



## PREMIUM Financing

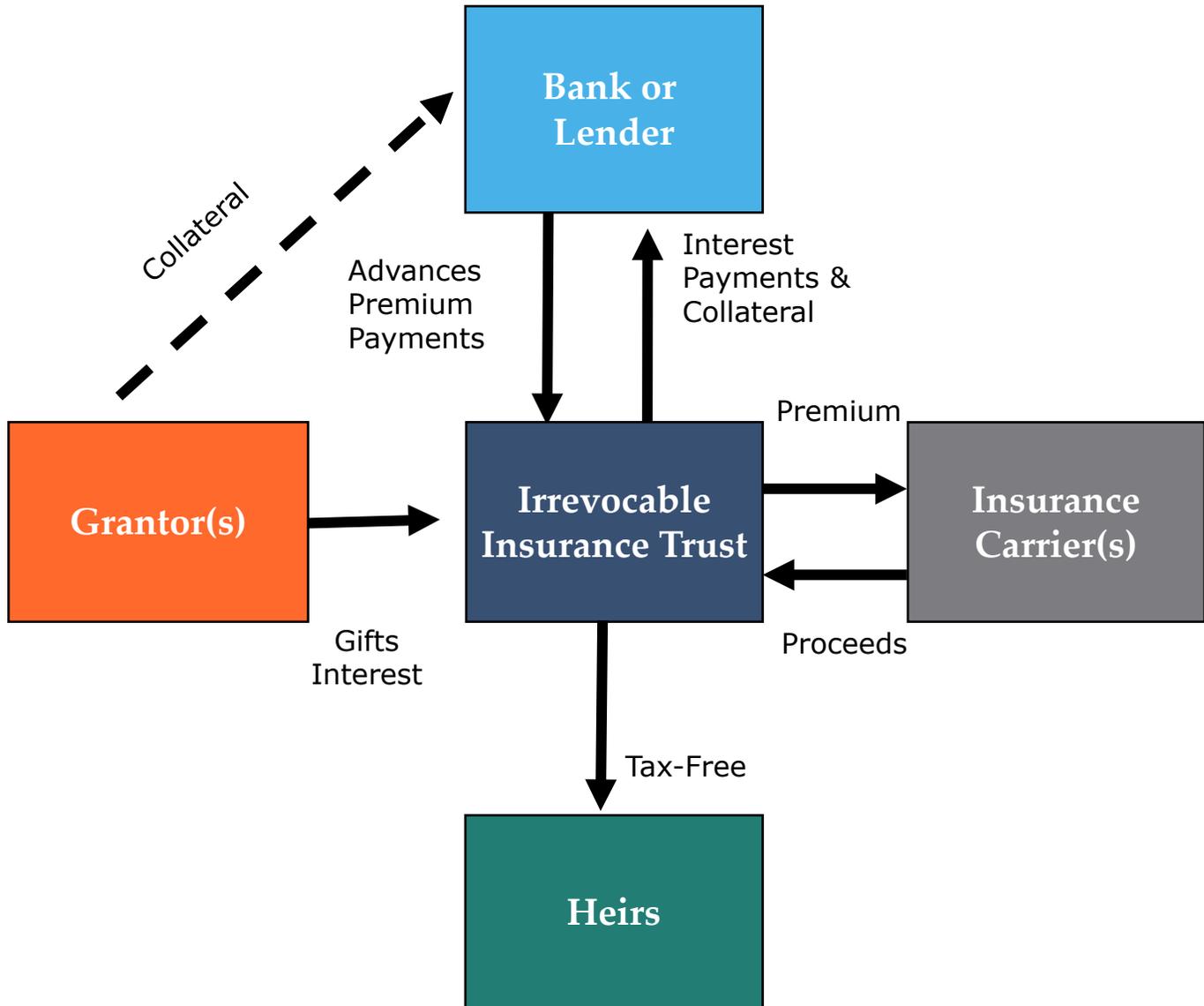
Premium Financing is a leveraging technique primarily used by high net worth individuals who have a need for large amounts of life insurance, but would otherwise desire to keep assets invested in their business or portfolio. When loan interest rates are low, this technique may produce substantial internal rates of return.

