

Refinancing Internal Life Insurance Policy Loans



CAPITAL CREST
— FINANCIAL GROUP —

Refinancing In-Force Loans

Commercial financing can be a useful strategy for both new policy purchases and in-force portfolio management. Maximizing the productivity of existing life insurance assets is a key fiduciary deliverable every advisor is able to utilize.

In today's advanced planning environment, there is an increased emphasis on maximizing the many "living benefits" available in a life insurance product.

One living benefit that policy holders have tapped into for years is the ability to obtain policy loans from their insurance carrier against existing cash values and future dividends for general purposes or to fund ongoing insurance premiums. These two constructs are known as policy loans or premium loans.

Just like any traditional loan, policy loans accrue interest and eventually need to be repaid. The interest rates charged on these types of loans aren't subject to competition and can diverge drastically from comparable offerings in the marketplace.

Client Deliverables

By refinancing existing policy loans with Capital Crest Financial Group's diverse group of lending institutions, your client could enjoy the following benefits:

BETTER PERFORMANCE OF THE UNDERLYING INSURANCE POLICY

In many instances, an existing policy loan can stifle the potential performance of the insurance policy. By replacing borrowed funds with third party financing your client could maximize product performance.

COMPETITIVE PRICING AND A CUSTOMIZED LOAN ARRANGEMENT

The outstanding loan amount of any permanent policy with an internal loan could be subject to tax penalties to the extent that there is gain in the insurance contract at policy surrender or lapse.

OPTION TO FINANCE FUTURE PREMIUMS

Upon refinance, the resulting cash value may secure most, if not all, of the clients' initial loan obligation. This allows for additional flexibility in addressing how future premiums can be funded.

STAVING OFF POTENTIAL TAX LIABILITY

Policy loan rates are not typically subject to competition from the debt markets and in many instances are fixed with little flexibility for negotiation or creativity.

Recent Case Study

Several years ago, an individual purchased sizeable life insurance policies from two insurance carriers for her estate planning needs. Over the years, more than \$2M was borrowed against the policies with current interest rates of 6.9% and 7.8%, respectively. Unaware of such a thing as refinancing insurance policy loans, incurred interest has been taken against the policies or paid out of pocket each year.

The individual's advisor enlisted CCFG to assist with lowering her rates and increasing the life insurance benefits. Time was of the essence as new premiums were due and securing financing was paramount to avoid another round of high interest expenses. Using CCFG's streamline process, the advisor was able to finalize the transaction for the client in time.

Ultimately, both loans were refinanced to 4%, and the client's immediate interest expense was reduced by nearly \$90k.

Further Considerations

A 1035 Exchange may also be an option worth exploring with us. CCFG personally structures each deal and assists advisors in providing their clients the information needed to make an informed decision. As a Third Party Administrator and CE educator for Life Insurance Premium Finance, CCFG is well positioned to support advisors in offering this deliverable to their clients. CCFG provides a tiered structuring fee that can be rolled into the loan. Note the following information:

- Minimum in-force loan amount of \$100,000
- Full advisor support
- LIBOR based loans with fixed bank spread
- Fixed loan options
- No prepayment penalties
- No client assets moved with transactional banks
- Rates from 4% all in (as of September 2019)

As a trusted advisor, it is important to have options at your disposal for your client base. It is a great time to explore the advantage of lowering your client's policy loan rates. Please give us a call, we'd be happy to help.

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