AIG Select Premium Financing℠

A New Approach to Financing Life Insurance Premiums

Policies insured by:
American General Life Insurance Company
A member company of American International Group, Inc.

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THE STRENGTH TO BE THERE.®

AIG® AMERICAN GENERAL

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It is strongly recommended that any client considering AIG Select Premium Financing, or the purchase of an American General Life Insurance Company product, consult with independent legal and tax professionals regarding the consequences of such a proposed transaction on their individual situation.

1. Introduction

No other financial vehicle is as effective as life insurance when it comes to helping protect against the financial strain a premature death can bring. For many policy owners, the challenge to purchasing adequate life insurance protection stems from the policy owner's hesitation to commit current working capital or current cash flow to make premium payments.

Traditional premium financing has been used for years by individuals and entities to aid in providing life insurance protection with a minimum disruption to current cash commitments. Historically, policy owners have used premium financing for a number of reasons:

- Eliminates the need to use working capital or current cash flow to pay life insurance premiums
- Enables the policy owner to efficiently buy needed death benefit protection
- Allows the use of leverage in order to transfer larger amounts of wealth to heirs
- May produce a positive interest rate arbitrage in some years

Whatever the policy owner's motivation, risks are inherent in the process – particularly with loans that are intended to remain outstanding for 20 years or longer. When traditional premium financing is utilized over a sustained period, interest rates can fluctuate widely, resulting in the loan balance exceeding the cash value of the policy, creating an undesirable result.

2. Overview of AIG Select Premium Financing℠

AIG Select Premium Financing℠ is a new approach to premium financing and may reduce the risks of premium financing while at the same time preserve many of the benefits. To assist those policy owners interested in premium financing, American General Life Insurance Company and Concord Capital[1], a third party lender, have developed AIG Select Premium Financing (AIG Select), a premium financing approach for policy holders who own an AIG Elite Global IUL or AIG Elite Global IUL LT (IUL LT) indexed universal life insurance policy.

AIG Select provides access to premium loan interest rates that may be very competitive compared to current financing approaches available in the marketplace. In addition, these loans do not require a personal guaranty by the insured or outside collateral beyond the policy itself. To qualify for these loans, an amount equal to or greater than two premiums should be paid out-of-pocket by the policy owner. By paying the initial premiums, policy owners can establish a conservative approach to premium financing while enjoying the potential benefits of leveraging. Beginning in year three of the policy, AIG Select combines the very attractive lending rates available from Concord Capital with the benefits of an AIG Elite Global IUL or IUL LT insurance policy. The combination of the lending approach and this innovative life insurance product is unique to American General Life Insurance Company. The following is an outline of the lending approach:

- Client purchases an AIG Elite Global IUL or IUL LT policy
- Client should pay the equivalent of the first two annual premiums[2]
- Policy owner needs to be a bankruptcy-remote entity to which Concord Capital makes loans
- A loan arrangement fee will be charged; this fee may be paid out-of-pocket or financed by Concord Capital
- Policy owner may pre-qualify for the loan at the time of the policy issue, prepay a portion of the arrangement fee, and receive a discounted interest rate
- Loan proceeds are advanced by Concord Capital beginning with the third annual premium due
- Interest rate is annual LIBOR plus an interest margin of generally 76 basis points to 111 basis points (assumes pre-qualification)
- Interest on the loan may be rolled into the loan
- AIG Elite Global IUL or IUL LT policy is the sole source of collateral for the total loan

[1] Concord Capital is not affiliated with American General Life Insurance Company nor any other American International Group, Inc. (AIG) member company.

[2] Under certain circumstances more than two annual premiums must be paid from a source other than AIG Select Premium Financing. However for the purposes of this guide, the minimum premium referenced will be the "first two annual premiums."

- Policy owner must execute a collateral assignment of the death benefit and cash value in favor of Concord Capital
- If the loan-to-cash-value ratio of 97.5 percent is exceeded as a result of the loan transaction in any year, the policy owner may be required to make additional payments in order to reduce the loan and avoid default

3. Key Criteria for Consideration

Each client must meet certain criteria in order to qualify for consideration for AIG Select Premium Financing:

- Must be medically insurable
- Apply for and purchase an AIG Elite Global IUL or IUL LT policy (the "Policy")
- Have a net worth of $2.5 million or greater
- Have an annual income of $200,000 or greater
- Have the ability to pay the first two years' premiums (7-pay non-MEC premium level) from outside sources
- Complete the loan application paperwork for review by Concord Capital
- Execute required financing forms including loan application, promissory note, disclosure statements, collateral assignment, and any other related documents
- Provide an acceptable legal opinion for the entity which owns the policy (sample opinion available from Concord Capital)
- Satisfy the arrangement fee
- Make a forward commitment of systematic borrowing of at least a total of $250,000 over three to five years with a minimum of at least $50,000 per year

4. Policy Owner

The policy owner for all AIG Select loans must be a bankruptcy-remote entity, such as an Irrevocable Life Insurance Trust (ILIT) or LLC (subject to detailed review of LLC specific documentation).

In the event the insured establishes an LLC, corporation, or other business entity to own the life insurance policy, the assets must be bankruptcy remote from the principal business entity(ies) of the insured.

