

ISTHMUS CAPITAL • LLC

Life Insurance Premium Finance Consulting and Brokerage Services



Isthmus Capital, LLC

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Introduction to Isthmus Capital, LLC

Isthmus Capital, LLC is an insurance services firm focused on providing a holistic value-add to the stakeholders in the field of life insurance premium finance. It is our mission to partner with our clients to bridge needs with solutions so our clients can successfully navigate the complex world of leveraged insurance transactions within the context of estate planning and corporate retention and succession strategies. Based on our deep understanding of strategic financial planning, insurance products and the banking industry, we are uniquely placed to smoothly navigate what others oftentimes experience as rough waters...

Our in-depth knowledge of each lender's preferences, loan terms, attitudes, processes and lending capacity for domestic loans as well as loans for foreign nationals with a U.S. situs ensures maximum efficiency in structuring and closing life insurance premium finance transactions.

Typical lender terms available across a spectrum of lenders:

- Loan tenure available 3-year, 5-year, 10-year and in unique situations, 20 years+
- Some lenders may require personal guarantee
- Capitalization of a portion or all of the interest due
- Fixed and floating interest rate strategies
- Ability to finance policies for Foreign Nationals

Note: The terms represent a composite of terms available in the market, no single lender offers all terms above at time of this publish

The Isthmus Capital Expertise

Our staff includes financial advisors who work within the sophisticated, high-net-worth marketplace, advising people with a significant net worth on matters of wealth preservation, wealth transfer and philanthropic gifting.

Isthmus Capital, established in 2004 by seasoned and highly successful professionals from the banking and insurance industries, was founded on solid and fundamentally sound business principles and is uniquely positioned to provide market-leading advice to its customers for the following reasons:

- Staff who have been instrumental in defining the premium finance marketplace.
- Independence from any organization/product provider allows us to constantly canvas the market for the terms that are most important to our clients regardless of product type, traditional bank or capital markets sourced lending.
- Personal and professional relationships with multiple lenders as well as multiple life insurance companies, often dating back decades.

- Premium finance in its most basic sense is an easy concept, but the details require expertise from both the insurance and banking industries. Isthmus Capital boasts 30+ years combined experience in both fields.

The Isthmus Capital Approach to Life Insurance Premium Finance

Life insurance premium financing enables an individual to purchase life insurance through the financing of the life insurance premiums. The owner of the life insurance policy borrows a portion or all the funds necessary to fund the premium payments due on the policy.

This technique maybe employed by a client who needs additional life insurance but for whom the premium payments may not comport with their financial plans or objectives, either because of the illiquidity of assets or a general reticence to tie up capital that could be used for other financial purposes. Regardless of an individual's reasons, premium financing offers that same individual or company the opportunity to meet his or her life insurance needs without significantly impacting present investment planning or cash flow.

A client contemplating a premium financing arrangement should first evaluate the need for (additional) life insurance. The client should also meet with his or her advisors to determine whether financing a policy with a premium finance arrangement would be appropriate for his or her specific purposes.

General Uses for a Premium Finance Strategy

Though everyone's insurance needs are unique, traditionally premium finance arrangements have been utilized to meet the following needs:

Financial Planning: Individuals whose families require special needs or financial stability in the event of a catastrophe may use insurance to mitigate the financial impact the death of a family member may have on the financial situation of his or her family members.

Estate Planning: Individuals who are interested in providing a significant financial legacy to their heirs or estate may use insurance to mitigate the effect that estate taxes would otherwise have.

Business-related Purposes: Businesses purchase insurance policies for a variety of reasons, including key-man insurance, buy/sell agreements, Golden Handcuffs/ Executive Benefits, etc.

Principals in Transaction

The primary principal parties involved in a premium finance transaction are as follows:

- Grantor/Insured: This is the client on whose life the proposed Borrower intends to obtain life insurance.
- Borrower: A bankruptcy remote entity, generally in the form of an Irrevocable Life Insurance Trust (ILIT), that purchases the policy on the life of the Insured.
- Life Insurance Company: This is a highly-rated life insurance company that agrees to issue a life policy to the ILIT for the benefit of the client.
- Lending Institution: An entity that contractually agrees to provide funds necessary to pay the life insurance premiums.
- Isthmus Capital, LLC: Provides lending strategies, as well as consulting and agent sales assistance services in conjunction with multiple carrier accepted lending relationships.

