

## Premium Finance Plus<sup>SM</sup>

### What is Premium Finance Plus?

PFM allows a policyowner to finance premiums using the future market value of a qualifying life insurance policy as collateral.

#### Traditional premium financing

Allows high net worth individuals to use assets as collateral for a loan to fund a life insurance policy without liquidating them.

- Premium Financing applies in the following cases:
  - clients with large estates they want to preserve for future generations
  - clients with large insurance needs
  - clients reluctant to liquidate high yielding assets to make premium payments.
- Traditional premium finance programs require:
  - a loan used to finance premiums granted on recourse basis
  - personal guarantees from the borrower
  - additional collateral, beyond the cash value of the policy
  - annual collateral reviews.

#### Premium Finance Plus (PFM<sup>SM</sup>)

Coventry has created a new premium finance program, one in which no collateral, other than the insurance policy, and no personal guarantees are required. This is a way for clients, with a pre-determined life insurance need and who don't want to liquidate or leverage assets, to fund a life insurance policy.

#### The "Plus"

Gives clients the opportunity to:

- obtain significant amounts of insurance with a decreased initial out of pocket cost
- utilize a non-recourse loan with no additional collateral requirements

#### Why it works

- The combination of the client's origination fee and the policy's future market value provides the collateral for the loan covering the cost of premiums.
- This opportunity to use the future market value as collateral is made possible by the secondary market.

### **How it works**

- The lender makes a loan with the life insurance policy as collateral.
- The lender acquires Premium Finance Insurance Coverage (PFIC) to cover any collateral value shortfall, in the event the actual future value is less than initially projected.

### **PFP profile**

The requirements for PFP are:

- Insured age 60 or over
- Borrower is an individual or trust (exceptions may be made for other legal entities)
- Borrower is a U.S. resident
- Borrower or insured meets accredited investor criteria
- Minimum loan size is \$100,000
- Carrier rating is A or better
- All components of the transaction are denominated in US dollars

## **The Transaction Process**

### **To submit a case**

Please include:

- PFP submission form and related authorizations
- All information submitted to or obtained by or from the life insurance company including but not limited to the following:
  - trial or formal application
  - medical records (needed prior to closing)
  - medical exams and results
  - life insurance offer(s)
  - illustrations showing (1) minimum level premiums to maturity (2) minimum level premiums to maturity run with Option C or a Return of Premium rider and (3) large enough dump-in to carry the policy to lapse at the end of year three

### **The transaction**

- A case is submitted to Coventry:
- New Business confirms the producer's PFP contract with Coventry Capital. If the producer is not contracted, paperwork is issued to begin the contracting process.
- A case manager reviews the case and a case acknowledgment memo is sent confirming receipt and detailing any missing items.

- The insured's medical records are underwritten.
- If the underwriting qualifies, the case is submitted for financial underwriting.
- If the case qualifies, the borrower signs a non-binding term sheet and returns it to Coventry.
- Coventry issues the closing documents.
- The producer or BGA arranges for the borrower and insured to sign the closing documents and the formal application for insurance.
- The executed closing documents and the formal application for insurance are sent to Coventry.
- Coventry reviews the executed closing documents and formal application for insurance and informs producer or BGA of any outstanding items (Note: The formal application should indicate the commission split between the producer, BGA and SPBGA.)
- Coventry arranges for the policy intermediary to sign the formal application for insurance for the borrower and its designated beneficiary.
- Coventry sends the executed formal application for insurance to the producer or BGA and the authorizations to obtain medical exams and results if not already received by Coventry.
- Producer or BGA submits the application for the insurance and the authorizations to obtain medical exam results to the life insurance company.
- Coventry conducts a pre-closing interview with the borrower.
- The policy is issued to the producer or the BGA and then sent to Coventry.
- Coventry reviews the policy and sends a delivery receipt for signature to policy intermediary.
- Upon Coventry's receipt of the signed delivery receipt, Coventry instructs lender to disburse loan proceeds.

### **At Loan Maturity**

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

- keeping the policy by paying the loan balance at or before loan maturity by paying the future premiums that will come due
- or relinquishing the policy to the lender in satisfaction of the debt.

### **Loan repayment**

- The borrower will pay the lender the outstanding principal and accrued interest.
- Upon receipt of the payment the lender will notify the policy intermediary that it no longer holds a security interest in the policy.
- The policy intermediary ceases to have any obligations to the lender.
- The borrower can then terminate the policy intermediary, and direct the policy intermediary to instruct the insurer to record the owner as the borrower.
- The policy intermediary completes change of ownership and beneficiary forms and sends to the life insurance company.
- Once the loan is repaid, the policy intermediary releases policy to the borrower.

### **Relinquishing the policy**

- If the borrower decides to relinquish the policy, they must provide written instruction to the lender.

### **Free to choose**

- The policyowner is under no obligation to pursue any particular course at the end of the loan.
- There are no requirements that the client must sell the policy.
- If the client does decide to sell the policy, there are no requirements to sell it to anyone in particular and 100% of the profits go to the owner. The lender receives only the accumulated loan.

At all times the policyowner controls who the beneficiary is in excess of the indebtedness. If the policy is ever offered to the secondary market, the policyowner has no obligation or requirement to offer the policy for sale through any particular broker or to any particular settlement provider.