

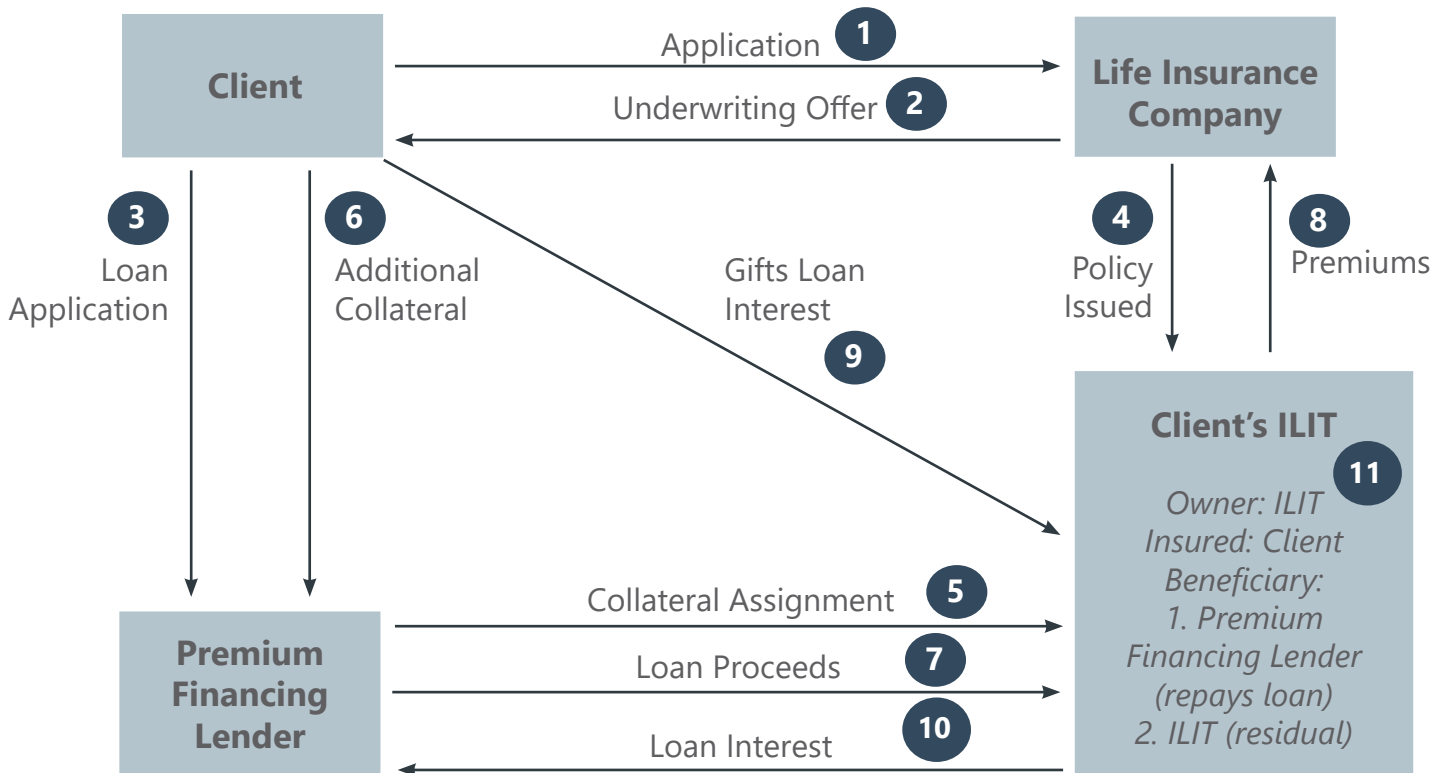


# USING PREMIUM FINANCING WITH YOUR HIGH NET-WORTH CLIENTS

## How Does Premium Financing Work?

The clients who do not want to liquidate their high performing assets to buy life insurance are the perfect candidates for premium financing. Now that you and your client have decided to use premium financing, what are the next steps and how is a typical premium financing case processed with the life insurance company?

A typical premium financing application process:



- 1 **The client applies for the life insurance policy** including a cover letter explaining the purpose of life insurance and the reasons for premium financing.
- 2 **The client secures an underwriting offer** from the life insurance company. The lender will require a formal underwriting offer before they accept an application for a loan.
- 3 **The client applies and secures the loan.** The Irrevocable Life Insurance Trust (ILIT) submits the loan application to the lender. The lender sets forth the terms of the loan.
- 4 **The life insurance company issues the policy** and the ILIT is the owner and the beneficiary of the policy.
- 5 **The ILIT collaterally assigns the policy's cash value to the lending institution** as part of the collateral requirement for the loan.
- 6 **The insured pledges additional collateral** with a personal guarantee to the lending institution to cover any additional collateral needed to secure the loan.
- 7 **The lender funds the ILIT** by submitting the loan proceeds to the ILIT.
- 8 **The ILIT pays the life insurance premium(s).** The ILIT uses the funds from the lender to pay the life insurance premiums.
- 9 **The insured gifts the loan interest** payments to the ILIT.
- 10 **The ILIT pays the loan interest** to the lending institution.
- 11 **Repayment of the loan - the exit strategy:**
  - a. If the insured dies before the loan is repaid, the portion of the death benefit is used to repay the loan and the remaining balance is distributed to the insured's heirs through the ILIT.
  - b. If the insured survives the term of the loan, the loan can be repaid by taking a withdrawal from the cash value of the life insurance policy. If there is a shortfall of cash value, the client will either need to wait until the policy has sufficient cash or they could pay the shortfall from out of pocket funds.

For more information on Premium Financing, please contact your Frontier Advanced Sales Specialist or your Frontier Sales Vice President.