Client Profile

As premium financed insurance is a complicated investment, clients will have to demonstrate their level of financial sophistication. In order to ensure that the client's time is appropriately managed, the following criteria will be used to determine eligibility.

- Stated purpose for life insurance to satisfy needs for family security, debt repayment, estate tax liquidity, executive benefits, buy-sell agreements as well as other corporate needs that may arise.
- Insurability as determined by the life insurance company
- Net worth of at least \$5,000,000. Preference of a minimum of \$10,000,000 for increased lender and insurance company participation (NW minimum varies by lender and insurance company)
- Annual Income: \$200,000
- Neither personal nor business-related bankruptcy in the last 15 years.
- Financial statements corroborated by means of third-party verification, brokerage statements, etc....
- Lender specific criteria including: 2 years tax returns, Personal and Corporate financial statements, Borrower documentation, etc.. *For more information contact us at: info@isthmuscapital.com*

Borrower Profile

The borrower will be a bankruptcy remote entity, generally in the form of an irrevocable life insurance trust, a limited liability company or an asset protection trust whose assets would not be impacted in the event of a bankruptcy proceeding against the client.

Collateral and Credit Support Requirements

For a premium finance transaction to proceed, the borrower must purchase a Cash Value, Whole life or Universal Life type policy issued by a highly-rated insurance company (A- or better, S&P). The client will provide the lender with a collateral assignment, stipulating that the policy should favor the lender, as the lender partially relies on the cash surrender value or death benefit of the life policy as collateral for the loan.

Under the premium finance structure, the cash surrender value of the policy at closing may be lower than the sum of the loan amount and anticipated accrued interest through the next loan disbursement date. Additional collateral or credit will be required in this situation to protect the lender, which will generally take the form of an irrevocable letter of credit issued by a highly-rated financial institution confirmed to the lender. There may be situations in which the lender may request or is willing to accept other forms of collateral such as a control agreement for a brokerage account, cash, etc...

Loan Terms and Transaction Details

(1) Facility Timeline: The lender is willing to make advances for a period of five years (if the loan has a 5-year tenure, other loan tenure terms maybe available). At the end of this five-year period, the loan amounts will mature, and the client/borrower will have to repay the loan. There is a possibility that the lender or a competing lender may refinance all or part of the outstanding loan, but it should be made clear that there is no obligation on the part of the lender to do so.

(2) Loan Interest Spreads: The premium finance loan will be a floating rate loan based on LIBOR, which will generally be recalculated, at the option of the borrower, every 1, 3 or 12-months or other indices. Should it wish to do so, the borrower does have the option of structuring a fixed rate loan using interest rate swaps or other interest rate tools as offered by the individual lender with their requirements to provide the service.

(3) Loan Pricing: Our lender relationships each have a unique method of pricing their loan offerings. These methods will vary by lender.

For more information. Please request an indication of illustrative pricing from a variety of lenders and their loan programs available through Isthmus Capital, LLC for your specific proposed premium finance life policy. Please provide the proposed illustration to info@isthmuscapital.com to receive a loan model to consider.

(4) **Interest Payment:** Unless otherwise noted, interest payments are due on the quarterly, semi-annual or annual interest reset date. Interest payments may be paid in advance, arrears or capitalized if approved by carrier. Should a client decide to capitalize interest, the prior period's interest amount will be added to the principal on the first day of the consecutive period.

(5) **Loan Structure Fees:** Isthmus Capital, LLC is paid a Loan Structure fee for the vetting of the new loan or to refinance a loan, as well as negotiating on behalf of the agent, the client adviser and the insured the final terms of the contract.

This fee will be assessed on the full commitment of the premium finance facility (determined by sum of the total premium disbursements for loan term). The specific amount (percentage) of this fee will vary, depending on the selected interest modality, size of loan, annual renewal assistance, additional services requested, etc. The fee may be financed with principal loan should it be requested, if the lender and borrower/client agree.

