FREQUENTLY ASKED QUESTIONS

COMMERCIAL PREMIUM FINANCING

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AS A HIGH-NET-WORTH INDIVIDUAL:

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You could probably benefit from protecting your assets with life insurance. Commercial Premium Financing is an alternative way for high-net-worth individuals to fund the payment of insurance premiums.

With Commercial Premium Financing, premiums are borrowed from a third-party lender. High-net-worth individuals with illiquid personal or business assets can benefit most from this alternative premium payment approach.

POTENTIAL BENEFITS OF COMMERCIAL PREMIUM FINANCING INCLUDE THE OPPORTUNITY TO:

- Currently reduce your out-of-pocket costs for life insurance coverage.
- Borrow at attractive interest rates.
- Keep your current investment portfolio intact.
- Evaluate multiple scenarios designed to assist you in purchasing the life insurance you need to help protect your estate.
- Select an alternative to other large case funding options

GENERAL ELIGIBILITY REQUIREMENTS

To be eligible for Commercial Premium Financing a client generally must:

- Purchase a policy with a least a minimum annual premium of $100,000 (no annual premium minimum requirement to finance offshore).
- Have a net worth of at least $5 million.
- Borrow in the name of an entity, not as an individual (some exceptions may apply)
- Meet collateral requirements of the lender.

1. WHAT IS COMMERCIAL PREMIUM FINANCING?

Commercial Premium Financing is an innovative wealth management strategy offering high-net-worth individuals an alternative method of funding life insurance premiums. With Commercial Premium Financing, funds needed to pay premiums are borrowed from a third-party lender so that the borrower's current investment portfolio or other assets may continue to potentially grow. It is also a way for clients to minimize out-of-pocket costs and gift-tax liability.

2. WHO CAN BE A LENDER?

The lender selection can vary depending on case size and circumstances of the planning situation. Loans may be available from a client's own bank or from providers who specialize in this market. Loan terms and interest rate competitiveness should be considered. It is also advisable to choose a lender with good financial stability. Reach out to your RPg representative in order to discuss options.

3. WHAT TYPE OF CREDIT VERIFICATION MAY BE NEEDED FOR ELIGIBILITY?

In addition to a signed life insurance financing credit application, a lender may also require:

• For corporate/business-owned cases: Audited corporate financial statements and tax returns for 3 consecutive years and a copy of the Articles of Incorporation. If the business is an S-Corporation or closely held business, signed tax returns and personal financial statements for 3 consecutive years on each owner/partner may also be required.

• For trust-owned cases: Statements of trust assets and trust tax returns for 3 consecutive years and a copy of the Trust Agreement. If a trust is newly formed, personal tax returns and financial statements for 3 consecutive years on the individual who is securing the loan on behalf of the trust may also be required.

Additional information may also be required by the lender for loan approval.

4. WHAT IS CONSIDERED SUFFICIENT COLLATERAL TO SECURE THE LOAN?

In all cases, the lender will require the borrower to assign the policy as collateral and, if needed, will require additional collateral. They may include marketable securities, letter of credit or cash value of other life insurance policies. At the time the policy cash values exceed the loan balance, the lender may begin to release the additional collateral consistent with the lender's loan policy.

The borrower will be responsible for maintaining adequate collateral throughout the life of the loan. Types of collateral should be discussed with each individual lender

5. WHO IS THE IDEAL CLIENT FOR THIS PLAN?

Most lenders will require the borrowers to be entities — including corporations, trusts, partnerships and limited liability companies — and, in limited cases, individuals. Your goal should be to purchase life insurance with funds borrowed at a rate lower than what you expect to gain from other investments. Additionally, as specified by the lender, individuals should have a net worth of at least $5 million, meet the collateral requirements and purchase a policy with a minimum annual premium of $100,000.

6. WHAT IS THE CURRENT LOAN INTEREST RATE AVAILABLE FROM THE LENDER?

In most instances, lenders base the current loan interest rate on the one-year London Interbank Offered Rate (LIBOR) or the Prime rate, generally assessing a spread. The spread is determined on a case-by-case basis and is generally fixed for the life of the loan. The loan amount and the lender's risk exposure are also taken into consideration when determining the loan interest rate. Note: LIBOR and Prime fluctuate and, therefore, the interest rate received may differ from what was initially illustrated.

7. WHAT IS LIBOR?

LIBOR is the rate of interest at which banks offer to lend money to one another in the wholesale money markets in London. It is a standard financial index used in the U.S. capital markets and can be found in The Wall Street Journal. In general, LIBOR interest rates are lower than the Prime Rate.

8. WHAT IS PRIME?

Prime is the base rate that banks use in pricing commercial loans to their best and most creditworthy customers. The rate is determined by the Federal Reserve's decision to raise or lower prevailing interest rates for short-term borrowing.

9. WHEN IS INTEREST PAYABLE?

The borrower may pay the interest at the beginning of the year. However, in certain circumstances, the interest may be paid in arrears. In select circumstances, the interest may be deferred and added to the balance of the loan.

10. HOW LONG WILL IT TAKE TO SECURE THE LOAN?

Typically, a lender will begin its financial review of the loan application during the life insurance underwriting process at RPg Insurance Solutions. At that time, provided all documentation is complete, the minimum loan review and funding time will vary by lender, but should be between 2 and 4 weeks.

11. WILL I HAVE TO REQUALIFY FOR THE LOAN IN SUBSEQUENT YEARS?

The lender will annually reevaluate loan quality to determine whether changes in the borrower's financial condition or in the relationship between cash values and the outstanding loan balance may require additional collateral or may warrant discontinuance of future loan installments due to increased risk.

12. WHAT IS THE PURPOSE OF THE COLLATERAL ASSIGNMENT?

The collateral assignment grants the lender a security interest in both the life insurance policy's death benefit and the policy's cash value. Generally, this is an absolute assignment and therefore they remain inaccessible to the policyowner until the assignment is released by the lender. The collateral assignment includes the borrower's representation and warranty that no bankruptcy proceedings are pending and that none of the borrower's money is subject to an assignment for the benefit of creditors.

IMPORTANT DISCLOSURES

RPg Insurance Solutions does not provide tax or legal advice. Please consult an independent tax advisor for additional guidance.

Borrowing funds to pay insurance premiums may be completed only with a properly licensed lending institution. Neither RPg Insurance Solutions nor its agents are licensed by any state to act as a lender. The life insurance purchase and the loan are separate and distinct transactions conducted by separate entities. A person may qualify for the loan, but not the insurance or vice versa.

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