5. Lender

The lender is Concord Capital Funding, LLC, ("Concord"), located at:
www.ConcordPremiumFinance.com

230 Park Avenue, 21st Floor
New York, NY 10169

6. Advantages/Considerations

Advantages

- Provides access to very competitive rates and lower cost loans than traditional premium financing
- Policy will serve as sole source of collateral for outstanding loan under AIG Select, eliminating the need for outside collateral
- Reduces the risk for the policy owner that the loan will exceed policy cash values in later years
- Reduces risk by providing more attractive loans to both the policy owner and Concord Capital
- Requirement of two annual premiums paid from other sources, either by payment of premium, 1035 exchange, or a third-party loan, generally attracts clients more committed to keeping policies in force

Other Considerations

- Fluctuations in policy interest rates and LIBOR-plus loan rates could result in negative arbitrage at points in time
- Policy owner should plan for an exit strategy in the event market rates become and remain unfavorable
- Borrowing may reduce the net death benefit to the beneficiary

- A change in the status of the insurance product under federal securities laws could adversely affect the availability of premium financing

Interest Rates and Risk for AIG Select Premium Financing

As with any premium financing approach, the interest rate risk is inherent in this program. The policy owner should evaluate his or her risk tolerance level when considering AIG Select Premium Financing.

- Loan interest rate is based on annual LIBOR at the time of the loan plus the interest rate margin
- LIBOR rates may fluctuate daily so the interest rate illustrated in the initial premium financing illustration will most likely differ from the offer rate. The illustration might require adjustment when the loan terms are finalized
- Interest rate margin or mark-up over LIBOR is determined at onset of the loan and the spread once determined will not change from year to year, although the fluctuation in LIBOR will result in a new annual loan interest rate each year
- Interest rate margin is based on the size of the overall loan commitment
- Policy interest crediting rates that exceed loan interest rates may result in a positive growth of cash value. Policy interest crediting rates that are less than loan interest rates may result in policy growth not keeping pace with the loan growth. This could require cash payments by the policy owner in later years to keep the policy in force or to keep the loan-to-cash-value ratio in compliance with collateral requirements.
- Loan is callable under certain circumstances (see Section 13)

7. Qualifications

- Policy's cash values and death benefit are assigned to Concord Capital
- Access to cash value is restricted unless permitted by Concord Capital
- Total outstanding loan must never exceed 97.5 percent of the current cash surrender value of the policy. This ratio is monitored annually prior to the policy anniversary date. If violated, the policy owner will be required to make additional premium payments or loan reduction payments to bring the ratio into compliance before additional loans will be made.
- Loans can be made to fund up to 10 annual premium payments

8. Underwriting

Normal underwriting and policy issue procedures apply to policies issued by American General Life Insurance Company. Routine paperwork, signed NAIC illustration, signed premium financing illustrations, and normal underwriting and medical information will be required. Additional financial underwriting documentation may be required.

9. Loan Interest Rate Benchmark

The benchmark for the loan interest rate is the then-current annual LIBOR rate.

10. Anticipated Interest Rate Margin

The anticipated interest rate margin will be no more than a maximum of 76 to 120 basis points, depending on individual loan commitment amount. The details are outlined in Item 11 below.

11. The Arrangement Fees and the Margin

Arranging the financing at the onset of the policy is the most cost effective way to manage the premium financing program. On new policies, Concord Capital's commitment is to fund on a "go-forward basis," after the first two years of premiums have been paid by the policy owner. The commitment amount is the sum of annual premiums through the committed funding period, not to include premiums funded into the contract by the policy owner through other means. For example, for a 7- year

premium stream, with two premiums paid by the policy owner initially, the commitment amount would be five times the annual premium. The minimum forward commitment amount is $250,000, with a minimum annual premium of $50,000.

The chart below itemizes the fees and margin over LIBOR when the financial arrangements are made in advance (Option1), or arrangements are deferred until the end of year two/beginning of year three (Option 2). A lower margin is available when arrangements are made up front and a portion of the arrangement fee is paid initially. A higher margin prevails when the entire fee and arrangements are deferred until end of year two/beginning of year three. The amount of the margin, in either case, is co-dependent upon the size of the commitment amount, with discounting of the margin occurring as the amount of the commitment increases.

Option 1: If the financing arrangements are done up front

Commitment Amount	Interest Rate	Arrangement Fee Payable Yr 1	Arrangement Fee Payable Yr 3	Arrangement Fee Total (bps)
< $ 2.5M	LIBOR + 111	65 bps	35 bps	100 bps
$ 2.5 – 5M	LIBOR + 106.375	65 bps	35 bps	100 bps
$ 5 – 10M	LIBOR + 95	52.5 bps	35 bps	87.5 bps
$ 10 – 20M	LIBOR + 85.5	37.5 bps	37.5 bps	75 bps
> $ 20M	LIBOR + 76	37.5 bps	37.5 bps	75 bps

Option 2: If the financing arrangements are deferred until year three

Commitment Amount	Arrangement Fee Paid at Yr 3	Interest Rate
< $ 2.5M	100 bps	LIBOR + 120
$ 2.5 – 5M	100 bps	LIBOR + 115
$ 5 – 10M	87.5 bps	LIBOR + 100
$ 10 – 20M	75 bps	LIBOR + 90
> $ 20M	75 bps	LIBOR + 80

For example, with a $20 million life insurance policy with an annual premium of $400,000, the policy owner would pay $400,000 per year out of pocket in years one and two, for a total of $800,000. The policy owner also has committed to borrow premiums and pay $400,000 per year for five additional years for a total loan of $2 million. Assume the loan is held for 20 years and then paid off by the client.

Option 1: If the financing is arranged up front at the inception of the policy, the arrangement fee is 100 basis points, and the interest rate is LIBOR + 111 bps. The arrangement fee may be paid in cash or financed. Sixty-five bps of the arrangement fee is paid in year 1 and 35 bps of the arrangement fee is paid in year 3.*

Arrangement Fee:
Payable Yr 1: $13,000 (65 bps)
Payable Yr 3: $ 7,000 (35 bps)
Loan Rate: LIBOR + 111 bps

Interest savings per year on the total $2 million loan commitment is $6,000 per year based on a 9-basis point discount (120 bps – 111 bps) for a total of $120,000 of interest savings over the term of the loan.

