

Premium Finance

ADVANCED MARKETS

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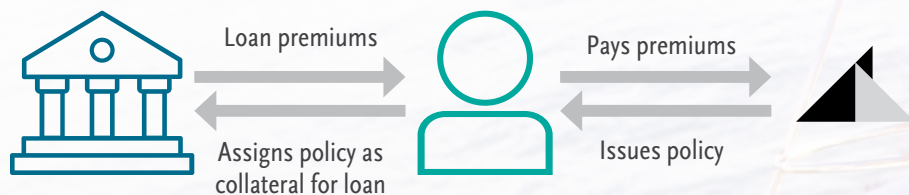
An Introduction to Premium Finance

What is Premium Finance?

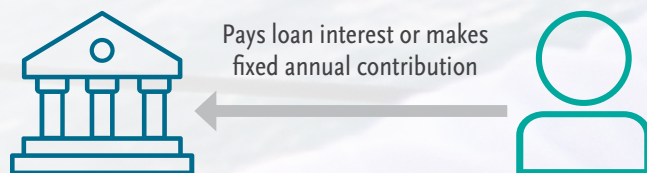
Premium finance is a strategy used by wealthy individuals and business owners to finance premiums for large life insurance policies. The strategy allows a high net-worth individual who has a need for permanent life insurance to use an alternative method for paying the premiums. Rather than using their current cash flow or assets to pay for those premiums, they may choose to finance them from a bank.

How It Works

1 Funding Period



2 After Funding



3 Loan Repayment



* The ability of a life insurance contract to accumulate sufficient cash value to meet illustrated accumulation goals will be dependent upon the performance of the contract and is not guaranteed. Policy loans and withdrawals reduce the policy's cash value and death benefit and may result in a taxable event. If remaining policy values and scheduled premiums are insufficient, additional out-of-pocket payments may be needed to keep the policy in force. Surrender charges may reduce the policy's cash value in early years.

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Premium Finance is NOT...

When you think about premium finance, it is important to remember what it is not.



It is not FREE life insurance.

Any program that directly or indirectly states that premium finance involves the free acquisition of life insurance must be avoided.



It is also not stranger- or investor-owned life insurance.

National Life Group will not consider these arrangements.

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An Introduction to Premium Finance

Why Choose Premium Finance?

High net worth individuals and business owners likely have multiple options available for how they choose to fund their life insurance policy. While they should always be able to afford the recommended policy in the absence of financing, there are many reasons why they may choose to finance the premium, including:



Planning around gift limits that may be associated with gifts to an irrevocable life insurance trust (or other trust).



Cash flow is tied up in business or other investments with greater returns than the cost of borrowing.



Net worth is comprised of illiquid or emotionally significant assets the client would prefer not to be liquidated for premium payments.

Who is a Good Candidate for Premium Finance?

Individuals who are well suited to the strategy have a need for a large amount of life insurance, and understand both the power, and associated risks, of leverage. Risks associated with premium finance include policy crediting risk, loan interest risk and collateral risk. These risks can have a negative impact on the policy or loan, and can create additional costs. These costs could require the client to liquidate assets or allocate additional cash flow or collateral to the arrangement. However, when properly structured, monitored and serviced, premium finance may provide significant savings or other benefits to your clients and help them achieve their policy objectives. These can include:



Minimization of gift taxes due on policy premiums.



Lower up-front or lifetime out of pocket cost to the client relative to paying premiums in full.



Flexibility to customize payment plans to meet specific cash flow needs within the limits of the policy being applied for, and the requirements of the lender.



Potential for crediting rates inside the policy to exceed the interest rate charged on the loan.

Premium Finance is very attractive for healthy insureds between the age of 25-55, but arrangements can be successfully designed for clients up to insurance age 70. There are many options to consider when designing and implementing a financed life insurance policy, and we appreciate the opportunity work with you and your clients to determine whether premium finance could be well suited to funding their life insurance policy.

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Client & Design Requirements

National Life Group will consider applications for life insurance that will be funded utilizing premium financing for clients that meet the following requirements:

Client requirements:

- Maximum age = 70 (backdating to save age is not permitted).
 - Minimum age = 18 (premium finance is not permitted on minors.)
 - Standard or better rate class.
 - Minimum net worth = \$5,000,000
 - Minimum annual income = \$150,000 for the past 2 years
- OR**
- For applicants age 25 – 50, we will consider financing at a minimum net worth of \$2,500,000 in combination with at least \$250,000 income the past 2 years.
 - Clients must have income/savings to support premium payments in the absence of financing, and acceptable sources of collateral to post up front or in the future if required by the plan.

Foreign Nationals

National Life Group will consider foreign nationals for premium financing. They will need to qualify as a foreign national under our normal criteria (please refer to foreign national guidelines for more information), and meet all normal premium financing client and design requirements. Additionally, they will need to meet the following qualification criteria:

- Global net worth must be greater than \$10,000,000. (Verification required in the form of brokerage statements, property deed, letter from private banker, pay stubs and/or other bank statements.)
- Owner must have at least \$1MM of liquid assets in the U.S.
- Owner must be a US domiciled trust or business.
- Financing must be through a U.S. institution.
- All designs must show interest being paid.

