

The immediate financing arrangement (IFA) strategy generally involves a business or investor using their own money to pay life insurance premiums and taking an equivalent business or investment loan from a third-party lender. The loan is secured by the life insurance policy's cash value and additional assets, if necessary.

Various regional and national lenders specialize in insurance lending for IFAs. This Q and A document surveys their offerings and processes so you can help your client know what to expect.

**1. Which commercial lenders have broadly offered specialized insurance lending programs for IFAs?**

In alphabetical order: BMO, Duca Financial Services Credit Union (Ontario only), Equitable Bank, Gracie Point Financial, Manulife Bank and Scotiabank.

**2. Does a client need to use a specialized insurance lender to implement the IFA strategy?**

No, a client's own bank could provide the financing; however, using specialized insurance lenders is helpful because they have extensive experience with taking various types of cash value life insurance policies as collateral. They also understand many of the tax and legal issues affecting the IFA strategy, which significantly helps with correctly implementing the strategy.

**3. Which comes first, apply for the life insurance policy, or apply for the IFA lending?**

Insurance lenders typically prefer the life insurance policy to be either approved or well into the underwriting process before the client applies for the IFA loan.

**4. How long does the loan application process usually take?**

Depending on the lender and complexity of the case, it takes approximately 4-6 weeks from application to funding.

**5. What's the minimum case size that an insurance lender will accept?**

Each lender has their own minimum loan amount thresholds. At one end of the range, some insurance lenders will accept as low as \$50,000 annually for 10 years, or \$500,000 in total. At the other end of the range, some lenders require the total loan amount of \$500,000 to be reached in two or three years. The size of the case usually impacts the interest rate offer and set-up fees.

**6. What are the typical terms of an IFA loan from an insurance lender?**

The loans are typically variable rate lines of credit which may be repaid by the borrower or called by the lender at any time. Interest rates vary between lenders and are usually determined by the creditworthiness of borrower, total loan size and existence of additional collateral. The lenders typically require interest to be paid monthly and some lenders allow clients to borrow back the interest they paid at the end of the year.

## **7. What information is typically required by an insurance lender for financial underwriting?**

Each lender has their own requirements. They generally ask for the following.

For individual borrowers: net worth statement, last two Notices of Assessment, credit bureau check and investment account statements, if any.

For corporate borrowers: up to prior three years of financial statements, corporate organizational chart and potentially a solicitor's letter of opinion.

In all cases, the lender will ask for a policy illustration.

## **8. Do lenders charge set-up fees?**

All the insurance lenders charge initial set-up fees at varying rates based on the approved credit limit.

## **9. Once the IFA is implemented, do lenders charge ongoing fees and is further financial underwriting required?**

Typically, yes and the ongoing fees and financial underwriting varies considerably by lender.

At one end of range, a lender provides full loan approval for 10 years with streamlined annual reviews and no ongoing fees after set up.

At the other end of the range, lenders may require full annual financial underwriting and fees for increasing the credit limit. The fees may be charged as a flat annual rate.

## **10. What role does Canada Life have in the IFA strategy?**

Canada Life has a limited involvement with facilitating and supporting the IFA strategy in several key areas.

We underwrite the life insurance policy used in the IFA independently from the strategy itself. This means we don't consider the IFA loan when assessing both the life insured's insurance needs and their ability to pay the insurance premiums.

In many cases, our field specialists provide both the policy illustration and IFA strategy illustration that the advisor may use at the point of sale and for the lender's financial underwriting.

We also execute the lender's collateral assignment, which allows them to advance the loan, and administer the assignment as needed over the duration of the strategy.

Importantly, we also provide inforce policy illustrations on an annual basis if required by the lender's ongoing review requirements.

## **11. What type of life insurance policy works well with the IFA strategy?**

Participating whole life insurance policies work well because they may have relatively high early cash values, allow for higher margin ratios from insurance lenders (90%-100% of cash value) and provide the policyowner with the potential to have the collateral life insurance deduction once the policy is on offset and has a contractual premium.

**12. Is additional collateral required?**

At the time this document was produced, only two insurance lenders offering loan amounts equal to the premiums paid (100% premium financing) do not require additional collateral provided the insurance policy had higher early CSV. Note that all insurance lenders can do an IFA up to the CSV of the policy (not 100% premium financing) and this is a popular lending option.

**13. What is acceptable as additional collateral?**

Insurance lenders only accept certain assets as additional temporary collateral. These assets include: a bank letter of credit, non-registered investment account, a GIC issued by the lender, a savings account with the lender and another life insurance policy with cash value. Some lenders will accept residential real estate (as first position). Fewer will accept commercial real estate (again, as first position).

Please contact Canada Life wholesale partner for more specific IFA lender information regarding your client's needs.