PREMIUM FINANCING

Funding Life Insurance with Loans from a Third-Party Lender

As successful individuals, we have a need for life insurance to protect our loved ones, and have enough assets to afford it. However, our assets may be confined in illiquid investments, for example, real estate or a business, or we could be invested in a stock that we don't want to sell at the time. How can we secure life insurance coverage without selling illiquid or other available assets? Premium Financing may be our answer.

What is Premium Financing?

Premium Financing: A way for you to borrow money from a third-party lender to pay the premiums on a life insurance policy. This can potentially help you avoid losing opportunity cost on your current investments and then pay the loan off later when your portfolio is more liquid or when the interest rate environment is no longer advantageous.

How Does It Work?

You will need to submit a Premium Financing application to the lender along with the life insurance product you've applied for. The lender establishes the terms of the note, including the loan interest rate and payment schedule. In most cases the loan interest is then paid, each year, on the outstanding loan at the rate set by the lender. Upon your death, the life insurance proceeds are paid, net of the loan repayment. Throughout the life of the loan, the life insurance policy cash value and your external funds will be used as collateral for the loan.

Benefits

- Premium Financing may allow the funding of what tends to be typically a large life insurance requirement at a low interest cost without tapping into your current cash flow.
- You may potentially be able to borrow cash from a lender at a small interest rate cost avoiding the liquidation of taxable investments that may be earning a higher rate of return than the loan interest cost.
- You may be able to acquire life insurance coverage without rendering the use of assets.

Considerations

- Typically, Premium Financing should not be used to finance the purchase of life insurance on a zero to minimal outlay basis.
- Loan interest rates will fluctuate over the term of the loan and may be higher than originally quoted.
- Loan interest is not deductible under any circumstances.
- Generally the loan can be repaid from the policy upon death, it is key to consider alternative sources that may be available to repay the loan balance during life.

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