

Title: Premium Financing

This letter is to some family office advisors who retained me last year to analyze a proposed 10-pay whole life premium financing deal. I recommended that they not move forward because the numbers showed it would not work as they were presented and understood it.

Good Afternoon:

I thought I'd check in with you two to see how things are going. Also, I wanted to let you know what I've been spending most of my time on lately.

Whole life premium financing cases have been hitting my desk one after another, a couple hundred million of death benefit in just the past two weeks.

Even though most premium financing is with indexed universal life policies (IUL), almost everything I've been seeing is 10 pay whole life, much of it with Mass Mutual but also, New York Life, Penn Mutual and others.

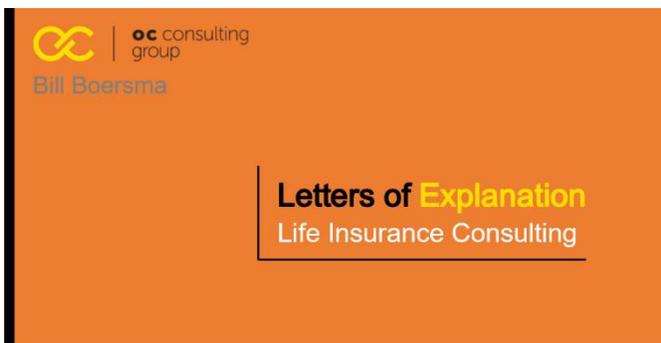
The reason they are seeking me out is because the deals are all falling apart. The assumptions under which they were sold have changed; the dividends have come down, the loan rates have gone up, there have been collateral calls, interest out of pocket is much greater than assumed and ultimate death benefit is much lower than expected. It's turned into a shit storm.

Yesterday I asked one of the preeminent minds in the industry why I'm seeing the whole life contracts now and not the IUL contracts. I surmised it's because the numbers are telling the story today with whole life and those paying attention can see it's not working and it can't be spun away. Since IUL contracts can assume higher returns moving forward, whether realistic or not, the numbers aren't falling apart... yet. He agreed with me.

In many of these deals we're heading into negotiations or litigation with the insurance companies and agents for fraud and misrepresentation and unsuitable transactions. These deals have largely been predatory behavior. On others we are working to extricate policy owners while minimizing damage.

Thought you'd like a market update. Let me know if you have any questions or if there is anything I can do for you. Enjoy your day.

Bill



Letters of Explanation