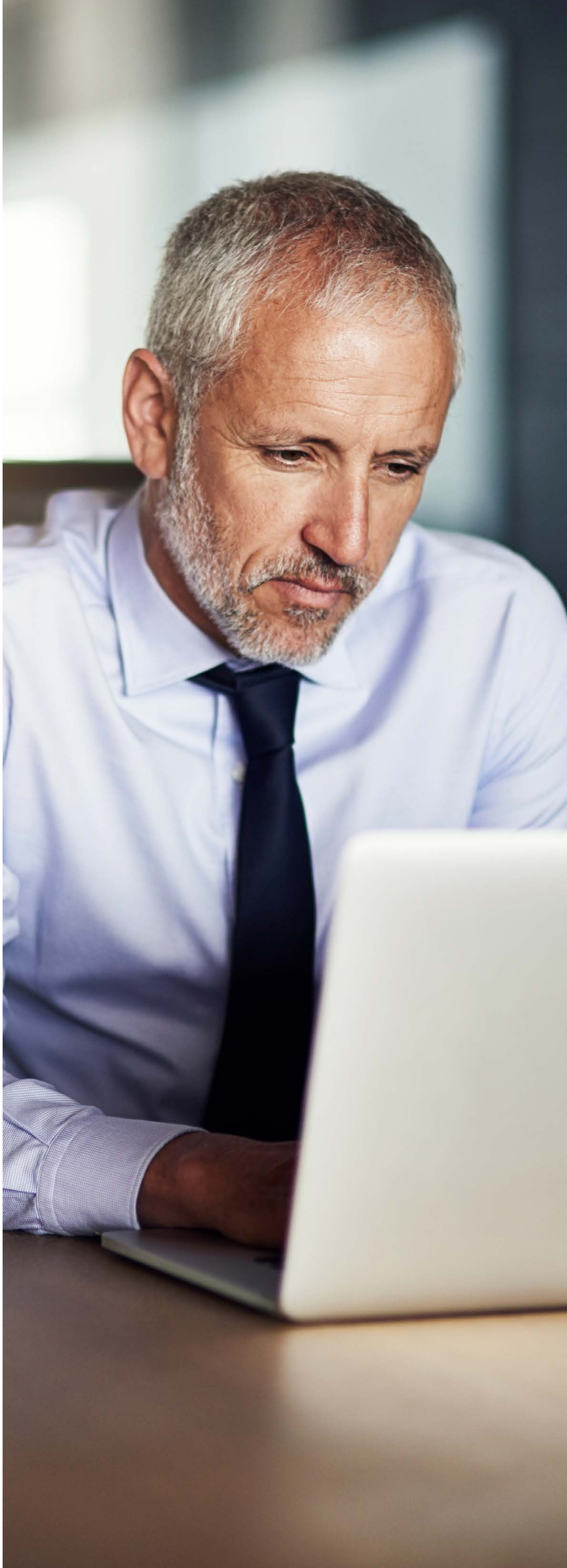
Manulife Bank

Advisor *Guide*

An Immediate Financing Arrangement with Manulife Bank

Canada's Experts in Cash Surrender Value Lending

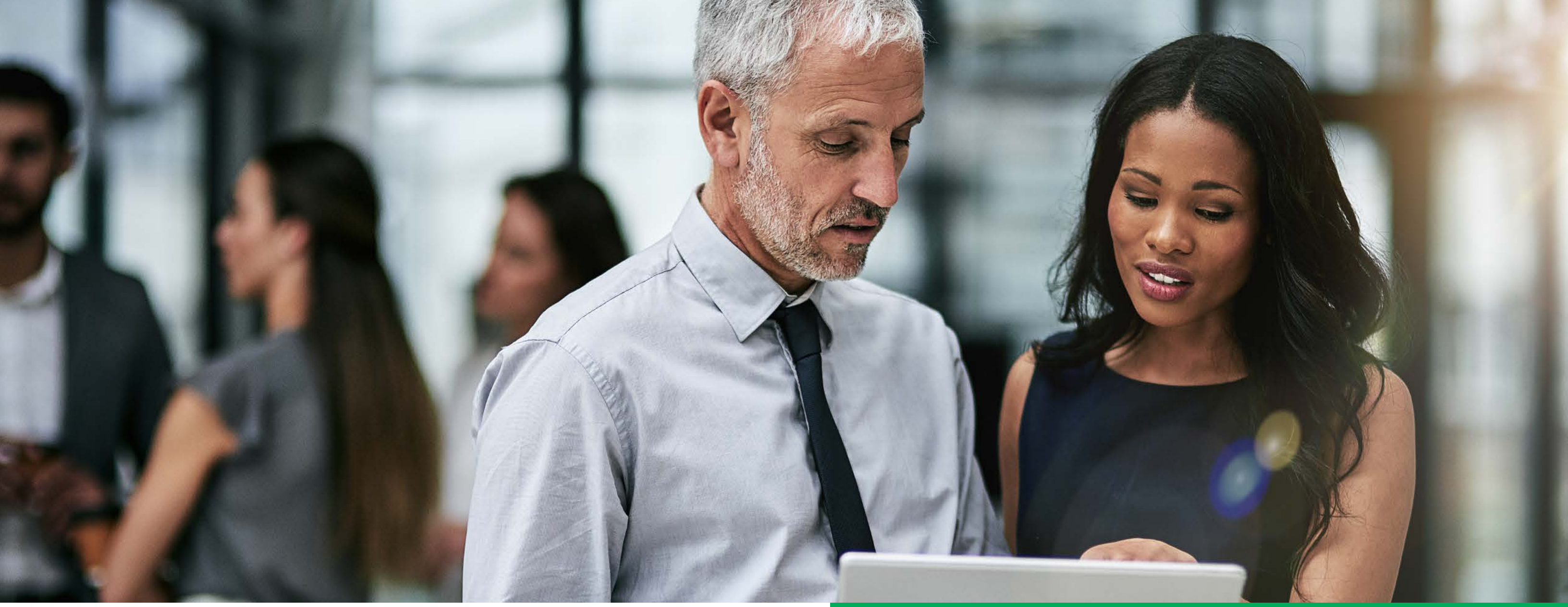


High Net Worth clients expect a great deal from advisors...

And you, in turn, expect exceptional knowledge and uncompromising service from the specialists who support your practice. Cash Surrender Value (CSV) lending is a highly specialized field. And, within that field, the Immediate Financing Arrangement (IFA) is among the most sophisticated of strategies. When structuring an IFA for a High Net Worth client, it's in your interest to work with the lending professionals who specialize in IFAs. It's in your interest to work with the experts at Manulife Bank.

Approved Insurance[i] Carriers For An IFA With Manulife Bank

- Manulife Financial
- Canada Life
- London Life
- Great West Life
- Sun Life
- RBC Insurance
- BMO Life / AIG
- Industrial Alliance
- Ivari/Transamerica Life
- Equitable Life
- Empire Life
- Desjardins Insurance



Identifying potential IFA clients

In our experience, advisors typically recommend IFAs to High Net Worth clients for the following reasons:

- To facilitate the purchase of needed permanent life insurance for a client who otherwise would forego the insurance and purchase an investment instead.
- To increase the rate of return on an estate planning strategy which incorporates permanent life insurance.
- To increase the size of the Capital Dividend Account which will be created upon the death of the life insured (corporate IFA).
- To make it possible for a client with one or more existing permanent insurance policies which are not self-funding to begin borrowing against the CSV of those policies for the purpose of making investments.
- To make a charitable gift without adversely affecting cash flow or adversely affecting a client's capacity to purchase an investment.

How an IFA works

1. Your client enters into a contract for a permanent life insurance policy which creates significant CSV in the policy's early years.
2. The policy is assigned to Manulife Bank as collateral to secure a line of credit.
3. Your client pays the annual recurring insurance premium.
4. Your client borrows back up to 100% of the CSV[1]. (Or borrows back the entire premium by providing additional collateral security.)
5. Your client uses the line of credit for investment purposes – for example, to fund an operating business, purchase real estate or invest in a non-registered investment portfolio.
6. Steps 3-5 are repeated annually.
7. When the life insured passes away, the outstanding loan is repaid out of the death benefit and the remaining proceeds are paid to the beneficiaries.