Option 2: If the financing is deferred to year 3, the arrangement fee is 100 basis points but the interest rate is LIBOR + 120 bps. This is more costly to the client.*

Arrangement Fee:
Payable Yr 3: $20,000 (100 bps)
Loan Rate: LIBOR + 120 bps

Interest costs per year based on the total of $2 million loan commitment will increase by $6,000 per year for a total of $120,000 over the term of the loan.

* These calculations are for illustration purposes only and assume calculation of simple interest and do not take into account the time value of money.

12. Alternate Benchmark Event

The interest rate benchmark will convert from LIBOR to an Alternative Benchmark that represents Concord Capital's actual cost of capital for the forward 14-month period following the Alternate Benchmark Event (ABE). ABEs are discussed in detail in the Concord Capital Loan Documents. Refer to Section 37 for a listing of ABEs.

13. Maturity Acceleration Event

If a Maturity Acceleration Event (MAE) occurs, Concord Capital has the right to call all loans made as fully due and payable under the terms of the loan documents. Concord Capital will provide a 60-day notice period to allow the policy owner and/or American General Life Insurance Company the opportunity to locate a suitable alternative lender to refinance all loans advanced by Concord Capital. MAEs are discussed in detail in the Concord Capital loan documents. Refer to Section 37 for more details.

14. Loan Process

Typically, the client applies for and purchases an AIG Elite Global IUL or IUL LT policy and indicates the intention to use AIG Select Premium Financing. From other sources, the client makes the first two years' premium payments. At the onset of the policy, the client goes through financial eligibility and financial underwriting to determine if he or she qualifies for AIG Select. Just prior to year three, the client requalifies in order to begin the onset of borrowing with the third premium. In requalifying, the borrower represents that no material adverse events have occurred and all representations and warranties made two years prior are still true and correct. In all years following commencement of the loan, the loan-to-cash-value ratio must be met in order to continue borrowing.

15. First Two Annual Premium Payments

By the end of year two, an amount equal to or in excess of two premium payments must be paid into the policy by the policy owner to establish a cash value base prior to the first loan under AIG Select. The payment of the first two years' premiums into the policy before the onset of the loan provides a cash value cushion within the policy to assist in collateralizing the forthcoming debt. Initial premiums may come from a combination of the following sources:

- Current cash flow – Policy owner makes two annual premium payments from current income
- Policy owner's existing working capital – Policy owner makes two annual premium payments from cash assets (capital) on hand
- 1035 exchanges – Policy owner consummates a 1035 exchange transaction bringing funds into the new policy that are equal to or greater than two annual premiums

- Third-party lending source – Policy owner borrows the first two annual premiums from Concord Capital or another lending source and pays those premiums into the policy. In this event, the policy can be used as collateral for the short-term loan. This policy lien must be released in order to begin any lending activity under the AIG Select Premium Financing program.

16. Collateral

The AIG Elite Global IUL or IUL LT policy serves as the sole source of collateral for AIG Select Premium Financing loans. For some policy owners, the annual requirement to post collateral to cover their increasing loan has been an obstacle in the past. With the initial influx of cash premium payments into the policy, the cash value has an opportunity to develop prior to initiation of the systematic borrowing. The design of the approach is that sufficient premiums (at least two) will be paid initially from other sources to help establish a cash surrender value within the policy that will support the AIG Select Premium Financing debt. No outside collateral other than the policy will be required or accepted to cover this loan.

17. Collateral Testing Process

Approximately 45 days in advance of the policy anniversary date/annual loan disbursement date, Concord Capital will provide to American General Life a list of all loans nearing the policy anniversary. The purpose of this is to provide American General Life with information regarding all loans in order to implement the collateral testing process as required in the loan-to-cash-value calculation.

American General Life will calculate and provide to Concord Capital the following information for the 14-month period forward from the policy anniversary date:

- Guaranteed Cash Value (GCV)
- Loan-to-Value Ratio (LTV)
- Low Point Letter (LPL)

18. Loan-to-Cash-Value Ratio Requirement

The loan-to-cash-value ratio requirement for AIG Select Premium Financing must not exceed 97.5 percent of the cash value of the policy. If, during the scheduled premium payment term for the policy, the loan comes into jeopardy of violating the loan-to-cash-value ratio, remedial action needs to be undertaken. Such action can consist of either reducing the loan amount or pay the next premium due. Similarly, if the loan-to-cash-value ratio comes into jeopardy of being violated once the premium payment period has stopped, the policy owner would need to make an out-of-pocket payment to reduce the loan balance and bring it within the ratio corridor.

Principal plus accrued interest (if any), plus 14 months of projected interest plus the arrangement fee (if financed), can never exceed 97.5 percent of the forward 14-month guaranteed cash value. If the calculation of the ratio exceeds 97.5 percent when the annual disbursement test is applied, Concord Capital will not advance the premium. The collateral testing will be applied by AGL as outlined below.

Provided that the collateral is adequate (i.e., loan is less than 97.5 percent of cash surrender value), Concord Capital will advance the next annual premium without any requalification process.

Premium Finance Loan Process Steps from Concord Capital's Perspective

Step 1: Life Insurance Offer
The Insured obtains an offer for AIG Elite Global IUL or AIG Elite Global IUL LT coverage from American General Life Insurance Company ("AGL").

Step 2: Agent Interview
The Agent conducts a preliminary interview with the Insured to help the Insured decide whether to finance the premium payments in lieu of other funding options. If financing is selected, the Insured will initiate the loan process.

Step 3: Preliminary Determination Form and Privacy Notice
The Agent provides AGL with a completed and signed **Privacy Notice** and **Preliminary Determination Form,** along with all of the required documentation listed on the form.

