

Premium Financing Frequently Asked Questions

Q1. Do I have to meet any requirements to qualify for premium finance?

A. Yes, due to the nature of the program and the large lender loans, you must have a net worth of at least \$1 million (excluding primary residence). You must also meet underwriting guidelines in order to obtain the actual policy.

Q2. If the funds are borrowed, don't they have to be repaid?

A. The loan is repaid using part of the death benefit. Your cash flow is not interrupted to repay the loan and your family will still receive the deserved net amount of insurance benefit.

Q3. What about paying interest on the loan?

A. You may roll the annual interest into the loan, which can then be repaid with the death benefit as well. Again this frees up your cash today.

Q4. How long is the term of the loan?

A. Loans for premium finance can be 5, 10 or 15 year terms. The length of the term depends on the age of the borrower, the loan amount needed for the policy and current interest rates.

Q5. What are the borrowing rates for the loan?

A. The borrow rates for premium finance are based on the 12 months LIBOR plus a spread.

Q6. What is LIBOR?

A. LIBOR stands for London Inter-Bank Offered Rate. This is the interest rate at which banks charge each other for loans; LIBOR is generally applied to large, short-term loans, much like the loans needed for premium financing.

Q7. Are the borrowing rates locked in, and if so, for how long?

A. Yes, borrowing rates for premium finance cases can be locked in for up to 5 years.

Q8. What can I use for collateral on the lender loan?

A. The beauty of premium financing is that the insurance policy and the loan work with each other. While the loan acts as a way to pay for the policy, the cash value of the policy acts as the collateral for the loan. In some circumstances, the cash value may be insufficient and additional outside collateral may be required.

Q9. Are there any risks associated with premium financing?

A. Like any financial endeavor, premium financing does have its risks. Interest rates can affect the cumulative loan amount. If interest rates increase too much, the cumulative loan could grow faster than the policy's cash value, which could result in additional outside collateral needed for the loan.

Q10. Why hasn't my insurance agent shown this to me?

A. Your agent receives BIG commissions. When your agent sells you a policy with a \$25,000 annual premium, the first year compensation is usually \$25,000. Premium financed life insurance pays a reduced portion of the first year premium as commission, thus enabling the policy to have immediate cash value to collateralize the loan. Also, your insurance agent does not have our global banking relationships, which has taken years to build.