Box spreads: borrowing at close to Treasury rates

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The idea

A box spread is a way to borrow against a portfolio at a rate close to what the US Treasury pays, without selling anything. It is built from listed options, but it carries no bet on the market: the amount repaid is fixed on the day the position is opened.

Most investors who need cash against their portfolio use a margin loan or a securities-based line of credit. At large brokers these often cost several percentage points more than Treasury bills. A box spread takes its rate from the options market instead, where the price is set by the same arithmetic that sets short-term interest rates.

For an investor with large unrealized gains, that combination matters: cash now, a fixed cost known in advance, and no sale that would trigger tax.

Advantages

The main advantage is cost. The implied rate on an SPX box usually sits less than one percentage point above Treasury yields of the same maturity, while margin loans at most large brokers cost several points more.

Way to borrow against a portfolio	Typical rate
Margin loan at a large retail broker, such as Schwab or Fidelity	About 10% to 12%
Securities-based line of credit	About 5% to 8% at Schwab, lower for larger lines
Margin loan at Interactive Brokers	About 4.7% to 5.4%, lower for larger balances
SPX box spread	About 4.3% to 4.4% for a term of about two months

Rates as of September and October 2026. Margin loan rates from Interactive Brokers' published comparison; securities-based line of credit rates from Kitces; the box spread rate is from boxtrades.com quotes for December 2026 SPX contracts in October 2026, compared with a 1-month Treasury yield of about 4.1% in October 2026 (FRED).

The gap is widest against standard margin loans. Against the lowest-cost brokers the rate saving is smaller, and box spreads have other advantages as well:

- **A fixed rate for a fixed term.** The cost is locked in when the box is opened, for terms from a few weeks to several years. Margin loans usually float.
- **Tax treatment.** SPX options fall under Section 1256 of the tax code. The implied interest is generally treated as a capital loss, split 60% long-term and 40% short-term, and recognized

each year as the position is marked to market. It can offset capital gains whatever the borrowed money is used for, including purposes where ordinary loan interest would not be deductible. Losses beyond gains are limited to $3,000 a year against ordinary income, with the rest carried forward. Margin loan interest, by contrast, is deductible only when the money is used to buy taxable investments, and then only within limits. The tax rules for straddles and conversion transactions can change this treatment in some cases, so how the cost is treated should be confirmed with the investor's tax adviser.

How it works

A box spread combines four options on the same index, all expiring on the same date, at two strike prices. Together they are worth exactly the gap between the two strikes at expiry, wherever the market ends up. A position worth a known amount on a known date is, in effect, a zero-coupon bond.

To borrow, the investor sells the box. The four legs are:

Leg	Lower strike	Upper strike
Calls	Sell	Buy
Puts	Buy	Sell

The investor receives cash today and owes the fixed amount at expiry. The difference between the two is the interest. For example, a box that repays $1,000,000 in one year might bring in about $950,000 today, an implied rate of about 5%. Lending works the other way: buying the box pays cash today and returns the fixed amount at expiry.

In practice the boxes used for borrowing are built on the S&P 500 index (SPX). Its options are European-style, so they cannot be exercised before expiry and the terms stay fixed. They are also cash-settled, so no shares change hands. The trades clear through the Options Clearing Corporation, which stands between buyer and seller.

When it makes sense

A box spread suits an investor who has a large taxable portfolio, needs cash for a defined period, and would otherwise sell appreciated holdings or pay a higher rate to borrow.

- **Liquidity without selling low-basis holdings.** A founder or long-term holder with large unrealized gains can raise cash without realizing them. Over a long horizon the gain may never need to be realized at all, for example if the holding is later given to charity or passes to heirs.
- **Bridge financing.** Buying a new home before the old one sells, paying a large tax bill, or funding a capital call, where the need is real but temporary.
- **Replacing expensive debt.** Paying down a margin loan, or other borrowing at a higher rate, with cheaper financing.
- **Financing an investment approach.** Funding added strategies while keeping existing market exposure, as described in our note on keeping market exposure while adding other sources of return.

- **Lending idle cash.** Buying a box usually earns slightly more than Treasury bills of the same term, which can suit cash held for a known future date. The gain is generally taxed under Section 1256, although the conversion transaction rules may treat part of it as ordinary income.

It makes less sense for a need that has no clear end date, for an investor without a taxable portfolio to borrow against, or where cheaper long-term debt is available, such as a fixed-rate mortgage taken out when rates were low.

Risks and practical limits

The box itself carries no market risk, but the loan is still a loan against a portfolio that can fall.

- **Margin calls.** The amount owed counts against the account like any margin debt. If the portfolio falls far enough, the broker can demand more collateral or sell holdings, at the worst time. Borrowing well below the maximum is the main protection.
- **Rates when the loan is rolled.** The rate is fixed only until expiry. A longer need is met by rolling into a new box at whatever rates are then.
- **Value before expiry.** Between opening and expiry, the box's market value moves with interest rates, like a bond. If rates fall, the amount owed is worth more on paper, which shows as an unrealized loss and can slightly raise the margin required. Held to expiry, the amount repaid is unchanged; closing early locks in the difference.
- **Execution.** The price depends on the strikes and expiry chosen and on placing orders carefully. A poorly executed trade can cost more than the rate saving.
- **The wrong options.** Boxes built on American-style options, such as those on individual stocks or most ETFs, can be exercised early and are taxed differently. SPX options avoid both problems.
- **Account approval.** Selling a box needs an account approved for options spreads and margin. It is not available in IRAs or other retirement accounts.
- **Use of the deduction.** The implied interest is a capital loss. It is most valuable to an investor who realizes capital gains; otherwise only $3,000 a year can be used against ordinary income.

None of this removes the basic risk of borrowing: the amount owed is fixed, while the value of the assets behind it is not.

IMPORTANT INFORMATION

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Rates shown are approximate, are drawn from the sources listed and change frequently. Box spreads involve options and margin; options are not suitable for every investor, and borrowing against a portfolio can lead to forced sales and losses. Tax treatment depends on each investor's circumstances and on tax law, which can change; investors should consult their own tax adviser.

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Sources: Kitces.com; Interactive Brokers, US margin loan rates comparison (September 2026); boxtrades.com, SPX box spread quotes (October 2026); Federal Reserve Bank of St. Louis (FRED), 1-month Treasury yield (October 2026).