Agent Note #1: Please review the **Preliminary Determination Form** carefully, and note some items require a significant amount of time to obtain. For example, Concord Capital requires the Insured obtain an **AICPA Compilation Letter** and an **Income Statement and Balance Sheet/Net Worth Statement**. These documents require the involvement of a CPA.
Agent Note #2: If the Insured elects to finance the first two years of premiums with Concord Capital, a **Letter of Credit** may be required as additional collateral. It is recommended the Insured makes this determination as early in the process as possible, as obtaining a Letter of Credit may be a lengthy process.

When the Preliminary Determination Form and required documentation are deemed complete by AGL, AGL will send the complete package to Concord Capital. If Concord Capital receives an incomplete package from AGL, it will:
— Notify AGL
— Notify the Agent
— Close the case after 21 days if conditions are not rectified

Based on its review of this information, Concord Capital will either deny the request, or proceed to the next step of the process.

Step 4: Loan Application
The Agent assists the Insured and the Trustee of the Borrower in completing the **Loan Application**. Once the Loan Application has been completed and executed, the Agent returns the Application to Concord Capital on behalf of the Insured.

Premium Finance Loan
Agent Note #3: If the Borrower had not been formed at the time the Preliminary Determination Form was submitted, all required documentation pertaining to the Borrower listed in the Preliminary Determination Form will need to be submitted to Concord Capital at this stage.
Agent Note #4: It is advised you inform the Insured and the Borrower of the need to obtain a **Form of Opinion Letter** from their attorneys at this stage, if not earlier. A specimen Form of Opinion Letter is available on the Concord Capital Web site to facilitate this process.

Step 5: Legal/Compliance Review
Concord Capital's legal and compliance team reviews the application to ensure all conditions have been satisfied and the application complies with Concord Capital's legal requirements. If Concord Capital's legal team signs off on the Loan Application, it will be forwarded to Concord Capital's Credit Committee.
Agent Note #5: At this stage in the process, it is advised you contact AIG and request a **Cash Surrender Value Low Point Letter** on behalf of the Insured.

Step 6: Credit Committee Approval
If the Concord Capital's Credit Committee reviews the Loan Application. If the Application is denied, Concord Capital will contact the Agent.

Step 7: Commitment and Disclosure
If the Loan Application is approved, Concord Capital will send a **Commitment Letter**, **Disclosure Statement**, and a final **Loan Model Illustration** to the Agent.

The Insured and the Trustee of the Borrower review, complete, and sign the three documents. The Agent must return the completed and signed documents to Concord Capital on behalf of the Insured within 21 days.

Step 8: Loan and Security Agreement
Upon receipt of the signed Commitment Letter, Disclosure Statement, and Loan Model, Concord Capital sends the **Loan and Security Agreement** to the Agent. The Loan and Security Agreement includes:

— Promissory Note
— Collateral Assignment of Life Insurance Policy from AGL
— Form of Letter of Credit
— Form of Opinion Letter
— Affidavit of Trustee
— Borrowing Request
— Compliance Certificate
— Privacy Notice

The Insured, the Trustee of the Borrower, and their respective attorneys must carefully review, complete, and sign all required documents. The Agent should forward the executed documents, along with a **copy of the Life Insurance Policy**, to Concord Capital on behalf of the Insured.
Agent Note #6: Once the Insured and the Trustee of the Borrower have received the Loan and Security Agreement, we recommend you contact AIG and request the **Collateral Assignment** on behalf of the Insured. At this stage in the process, the Insured's attorneys should already be aware of the need for a **Form of Opinion Letter**.
Agent Note #7: Please note that the **Trustee's Affidavit** must be notarized.

Step 9: Final Review
All documents, duly executed, are received by Concord Capital. Concord Capital's Legal Team reviews the loan documents to ensure they have been properly executed and all conditions' precedent have been satisfied.

Step 10: Borrowing Rate is Set
Concord Capital determines and sets the borrowing rate.

Step 11: Loan Disbursement
Concord Capital wires funds directly to AGL.

For additional information and detail, please refer to Concord Capital's Web site: www.ConcordPremiumFinance.com.

19. The Renewal Process/Annual Re-evaluation

- The policy owner and agent should stay aware of the renewal date of the loan and anniversary date of the policy. Indexed policies must be funded on or before the policy anniversary to direct the funds to the indexed account.
- Renewal of the lending process is guaranteed, provided the loan-to-cash-value ratio is 97.5 percent or less and there has been no "material adverse" change in the insured's financial condition and no "event of default" has occurred.

20. Events of Default

The following events would constitute a loan default in AIG Select Premium Financing:

- Policy owner fails to pay amounts when due
- Policy owner breaches representations and covenants in the Loan Documents
- Death of insured
- Collateral testing indicates the loan balance exceeds 97.5 percent of the cash surrender value, and the policy owner fails to cure collateral deficiency within 30 days
- Insured files for bankruptcy or becomes insolvent
- Termination or dissolution of policy owner or change of trustee without Concord Capital's consent

21. Income Tax

Interest on indebtedness used to acquire or maintain a life insurance contract is generally considered personal interest and almost always <u>not</u> deductible under Internal Revenue Code (IRC) Section 163[3].

- Tracing rules disallow an interest deduction on loans disguised as investment or business purpose debt that are used to purchase life insurance

[3] 26 U.S.C. Section 163(a) (1954 as amended)

- Loans used for premiums on key executive life insurance or for employee retirement benefits do not meet the trade or business exception under IRC Section 264[4]

22. Deductibility of Interest

A multitude of federal income, estate and gift tax issues arise in the context of any premium financing program. One of the most common issues raised by any debt-financed transaction involves whether the interest incurred to carry the indebtedness is deductible for federal income tax purposes. Section 163 and Section 264 of the IRC will determine the income tax consequences of interest expense. In general, Section 163(h) provides that no deduction is allowed for personal interest paid or accrued during the tax year.[5] Thus, indebtedness incurred by the policy owner to purchase the AIG Elite Global IUL or IUL LT product would normally be considered personal interest for which there is no federal income tax deduction.