### How it Works?

- A trust applies for the life insurance as owner and beneficiary of the policy. The lender loans that annual premium to the trust.
- The life insurance policy is pledged as collateral for the loan. Additionally, the grantor pledges other collateral to cover the full amount of the loan as necessary.
- The grantor remains only as a contingent obligor on the note and therefore does not possess any incidents of ownership or ownership rights to the life insurance.
- The grantor then gifts the annual interest cost to the trust each year and the trust in turn pays the loan interest to the lender.
- At younger ages, the policy may be able to accumulate enough excess cash values to pay off the loan principal during the insured's lifetime.
- At older ages, a portion of the death proceeds will be used to repay the lender with the remaining proceeds passing to the heirs.
- Since the loan continues to accumulate, the life insurance must be specially designed to accommodate this growing debt so that the desired amount of life insurance protection remains for the heirs after the loan principal is repaid.



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## EXAMPLE

### Premium-Financed Insurance Strategy Illustration

Initial Face Amount of Insurance	<b>\$10,000,000</b>
Annual Premium (at inception)	<b>\$700,000</b>
Additional Payment (Internal 1035 - not borrowed)	<b>\$0</b>
Years to Pay Premiums	<b>15</b>
First Insured Age	<b>75</b>
Second Insured Age	<b>72</b>
Loan Interest Rate (Interest payments are end of year)	<b>3.50%</b>

Yr	EOY Age	EOY Age	Annual Interest Payment	Loan Interest Rate	Annual Premium Borrowed	Loan Balance	Cash Surrender Value	Secondary Collateral Required	Gross Death Benefit	Net Death Benefit	Product IRR @ Death	Financing IRR @ Death
1	76	73	24,500	3.50%	700,000	700,000	-	700,000	10,700,000	10,000,000	1428.57%	40716.33%
2	77	74	49,000	3.50%	700,000	1,400,000	420,886	979,114	11,400,000	10,000,000	256.64%	1822.78%
3	78	75	73,500	3.50%	700,000	2,100,000	917,525	1,182,475	12,100,000	10,000,000	117.96%	568.49%
4	79	76	98,000	3.50%	700,000	2,800,000	1,437,381	1,362,619	12,800,000	10,000,000	71.30%	289.14%
5	80	77	122,500	3.50%	700,000	3,500,000	1,983,146	1,516,854	13,500,000	10,000,000	48.99%	180.33%
6	81	78	147,000	3.50%	700,000	4,200,000	2,624,040	1,575,960	14,200,000	10,000,000	36.25%	125.22%
7	82	79	171,500	3.50%	700,000	4,900,000	3,292,352	1,607,648	14,900,000	10,000,000	28.15%	92.76%
8	83	80	196,000	3.50%	700,000	5,600,000	3,983,792	1,616,208	15,600,000	10,000,000	22.62%	71.69%
9	84	81	220,500	3.50%	700,000	6,300,000	4,699,376	1,600,624	16,300,000	10,000,000	18.65%	57.05%
10	85	82	245,000	3.50%	700,000	7,000,000	5,439,662	1,560,338	17,000,000	10,000,000	15.68%	46.37%
11	86	83	269,500	3.50%	700,000	7,700,000	6,231,914	1,468,086	17,700,000	10,000,000	13.40%	38.27%
12	87	84	294,000	3.50%	700,000	8,400,000	7,045,155	1,354,845	18,400,000	10,000,000	11.60%	31.94%
13	88	85	318,500	3.50%	700,000	9,100,000	7,878,093	1,221,907	19,100,000	10,000,000	10.15%	26.87%
14	89	86	343,000	3.50%	700,000	9,800,000	8,720,864	1,079,136	19,800,000	10,000,000	8.97%	22.73%
15	90	87	367,500	3.50%	700,000	10,500,000	9,562,354	937,646	20,500,000	10,000,000	7.98%	19.30%
16	91	88	367,500	3.50%	-	10,500,000	9,893,139	606,861	20,500,000	10,000,000	7.19%	16.44%
17	92	89	367,500	3.50%	-	10,500,000	10,179,687	320,313	20,500,000	10,000,000	6.52%	14.04%
18	93	90	367,500	3.50%	-	10,500,000	10,409,623	90,377	20,500,000	10,000,000	5.97%	12.02%
19	94	91	367,500	3.50%	-	10,500,000	10,569,531	-	20,500,000	10,000,000	5.50%	10.30%
20	95	92	367,500	3.50%	-	10,500,000	10,647,758	-	20,500,000	10,000,000	5.10%	8.82%
21	96	93	367,500	3.50%	-	10,500,000	10,598,086	-	20,500,000	10,000,000	4.75%	7.55%
22	97	94	367,500	3.50%	-	10,500,000	10,410,332	89,668	20,500,000	10,000,000	4.44%	6.46%
23	98	95	367,500	3.50%	-	10,500,000	10,040,420	459,580	20,500,000	10,000,000	4.17%	5.50%
24	99	96	367,500	3.50%	-	10,500,000	9,418,317	1,081,683	20,500,000	10,000,000	3.93%	4.66%
25	100	97	367,500	3.50%	-	10,500,000	8,449,506	2,050,494	20,500,000	10,000,000	3.72%	3.93%
26	101	98	367,500	3.50%	-	10,500,000	6,979,261	3,520,739	20,500,000	10,000,000	3.52%	3.28%
27	102	99	367,500	3.50%	-	10,500,000	4,731,247	5,768,753	20,500,000	10,000,000	3.35%	2.70%
28	103	100	367,500	3.50%	-	10,500,000	1,285,046	9,214,954	20,500,000	10,000,000	3.19%	2.19%