Design requirements:

- Modified Endowment Contracts (MEC's), and single premiums are not generally permitted.
- Must be able to show loan exit from policy values prior to life expectancy and using a maximum of 90% of policy cash value as one potential exit strategy.
- Clients are generally required to make a cash contribution to the plan, either towards premiums or interest.
- If net worth is under \$10,000,000, interest accrual is not allowed.
- Net worth and income requirements:
 - Illustrations should be stress tested at different borrowing rates and policy crediting rates, at least one of which must be signed and submitted prior to issue. (Please contact Advanced Markets if any question on models that will meet this requirement).
 - Use of Cash Value Accumulation Test (CVAT) generally not permitted.

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Case Submission Process

The National Life Group Advanced Markets team reviews all policies that are being considered for premium finance on a case by case basis.

National Life's premium finance submission process is flexible.

- Cases can be submitted as medical informals to assess medical rating prior to formal submission, or the case can be informally submitted to Advanced Markets for pre-vetting of financials and/or case design.
- Cases can also be submitted and go through Advanced Markets premium finance vetting, and medical and financial underwriting at the same time. Advanced Markets, New Business, and Underwriting work closely together to move cases through the process.
- Submitting all forms, underwriting requirements, bank documents, illustrations and materials used with the client as early as possible will help to streamline and expedite the review and approval process.

Generally, all premium finance cases are held for issue until the financed premium has been paid, and issued effective the date the premium is paid.

In certain circumstances it may be necessary to issue the policy prior to funding. If so, please contact Advanced Markets to discuss.



Premium Finance Companies

National Life Group will consider life applications that use premium finance as an advanced planning strategy, although we do not endorse any specific lender or premium finance company. We allow our products to be sold and funded in conjunction with a premium financing arrangement, subject to review on a case by case basis. If your client is looking for a lender or intermediary, the Advanced Markets Department has experience with a number of premium finance companies and programs you may want to consider. Listed below are a some of the approved intermediaries that National Life works with frequently:

Company	Website	Contact	Phone/Email
NIW Companies	www.NIWCorp.com	Eric Jeske	972-755-1582 x212 EJeske@NIWCorp.com
Northstar Funding Partners	www.NorthstarFundingPartners.com	Dale Humphrey	888-282-2092 DHumphrey@NorthstarFundingPartners.com
Watermark Life	www.WatermarkLife.com	Tim Whitmore	805-728-1548 Tim@WatermarkLife.com
Enhanced Funding Solutions	www.EnhancedFunding.com	Jeff Faine	773-318-9608 Support@EnhancedFunding.com
Lionsmark Capital	www.LionsmarkCapital.com	Darren Sugiyama	949-398-0088 Darren@LionsmarkCapital.com
Sonherd Holding	www.Sonherd.com	Leonard Quimby	802-236-4440 LQuimby@Sonherd.com
Passerelle Partners	www.PasserellePartners.com	Christopher Daniels	704-369-2194 CDaniels@Passerelle-Partners.com
Buckley Group	www.BuckleyGroup.org	Kenneth Buckley	800-830-0093 KenBuckley@BuckleyGroup.org

In addition to the premium financing companies above, National Life Group works with and accepts funding from other intermediaries and lenders subject to review. If your client has a banking relationship that is willing to finance the premium, or if they are working with a lender or financing intermediary that is not on the list above, please contact the Advanced Markets Department to review the case.

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Frequently Asked Questions

Q: Can anyone use premium finance to pay premiums?

A: No, not everyone is a good candidate for premium financing.

Clients must have significant assets and income, as well as risk tolerance to be well suited to the strategy. There are also age and health restrictions that limit the range of good candidates.

Q: How is the loan repaid?

A: The loan will be repaid at some point in the future via a well-defined exit strategy.

Potential exit strategies may include:

- Using cash value in the policy via loans or withdrawals to repay the bank loan.
- Repaying the loan from outside funds. As an example, these funds may come from the sale of assets, such as a business or other investments. They may also come from any other asset the client owns – the key being identifying the funds that make the most economic sense to liquidate.
- In the event of death, the loan will be repaid from the death benefit so that the lender is repaid in full, with the remaining death benefit payable to the named beneficiary.

Note: No matter the planned exit strategy, all designs must show loan exit from policy cash value prior to mortality, using no more than 90% of the cash surrender value.

Q: What products are used in conjunction with premium financing?

A: Any permanent product (except variable products) could potentially be financed.

National Life Group typically issues individual or survivorship Indexed Universal Life in premium financed cases.

Q: Are there any unique riders used with premium finance?

A: Our Balance Sheet Benefit Rider is frequently used with many financed policies.

The BSB Rider can waive anywhere from 1 – 100% of the surrender charges in the contract, which enhances the surrender value of the policy and limits the amount of additional collateral that may need to be posted with the lender.

Q: What types of loans are used, and how do they differ?

A: There are many different loan types that lenders offer, which vary based on a number of factors, including but not limited to:

- Fixed vs. variable rate.
- Length of term (some are annual renewable or guaranteed renewable for a number of years, others will have a fixed term anywhere from 1 – 20 years).
- Acceptable sources of collateral.
- Interest paid in advance, arrears or accrued.
- Presence of origination, servicing, prepayment or other fees.

Please remember, National Life Group is not a lender and does not participate in, is not a party to, nor helps to set loan terms.