Section 163 of the IRC does provide an interest deduction for interest paid or accrued with regard to certain indebtedness incurred in an active trade or business. This deduction allowance is subject to the limitations of Section 163(d) which limit interest deductibility to the income generated by the investment.[5] Further, Section 264(a)(4) is a disallowance provision which denies any deduction for interest paid or accrued in order to purchase a life insurance policy by the taxpayer covering the life of any individual.[6] Thus, it is clear from the intent of the IRC to not allow an interest deduction on debt incurred to purchase life insurance. In any situation involving an interest deduction, an independent competent tax counsel, and/or a CPA should be consulted by the policy owner prior to making any decisions regarding the federal income tax consequences of the transaction.

23. Deductibility of Fees and Expenses

Common fees associated with AIG Select Premium Financing include the arrangement fee which can be rolled into the financing and which may be partially incurred up front.

- The insured may incur legal fees related to the formation of a trust or other borrowing entity. The insured may also incur accounting fees, legal fees, or similar transaction costs in order to implement AIG Select Premium Financing. All arrangement fees incurred to establish AIG Select are considered interest under the federal tax law, and as such, would generally not be deductible as outlined above under IRC Section 163 and 264 for personal interest.
- Attorney fees, accounting fees and other transaction costs, normally are not deductible expenses incurred for personal financial advice. Alternatively, if these are incurred in a business setting as part of an active trade or business that can be substantiated by the taxpayer, IRC Section 162 would determine whether a federal income tax deduction was available. An independent competent tax advisor should be consulted to determine if a tax deduction is available.
- Ordinary and necessary expenses incurred in order to carry on an active trade or business is normally deductible for income tax purposes subject to the limitations in IRC Section 162 for what is reasonable under any given set of circumstances.[7] Since AIG Select Premium Financing does not generally involve an active trade or business, accounting fees, attorney fees and other transaction costs incurred to implement AIG Select Premium Financing would generally not be deductible under IRC Section 162.

24. Gift Tax Consequences

- Typically, loans made by the insured to a Trust for premium payments are not taxable gifts. However, there may be a taxable gift for the interest on the loan if no interest is charged to the trust[8]
- If a person guarantees another's debt, there is a gift if payment is actually required from the Guarantor[9]
- IRS has not provided guidance on those situations where there are no certainty a payment will be required from the Guarantor

[4] 26 U.S.C. Section 264(e)(1) (1954 as amended)
[5] 26 U.S.C. Section 163(d) (1954 as amended)
[6] 26 U.S.C. Section 264(a)(4) (1954 as amended)
[7] 26 U.S.C. Section 162(a) (1954 as amended)
[8] Dickman v. Commissioner, 465 U S. 330 (1984)
[9] Estate of Bradford, 34 T.C. 1059 (1960)

- Many life insurance purchases involve a trust or some other entity owning the policy in order to avoid having the policy included in the insured's gross taxable estate. Many of these transactions involve the use of an Irrevocable Life Insurance Trust (ILIT). Because the policy is owned by a legally separate third party, it has always been necessary for the premium payor to gift the life insurance premiums to the ILIT so the Trustee of the ILIT could pay the next premium.
- Depending on the size of the policy, this could involve making significant taxable gifts above the current per donee exclusion of $12,000 in 2007.[10] AIG Select Premium Financing, like any traditional premium financing program, significantly reduces the size of the taxable gifts necessary to fund an ILIT-owned policy simply because loans are not taxable. In this instance, the only cash needed by the ILIT is the amount necessary to pay any interest due on the loan. This is likely to be a much smaller gift depending on the interest rate charged on the loan. The gifting interest issue has also been addressed by AIG Select Premium Financing; in most cases, the policy owner will be allowed to also borrow the interest due on the loan, thereby eliminating the need to make any gifts at all in order to properly fund the policy owned by the ILIT.
- As a result of the transaction, policy owners can now purchase larger sums of life insurance with arguably no gift tax or estate tax consequences provided that the insurance acquisition is handled properly. Reducing federal gift and estate tax consequences allows the policy owner the opportunity to achieve maximum leverage when elimination of these taxes is considered in conjunction with receipt of a tax-free death benefit by the ILIT.
- However, as with any strategy, there may be risks. Many premium financing strategies require the insured to provide a guarantee of the loan repayment in the event of default. Providing a personal guaranty in addition to the collateral assignment may not create liability for a gift tax provided the person is not called upon to repay the debt. Repaying the debt due to a personal guaranty results in a taxable gift being made to the ILIT equal to the amount of the debt repaid. AIG Select does not require a personal guaranty.
- Because of the complex gift tax consequences inherent in this transaction, the advice of a competent independent tax specialist should be sought.

25. Estate Tax

- Life insurance proceeds will be included in insured's estate if the insured owns the policy or possesses any incidents of ownership in the policy[11]
- A personal guaranty on a loan could be considered an incident of ownership in the policy, and may cause the proceeds to be included in the guarantor's estate[12]
- If a trust borrows from the insured to pay premiums, proceeds payable to the trust are not included in the insured's gross estate[13]
- If the insured is also the policy owner or if the insured's estate is the policy beneficiary, the policy proceeds will be included in the gross estate of the insured.[14] When an entity such as an ILIT is the owner of the policy there is no estate tax inclusion. However, even with an ILIT-owned policy, the insured must be careful to avoid keeping any incidents of ownership with respect to the policy. Retaining any prohibited incidents of ownership in the ILIT-owned policy means the insured enjoys some kind of ownership rights in the policy, for example: the right to name the beneficiary of the death proceeds; the right to change the beneficiary; the right to borrow the cash value of the policy; the right to change coverage; elect use of a rider or alternatively; the right to convert the form of coverage. Any of these rights could result in estate inclusion of the death proceeds.[14] In most instances with an ILIT-owned policy, all of these rights are held by an independent trustee who must act in a fiduciary capacity for the beneficiaries in exercising any of these rights.