Note: The basic IFA concept assumes the borrower has sufficient income and qualifies to write off interest payments and take advantage of the collateral premium deduction.[2]

[1] Manulife Bank lends 100% of CSV after all cash surrender charges. Terminology varies by insurance carrier. Some carriers define this as "net CSV"; others define it simply as "CSV".
[2] Tax-deductibility depends on a number of factors, with the Income Tax Act providing the framework for determining tax-deductibility. Readers should consult their own tax and legal advisors with respect to their particular circumstances.

7 reasons to work with Manulife Bank when designing an IFA

1

Experience

Manulife Bank has a l**ong and successful history with IFAs**; we put our first one together in **1995**. We are in this for the long run. Others have a history of entering the market, then withdrawing.

2

Focus

IFAs are a **core business** for our portfolio management team. That means we assign our most experienced and knowledgeable corporate lenders to work on your IFAs.

3

Expertise

You don't need to educate us about insurance. Our lenders understand illustrations and permanent insurance concepts: **we speak your language** and know your business. Consequently, we respond to your requests rapidly and with the professionalism you expect and deserve.

4

Value-added

Our lenders have a history of working with advisors to improve the structure of IFAs. Unlike many commercial loans, IFAs involve a high degree of customization. An experienced IFA lender is able to ask questions and **uncover opportunities** to help you optimize the efficiency of the structure.

5

Integration

Our understanding of IFAs is integrated across the organization. That means our sales people, loan adjudicators and risk management people all understand and regularly work with IFAs.

6

Collaboration

Advisor relationships are critical to our business model. In turn, we understand how critical your own client relationships are to your business. Unlike some of our competitors, our goal is to support and enhance those relationships, never to replace them.

7

Flexibility

Our **minimum IFA size is only $300,000** over ten years, or $30,000 per year. And we have no maximum size.[ii]

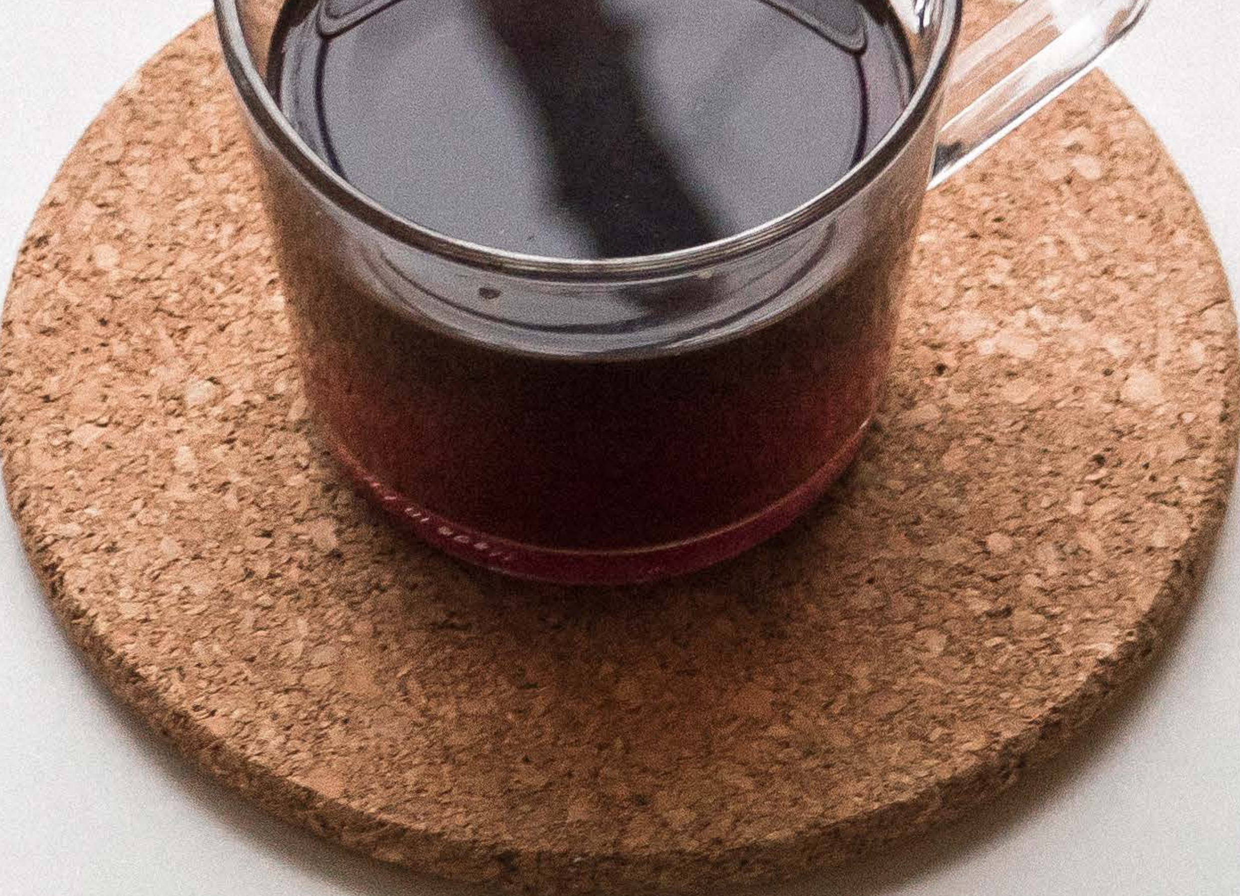
Acceptable Additional Collateral Security For 100% Replacement Of Premium