Isthmus Capital, LLC is also available to revenue share on the application with the agent to minimize transaction fee expenses to the client. Consulting services for initial engagement as well as annual renewal services are available upon request. Contact us at info@isthmuscapi.com.

Risk to Borrower

All premium finance transactions involve potentially significant financial risk and should be fully examined by the client, along with the client's attorneys, trustees and financial advisors, and accepted before entering into a transaction. These risks include but are not limited to:

Your Beneficiaries May Not Receive Your Life Insurance Policy's Full Death Benefit If You Choose to Finance Your Policy Premiums: If any part of the premium finance loan remains outstanding at the time of the client's death, the lender may use a portion of the policy's death benefit proceeds to repay the loan balance in full. Therefore, the exact net death benefit that is ultimately available to the beneficiaries is unknown and could be substantially lower than the policy's stated death benefit.

Rising Interest Rates May Make Your Decision to Finance More Expensive: The interest rate on the premium finance loan typically is variable rather than fixed and will probably change frequently during the term of the loan. Rising interest rates may cause the cost of borrowing to exceed the cash value growth in the life insurance policy, which could substantially reduce the net death benefit for the beneficiaries and require the client to pledge more collateral over time than initially anticipated. If interest rates rise high enough, the loan balance could exceed the policy's gross death benefit, in which case it may not be in the client's economic interest to maintain the financing transaction.

The Borrower/Client May Need to Pledge More Collateral than Anticipated: The collateral supporting the loan may become insufficient during the loan period, in which case the lender will require the client to pledge additional collateral on behalf of the borrower. The collateral could become insufficient, for example, if the cash surrender value of the life insurance policy declines or does not grow as fast as expected, if the loan's interest rate increases or if the value of any additional collateral posted declines. The lender has the right to revalue collateral at any time based solely on its own judgment. If the

borrower/client does not maintain sufficient collateral in an amount and form acceptable to the lender, an event of default under the loan documents will be triggered. An event of default means that the borrower will have to repay the loan immediately. If the borrower does not repay the loan, the lender may draw down on any letter of credit and liquidate the life insurance policy and any additional collateral pledged to the lender. If the lender liquidates the borrower's collateral (including the life insurance policy), the borrower/client may incur a tax liability.

The Borrower Must Repay the Loan at the End of the Term: The premium finance loan the client is considering has a stated term, and the borrower must repay the loan at the end of its term. The client should not assume that Isthmus Capital, or any other lender agent or lender, will renew or refinance the loan at the end of the loan term. The lender **DOES NOT GUARANTEE** renewal of the loan. If the client is not able to, or chooses not to, repay the loan at the end of its term, the lender will have the right to draw down on any letter of credit and liquidate the client's life insurance policy and any additional collateral pledged to the lender. If the lender liquidates the collateral (including the client's life insurance policy), the client may incur a tax liability.

Any person who is interested in obtaining a premium finance loan should consult his or her own professional advisors as to the potential tax, accounting, estate, regulatory or other legal considerations that may arise in connection with entering into a premium finance transaction, and Isthmus Capital, LLC and its affiliates have no duty or liability or responsibility for any such advice. No representation or warranty, express or implied, is made by Isthmus Capital, LLC and its affiliates as to the completeness of the information in this brochure, and nothing in this brochure is, or may be relied upon, as a promise by Isthmus Capital, LLC and its affiliates in connection with any of the transactions contemplated by the premium finance program described in this brochure.

In certain instances, third party service providers may receive amounts corresponding to a portion of the commitment fee and/or interest margin relating to a premium finance transaction in consideration for their services in connection with that transaction. In certain other instances, an affiliate of Isthmus Capital, LLC may be listed as an additional agent under the policy and be entitled to receive a portion of the commission's payable by the life insurance company to the insurance agents in respect of that policy. Isthmus Capital, LLC and its affiliates make no representation or warranty, express or implied, and bear no responsibility or liability, for any information provided, or statement made or action taken or not taken, by any insurance company or any insurance agent or broker or other person that is not a subsidiary or division of Isthmus Capital, LLC in connection with a prospective or completed premium finance transaction.

PLEASE CONTACT for additional information or to request a quote regarding a specific transaction:

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