[10] 26 U.S.C. Section 2503(b) (1954 as amended)
[11] 26 U.S.C. Section 2042(2) (1954 as amended)
[12] Private Letter Ruling 9113009
[13] 26 U.S.C. Section 7872 (1954 as amended)
[14] 26 U.S.C. Section 2042(2) (1954 as amended)

- Likewise, a personal guaranty by the insured to repay the debt in the event of a default by the trustee could cause inclusion of the death proceeds in the gross estate only in the event the guarantor or his or her estate is called upon by Concord Capital to repay the debt.[15] AIG Select, with use of a properly drafted ILIT or similar entity, can avoid the pitfalls of unintended estate tax inclusion of the death proceeds.
- Because of the complex estate tax consequences inherent in this transaction, the advice of a competent independent tax specialist should be sought.

26. Three Year Rule

- IRC Section 2035 provides if any taxpayer transfers property or an interest in property and then subsequently dies within three years of the date of the transfer, the property will be brought back into the gross estate of the decedent.[16] Thus, one must survive at least three years beyond a transfer of ownership of a life insurance policy in order to escape the operation of the statute.
- With AIG Select, all lending will be made to a bankruptcy remote entity; therefore, it is highly unlikely the insured will be transferring ownership of the policy to anyone. Additionally, the policy is also encumbered with a collateral assignment; therefore, there is very little flexibility to transfer ownership of the policy without the consent of Concord Capital. With lending to a bankruptcy remote entity, Section 2035 may not pose any issues that need to be addressed by the policy owner.

27. Valuation

- With AIG Select, a valuation of the AIG Elite Global IUL or IUL LT policy may be necessary. The value of a policy is normally its fair market value.[17] Valuation of the policy may be made for federal income tax purposes or alternatively, valuation may occur in the secondary market. Generally speaking, fair market value should be the amount of consideration paid for a policy, or the policy owner should be taxed on the fair market value when the policy is involved in a taxable transaction such as a distribution from a qualified retirement plan.[17]
- Because of the complexities inherent in the valuation of a policy, the advice of an independent competent valuation specialist should be sought.

28. Ownership Rights and Changes

All ownership rights associated with the policy rest with the assignee, except the right to designate the beneficiary, until such time as the assignment is released. At that time, all rights revert to the owner.

Ownership rights held by the assignee include but are not limited to the right to surrender the policy, the right to borrow against the policy or the right to change the death benefit option under the terms of the policy.

29. Assignment Issues

A collateral assignment must be executed on the policy for both the death benefit and the cash value in favor of Concord Capital. Concord Capital has the rights of an owner while the policy is assigned to Concord Capital. The policy owner has no access to policy values during the time period when the policy is assigned except with specific permission of the assignee. In the event the debt is satisfied during lifetime, a Release of Assignment would be executed by Concord Capital, restoring ownership rights to the policy owner.

30. Policy Loans

During the time period when the policy is assigned to Concord Capital, policy loan rights belong to Concord Capital. The owner cannot invade the policy values without specific consent of assignee.

[15] Private Letter Ruling 9809032

[16] 26 U.S.C. Section 2035 (1954 as amended)

[17] Revenue Procedure 2005-25, 2005-17 IRB 962

31. Beneficiary Changes

Under the terms of AIG Select Premium Financing, the AIG Elite Global IUL or IUL LT universal life insurance policy will be collaterally assigned to Concord Capital as collateral for the loan. Under the terms of the collateral assignment, Concord Capital will hold the ownership rights under the terms of the policy except the policy owner will be able to designate his or her beneficiary.

- Additionally, Concord Capital will also have a lien on any death benefits due under the terms of the policy up to the amount of any indebtedness due at the death of the insured with the balance of the death benefit being paid to the designated beneficiary
- Most, if not all, premium-financed policies will be owned by an ILIT since the policy must be owned by a bankruptcy remote entity. As a result, the ILIT will most likely also be named the beneficiary of the policy, and the Trustee will be required to pay death benefits to the ILIT beneficiaries according to the terms of the ILIT.
- Changing the beneficiary designation will be allowed even though the policy has been collaterally assigned. **The policy owner should be careful regarding any beneficiary designation change in order to avoid making an unintended gift equal to the death benefit.**

32. Sale of a Policy

In recent years, the secondary market has developed significantly for life insurance policies no longer suited to the needs of the policy owner. Since the policy will be collaterally assigned to Concord Capital as part of AIG Select Premium Financing, the policy owner is not free to sell a policy in the secondary market unless Concord Capital consents to the transaction.

- In a sales transaction of this nature, Concord Capital may require the purchaser of the policy to assume the indebtedness due under the terms of the loan in order to consent to the transaction. Assumption of any indebtedness by the policy purchaser may be deemed consideration for the sale by the seller of the policy.[18]
- Sale of a premium financed life insurance policy also has certain tax implications. An independent competent tax advisor should be consulted about these issues.

33. Margin

Margin refers to the spread or mark-up over the one-year LIBOR rate that constitutes the loan interest rate for the loan for a given year.

34. Exit Strategies

Typically, each policy owner needs a premium loan repayment plan, or exit strategy. Options may include repayment of loan in several ways:

- During life, from policy owner's available cash or liquidation of other assets
- During life, from policy values, if sufficient (will need Concord Capital's permission if Concord Capital is assignee on policy)
- At death, from policy proceeds (will occur automatically if Concord Capital is assignee on policy)

The initial plan design will influence exit opportunities. It may also be desirable to "freeze" the loan at some point by beginning to make interest payments in cash, or to make a partial reduction in the loan balance to minimize loan growth and/or interest payments.