For clients who are interested in 100% replacement of premium, Manulife Bank accepts the following types of additional collateral security:

- CSV of an existing permanent insurance policy from an approved carrier.
- Manulife Bank or Manulife Financial GIC
- Assignment of a non-registered investment portfolio.
- Letter of Credit from a Schedule [1] Canadian Chartered Bank or from:
  - Alberta Treasury Branch
  - HSBC Bank Canada
  - Vancity
  - Coast Capital Savings Credit Union
  - Servus Credit Union
  - Meridian Credit Union
  - Libro Financial Group
- Residential real estate in first position.

Loan to value on CSV

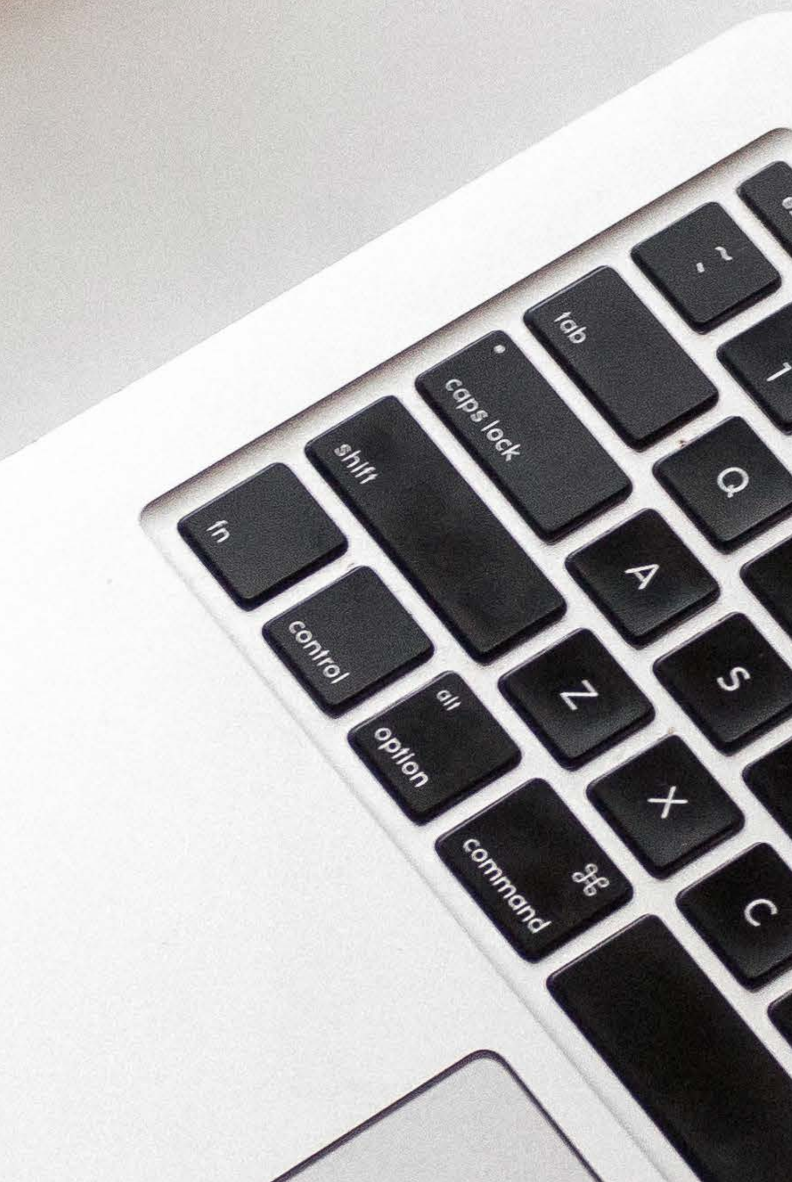
Manulife Bank will lend up to 100% of the CSV of a whole life insurance policy or 90% against a Universal Life (UL) policy invested in Guaranteed Investment Accounts (GIAs).



