs to Know - Federal Trade Commission. Information-security obligations for covered financial institutions, including finance companies. Source

[10] Exempt Offerings - U.S. Securities and Exchange Commission. Overview of federal exemptions used for private capital formation. Source

[11] Investment Company Registration and Regulation Package - U.S. Securities and Exchange Commission. Investment-company definition and 40% test overview. Source

[12] California Financing Law - California Department of Financial Protection and Innovation. California finance-lender and commercial-finance framework. Source

[13] Licensed Lenders - New York State Department of Financial Services. New York licensed-lender framework and application materials. Source

[14] Preliminary Data, Individual Income Tax Returns, Tax Year 2022 - Internal Revenue Service Statistics of Income. Net capital gain in AGI by income class; market-reference input. Source

[15] The Distribution of Capital Gains - Internal Revenue Service Statistics of Income. Research on concentration of capital gains across income groups. Source

[16] Financial Accounts of the United States - First Quarter 2026 Recent Developments - Board of Governors of the Federal Reserve System. Household corporate-equity reference measure. Source

[17] Securities-Backed Lines of Credit - Investor.gov, U.S. Securities and Exchange Commission. Competitive product characteristics and collateral-call risks. Source

[18] Payment Options - Internal Revenue Service. Existing federal payment methods against which LCSC must be accurately described. Source

[19] How to Form a New Business Entity - Delaware Division of Corporations. Delaware entity-formation information and professional-advice caution. Source

[20] 26 U.S.C. Section 11 - Tax Imposed - United States Code. Federal corporate income-tax rate. Source

[21] Instructions for Form 1120 - Internal Revenue Service. Corporate return and estimated-tax payment framework. Source

Document limitation

This proposal is a decision and diligence framework. It is not an offer to sell a security, a commitment to lend, a representation of licensing authority, or legal, tax, accounting, investment, banking, or regulatory advice. All proposed terms, market constructions, financial projections, capital requirements, timelines, limits, and organizational roles are preliminary and subject to customer validation, due diligence, financing, board approval, and written advice from qualified professionals.