[18] U.S.C. Section 61 (1954 as amended)

35. Documents

AIG Select Premium Financing will require documentation in order to place the life insurance coverage as well as the lending transaction. To initiate the insurance transaction:

- AIG Elite Global IUL or IUL LT sales illustration (signed)
- Supplemental Illustration for AIG Select Premium Financing
- Normal underwriting requirements

To initiate the loan:

- For each insured
  - Full and complete copies of the insured's federal tax returns for the two (2) most recent years
  - A photocopy of the insured's current driver's license or passport
  - An AICPA compilation letter including an income statement and balance sheet/net worth statement
  - An NAIC-compliant life insurance illustration and supplemental loan illustration
- For the borrower (if formed)
  - Completed preliminary informational form obtained from www.ConcordPremiumFinance.com
  - Full and complete copies of the borrower's federal tax returns for the two (2) most recent years (if applicable)
  - Full and complete copy of the Trust Agreement or, if borrower is not a trust, the Articles or Certificate of Incorporation, By-Laws, Partnership Agreement, Certificate of Formation and/or Operating Agreement, as applicable, and any other organizational documents of borrower
  - An executed W-9 Tax Form of borrower
  - An income statement and balance sheet of borrower (signed by borrower's independent accountants) for the most recent fiscal year (if applicable)
- For each Trustee (or, if applicable, each Director, Officer, Partner, or Member):
  - A photocopy of such person's current driver's license or passport

To complete the processing of the loan

- Executed Promissory Note
- Executed Collateral Assignment form
- Executed Truth in Lending disclosure documents
- Other documents that may be determined necessary
- Legal opinion letter

36. Conclusion

AIG Select Premium Financing is not suited to every insured. It was developed as an alternative way of paying for needed life insurance coverage. For those insureds who can make initial premium payments with cash from one source or another, AIG Select Premium Financing offers them the opportunity to finance future premiums with no need to post outside collateral to secure the loan. Since interest is generally financed, no routine annual cash payments are required. However, insureds should be prepared to make payments as needed during the lifetime of the policy if the loan-to-cash-value ratio calculation requires payments to be made. Please review all of Concord Capital's disclosure documents in order to fully understand all financing costs associated with this approach to premium financing.

37. Glossary

AIG Select – A new innovative approach to premium financing which combines at least two annual premiums by the policy owner with lending beginning in year three at very attractive interest rates. Under certain circumstances more than two annual premiums must be paid from a source other than AIG Select Premium Financing. However for the purposes of this guide, the minimum premium referenced will be the "first" two annual premiums.

Alternate Benchmark Event (ABE) – An event beyond the control of Concord Capital that requires Concord Capital to charge a different rate of interest, based on a new benchmark, for the cost of its capital. Alternative Benchmark Events include, but are not limited to, the following:

- Terrorism or other global event, including the disruption of the financial markets, which prevents Concord Capital from financing, refinancing, selling, participating, syndicating, or securitizing the loan; or
- Disruption to the U.S. commercial paper conduit markets; or
- The deterioration of the long term credit rating of the insurer to AA- (Standard & Poor's) or AA3 (Moody's).[19]

Alternative Benchmark – A new rate of interest that may be charged to Concord Capital due to changes in its cost of capital. This rate of interest will be triggered due to an event beyond Concord Capital's control, and as a result, this interest rate calculation will replace LIBOR as the current benchmark which is used to determine the overall interest rate charged to the policy owner for the premium loans. See definition of Alternate Benchmark Events above.

Arrangement Fee – This is the fee Concord Capital will charge the policy owner in order to establish the loan. This fee is paid to Concord Capital in order to cover its costs of originating the loan. This fee may be paid at inception of the loan or beginning in year three of the life of the policy.

Average Surrender Factor – This is the factor used to calculate the value of a life insurance policy for federal income tax purposes. It determines the value of the surrender charges which are deducted from the overall policy value at the time of valuation for federal income tax purposes.

Bankruptcy Remote Entity – This is a legal entity established in order to own the life insurance policy under AIG Select Premium Financing. This entity, such as an Irrevocable Life Insurance Trust (ILIT) or Limited Liability Company (LLC), will not be affected by the personal bankruptcy of the insured.

Benchmark Rate – This interest rate serves as the original point of reference in order to markup or create a margin for Concord Capital. This is the basis for Concord Capital's cost of capital. Under unusual circumstances, LIBOR is used as the Benchmark Rate.

Beneficiary Changes – These are changes by the owner of the life insurance policy of the ultimate recipient of the death benefit due under the terms of the policy after repayment of any indebtedness due to Concord Capital. It can be changed at any time without consent of Concord Capital.

Collateral Assignment – The document used to pledge the life insurance policy as collateral for the loan. It provides Concord Capital with a lien on the cash value and death benefit in the event of default.

Collateral Testing Process – A process used to determine whether the cash value of the life insurance policy is adequate in order to satisfy the debt obligation incurred under AIG Select Premium Financing.

Default – This is the failure by the policy owner to meet its obligation to pay any loan interest or loan principal due to Concord Capital on a timely basis. The failure to pay loan interest or principle when due is a breach of the loan agreement and allows Concord Capital to foreclose on the loan collateral. Other Events of Default are discussed in Section 20.

Exit Strategies – These include the case design implemented in order to liquidate the loans through various means such as policy loans, withdrawals, payment of death benefits, gifts, GRATs, sale of assets to liquidate the loans, or other similar plan to repay all loan indebtedness.

