Premium Finance Plus℠

Executive Brief for Financial Advisors

For the first time, clients can finance significant amounts of life insurance with no personal guarantees or collateral apart from the future value of the life insurance policy. Read on to learn how you can put this groundbreaking innovation to work for your clients.

COVENTRY CAPITAL

Increasing Access to Life Insurance

Premium financing has long been a valuable estate planning tool. The strategy has been particularly useful in the advanced estate and business planning marketplace where clients commonly have large insurance needs and assets they do not wish to liquidate.

However, the loans used to finance life insurance premiums are granted on a recourse basis with significant collateral and/or personal guarantees from the borrower. Additional collateral is required to cover the loan amount beyond the surrender value of the policy, and the collateral must be evaluated annually and increased if necessary.

Now, Coventry Capital has created a new type of premium financing program, Premium Finance Plus. It is the first program offered by a major national bank that allows a policyowner to borrow against the future market value of a life insurance policy. By providing a non-recourse loan that is supported by the projected value of the underlying policy, Premium Finance Plus reduces or eliminates the need for further collateral or personal guarantees. For clients who have a need for insurance but choose not to liquidate or leverage assets or make personal guarantees, this is an extremely effective way to fund a life insurance policy.

Premium Finance Plus gives clients the opportunity to:

- obtain a significant amount of insurance while minimizing the initial outlay
- utilize a non-recourse loan with no additional collateral requirements
- be free to choose how they wish to proceed at the end of the loan term

Free to Choose

Premium Finance Plus provides a fixed-rate simple interest, non-recourse loan from a major national bank for the purchase of universal life policies issued by qualifying carriers. Loans are available for a term of 36 months, with options for 30 and 26 months. The borrower pays a one-time origination fee, the greater of $5,000 or 1% of the loan, at the beginning of the application process.

At the maturity of the loan, the borrower has the choice of:

- keeping the policy by paying the loan balance
- or relinquishing the policy to the lender in satisfaction of the debt

When repaying the balance of the loan, borrowers are responsible for the outstanding principal and accrued interest on the loan. Upon receipt of payment, the lien held by the bank is released and the borrower is under no further obligation to the lender or Coventry Capital and becomes the sole owner of the life insurance policy. At all times the policyowner controls who the beneficiary is in excess of the indebtedness.

The policyowner is under no obligation to pursue any particular course at the end of the loan and can choose to move to a traditional premium financing program at the end of the loan term. If the policy is ever brought to the secondary market, the policyowner has no obligation or requirement to offer the policy for sale through any particular life settlement company. The lender receives only the accumulated loan, and 100% of the profits go to the client.

With Premium Finance Plus:

- The lender is a major national bank federally licensed to issue loans nationwide.
- There is no buy-back provision.
- 100% of the death benefit in excess of the loan balance goes to the beneficiary while the loan is outstanding.
- 100% of the proceeds go to the policyowner if the policy is sold.

Ideal Candidates

Premium Finance Plus is a compelling strategy for high net worth clients, either individuals or trusts, who have a long term need for insurance, but who do not wish to liquidate or leverage their assets.

The requirements for Premium Finance Plus include:

- insured age 60 or older
- substantive need for insurance
- borrower is an individual or trust (exceptions may be made for other legal entities)
- borrower is a U.S. resident
- borrower or insured meets financial sophistication criteria
- insured qualifies medically for the insurance
- minimum loan size is $100,000
- carrier rating A or better from Standard & Poor's or A2 or better from Moody's
- all components of the transaction are denominated in U.S. dollars

Typical scenarios include:

- a "wait-and-see" approach to estate planning given the uncertain future of estate taxes
- clients with high yielding assets or assets with a low basis that should not be liquidated
- clients who want insurance but not additional premiums
- clients who prefer not to pledge collateral
- clients who need additional insurance but more premiums would cause adverse tax consequences

Transaction Process

Coventry Capital works closely with advisors throughout the entire Premium Finance Plus transaction. Here is how the process works:

- A case is submitted to Coventry Capital.
- The insured's medical records are underwritten. If the underwriting qualifies medically, the case is submitted for financial analysis.
- If the case meets financial underwriting requirements Coventry Capital issues closing documents.
- The borrower and insured sign the closing documents and the formal application for insurance.
- Coventry Capital sends the executed formal application for insurance to the advisor along with any necessary authorizations to obtain medical exam results.
- The application for insurance and authorizations are submitted to the life insurance company.
- The policy is issued and sent to Coventry Capital to review and to authorize the lender to disburse the loan proceeds.

PFP Scenario 1

The client, age 78, has a net worth of $10 million and a current need of $5 million of life insurance for estate liquidity. He has experienced some change in health over the last few years. His agent obtains an attractive offer from the carrier, but the client is concerned about the future of estate taxation. He does not want to liquidate assets to pay the premiums now, when in the future, he may not need to maintain the insurance.

The agent recommends Premium Finance Plus from Coventry Capital. The client can lock in his insurability today with minimal cash outlay and gain up to three years to "wait-and-see" what will happen with estate tax law. He liquidates no assets, and if he decides at the end of the term that he does not need the insurance, he can relinquish it with no recourse.

PFP Scenario 2

The client, age 82, has a need for $20 million of insurance. His agent submits the applications through his Brokerage General Agent. Three carriers come back with rated offers and one with a decline. Two carriers come back with standard offers totaling the $20 million needed. The client considers the outlay for the full $20 million too expensive, opting for a reduced amount of coverage.

The agent recommends Premium Finance Plus from Coventry Capital. This would enable the client to purchase $10 million of insurance and lock in an additional $10 million at standard rates. He then has up to three years to decide if he wishes to continue with the insurance at a cost he feels is affordable.

Being an Informed Advisor

It is important to be aware of several key issues when advising your clients of non-recourse premium financing programs. First and foremost, confirm that the policyowner is under no obligation or limitation to pursue any particular course at the end of the loan term. Second, well-designed programs disclose the structure of the financing and the policy's true ownership. Third, if the policy is ever brought to the secondary market, the policyowner should have no obligation or requirement to offer the policy for sale through any specific life settlement company. In addition, the lender should receive repayment for the outstanding loan balance with 100% of any excess going to the client.

When considering non-recourse premium financing, make sure of the following:

- the lender should not take a portion of the death benefit in addition to its right to full repayment of the loan and interest from policy inception
- the lender should not have an automatic right to purchase the policy from a consumer who is unable or unwilling to pay off or refinance the loan at maturity
- the client should not be required to forfeit the right to sell the policy for a set period and/or share any profits with the lender if the policy is sold

These practices must be evaluated with regard to insurable interest requirements and prohibitions against wager policies, prohibitions against usurious lending, and life settlement laws.

About Coventry Capital

A member of the Coventry Group of companies, Coventry Capital provides innovative capital markets solutions for advisors and their clients. Drawing on Coventry's tradition of unconventional thinking, impeccable standards and a steadfast commitment to consumer rights, Coventry Capital is increasing consumer access to life insurance and the powerful financial planning benefits it offers.

Next Steps

To learn more about Premium Finance Plus and how it can help your clients increase their access to the estate planning benefits of life insurance, call 877-836-8300.

This brochure is not intended for consumers.

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