The 3.50% loan rate is for illustrative purposes only as there is no guarantee that this loan rate will be the actual loan rate for the premium financing program. Loan rates are not guaranteed and may be higher or lower at the discretion of the lender. Policy illustrated is John Hancock Protection SIUL 22. Not valid without complete life insurance illustration stating important information about guaranteed and non-guaranteed values.



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# Disclosures

The example provided is not representative of all clients' experiences and are not indicative of any future performance or results.

Preliminary Analysis will indicate an initial sampling of available carriers, products and design alternatives. The optimum carrier, product and design option will be determined once coverage goals and objectives are known and tentative underwriting offers are received. Actual pricing is subject to final underwriting approval and product availability at the time of acquisition.

Illustrated pricing assumes indicated gender, smoking status, underwriting classes, issues ages, state of issue, interest rate assumptions, and in-force durations as specified in the presentation. To continue coverage beyond stated durations may require substantially higher premiums. Illustrated products and options shown based on product availability and pricing as of this date. Any product guarantees, including the death benefit, are subject to the claims paying ability of the issuing insurance company. This presentation is not complete without the accompanying illustrations. This information has been taken from sources, which we believe to be reliable, but there is no guarantee as to its accuracy.

Heirmark does not represent any lender involved with any Premium Financing Arrangement, and we are not responsible for any decision made by any lender. The lender is solely responsible for setting the loan terms including, but not limited to, the loan interest rate, term, collateral requirements and any and all loan requirements and restrictions. The lender may or may not renew the loan. Actual loan interest rates will differ, and may be higher or lower than conceptually illustrated. It is the sole responsibility of the borrower to satisfy the lender's terms and conditions.

The lender will likely require a security interest in the Policy, such as an assignment of the Policy as collateral for the benefit of the lender. Any policy assignment is strictly between the policy owner and lender and does not involve Heirmark. If the Policy is assigned, the lender will gain certain rights over the Policy's benefits.

Policy illustrations reflect guaranteed and non-guaranteed values, such as interest rates and policy charges. Non-guaranteed values are hypothetical and subject to change. Actual results will likely differ from illustrated non-guaranteed values, which may impact a Premium Financing Arrangement.

Heirmark is not responsible for the performance of the Policy or terms of the loan. You agree not to hold Heirmark liable for any changes in the Policy or loan arrangement that may negatively impact this Premium Financing Arrangement.

We recommend that you consult with your accounting, legal and tax advisors in connection with any Premium Financing Arrangement. We do not provide accounting, legal or tax advice.

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