Forward Commitment Amount – This is the total amount of premium the policy owner has committed to borrow from Concord Capital at the inception of the policy through financial underwriting beginning in year three of the policy with systematic borrowing of annual premiums for the premium funding period.

Guaranteed Cash Value – The amount of cash which will accumulate in the policy as a result of premium payments minus all the costs associated with the insurance. This value shall earn interest at a rate no less than 2.5 percent per annum. This value may also be credited with indexed interest pursuant to the terms and provisions of the AIG Elite Global IUL or IUL LT life insurance policy, but in no event shall interest be credited to the value at less than the guaranteed rate.

ILIT – This is an Irrevocable Life Insurance Trust which is designed to own the AIG Elite Global IUL or IUL LT life insurance policy and which will remove the life

[19] Additional information on ratings issued by the independent rating agencies referenced above can be found on the Web sites maintained by each agency: www.standardandpoors.com; www.moodys.com.

insurance cash value and death benefits from the insured's estate. The trust shall also serve as the beneficiary of the policy.

Insured – The person whose life is covered by the life insurance protection in the AIG Elite Global IUL or IUL LT policy. This person may also be known as the client.

Interest Rate Margin – The interest charged on the loan in the form of basis points above the interest rate benchmark. The amount of the margin is a function of the Forward Commitment Amount.

Interest Rate Spread – The same thing as the interest rate margin.

LIBOR – The interest rate charged by major banks and financial institutions in lending transactions with other major banks and financial institutions. It serves as the benchmark to which the margin, spread or markup is added to determine the actual interest charged to the policy owner. This benchmark is known as the London Inter-Bank Offering Rate (LIBOR).

Loan Documents – These are documents necessary to implement the loan. They include but are not limited to a promissory note, collateral assignment, truth in lending disclosure statement, privacy notice as well as loan security agreement.

Loan-to-Cash-Value Ratio – A ratio which is calculated with the numerator being the outstanding loan amount owed to Concord Capital and the denominator being the Cash Value of the AIG Elite Global IUL or IUL LT policy at any given point in time. This percentage can never exceed 97.5 percent in order to maintain compliance with Concord Capital loan requirements, and is calculated at least annually in order to maintain compliance with the loan requirements.

Low Point Letter (LPL) – A letter generated by American General Life at the request of Concord Capital which provides the amount of the cash value with the date it reached its low point during the period requested.

Maturity Acceleration Event (MAE) – Events which could cause the loan to become immediately due if they occur.
MAEs are discussed in detail in the Concord Capital Loan Documents. Maturity Acceleration Events include, but are not limited to, the following:

- Terrorism or other global event, including the disruption of the financial markets, which prevents Concord from financing, refinancing, selling, participating, syndication, or securitizing the loan even at a higher cost; or
- Other credit or economic events that preclude the lender from accessing/ renewing commercial liquidity facilities; or
- The deterioration of the long-term credit rating of American General Life Insurance Company to A+ (Standard & Poor's) or A1 (Moody's) or lower; or
- A judicial, regulatory or other legal intervention in the life insurance policy (e.g. judicial or regulatory determination that the contract does not qualify as fixed life insurance or that Concord does not have a valid security interest in the life insurance policy).

Modified Endowment Contract (MEC) – A life insurance policy that has violated the 7-pay test established under the provisions of the Internal Revenue Code. A MEC is taxed pursuant to the provisions of Section 72 of the Internal Revenue Code, and as such, a MEC does not enjoy all of the tax advantages and flexibility of a non-MEC life insurance policy. A MEC may also result in adverse federal income tax consequences in the event it is collaterally assigned to a third party.

Non-Recourse Loan –This is a form of loan in which Concord Capital only has recourse to the pledged collateral in the event of loan default. Concord Capital does not have recourse to pursue the insured in the event of loan default and a deficiency in the value of the collateral.

Policy Owner – This is the bankruptcy remote entity which owns the AIG Elite Global IUL or IUL LT policy. It is normally an ILIT. This is also known as the borrower.

Renewal Process – The procedure to renew premium loans which begins approximately forty-five (45) days before the due date of the loan. It involves collateral testing of the cash value of the policy versus the loan amount in order to ensure the premium loan amount never exceeds 97.5 percent of the cash value of the policy. It also involves review of all loan covenants to ensure the policy owner is in compliance with the loan covenants.

Three Year Rule – §2035 of the Internal Revenue Code audit requires all property transferred by a decedent within 3 years of death be brought back into the decedent's gross estate for Federal estate tax calculation. For more information, see Section 26.

Valuation – See Section 27.

Working Capital – This is normally the difference between the current assets of a business minus the current liabilities of a business. These net assets can be used by a business in order to support business operations or alternatively for investment. Normally, it is deployed in business operations in order to increase the overall rate of return for the business or owner.

Year – This shall be a twelve (12) month period beginning upon the policy issue date and ending 12 consecutive full months later.

Policies issued by:
American General Life Insurance Company
A member company of American International Group, Inc.
2727-A Allen Parkway, Houston, Texas 77019

AIG Elite Global IUL Policy Form Number 06444
AIG Elite Global IUL LT Policy Form Number 07444
- Maturity Extension Rider (Accumulation Value) Form Number 99110
- Maturity Extension Rider (Death Benefit) Form Number 99111
- Terminal Illness Rider Form Number 91401
- Overloan Protection Rider Form Number 07620
- Monthly Guaranteed Premium Rider Form Number 07010
- Waiver of Monthly Deduction Rider Form Number 82001

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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 CONCORD CAPITAL and its affiliates have no duty, liability, or responsibility for any such advice. No representation or warranty, express or implied, is made by CONCORD CAPITAL and its affiliates as to the completeness of the information in this presentation. This presentation does not constitute, and may not be relied upon as, a commitment to lend or promise of any kind by CONCORD CAPITAL and its affiliates.

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