Case studies

Why advisors to High Net Worth clients chose Manulife Bank for IFAs

The Bank makes no representations or recommendations regarding where a client should invest the borrowed money. The following examples are fictitious and provided for illustration purposes only.



Sarah's *deal:*

The client's primary banker couldn't grasp the IFA concept

The opportunity:
Advisor Sarah Richie's client is a wealthy auto parts manufacturer with rising income in his operating company, which he plans to leave to his son. To address capital gains that will be triggered upon his client's death, Sarah was considering recommending a permanent insurance policy. However, while the company generated sufficient cash flow to pay the premiums, the client would need those funds in coming years to upgrade and modernize the factory. Sarah proposed an IFA.

The problem:
Sarah met with the client's primary commercial banker to discuss the client's need. The banker was unfamiliar with basic permanent insurance concepts but took copious notes. Days passed, then weeks. Sarah followed up regularly but it became apparent the banker and his commercial center manager were having trouble comprehending the IFA concept. The client was beginning to wonder whether the strategy could be sound if his banker couldn't understand it.

The solution:
A Manulife Bank Business and Insurance Lending Specialist visited Sarah in her office. He understood IFAs and even suggested an enhancement to the proposed structure. Sarah provided the information he required and within three days Manulife Bank issued a Discussion Paper. The client's accountant reviewed and supported the structure. With a Manulife Bank IFA, Sarah's client was able both to obtain the permanent insurance he needed and invest in the factory upgrade.

Suresh's *deal:*

The IFA experts had the flexibility to make it work

The opportunity:
Advisor Suresh Bava designed an IFA strategy for a successful doctor and her husband. The permanent insurance policy would be owned by the doctor's corporation and would create an estate for their children. Their plan was to use the annual loan proceeds to fund mortgage payments on a multi-residential investment property.

The problem:
Suresh took the IFA proposal to a large Canadian bank which did fund IFAs. However, the bank's minimum loan size was $1,000,000 and Suresh's IFA proposal called for total borrowing of only $900,000. Suresh tried another bank. Unfortunately, their policy was that the proceeds of the IFA had to be invested in non-registered investments with that Bank.

The solution:
A colleague told Suresh about Manulife Bank's IFA specialists. Suresh was relieved to discover the bank's minimum loan size is $300,000. Furthermore, Manulife Bank has no restrictions with respect to how loan proceeds are invested[3]. The couple owned another permanent life insurance policy with significant CSV. They were able to assign that policy to Manulife Bank as additional collateral security, which allowed them to borrow back 100% of their annual premium payments. The doctor was so impressed she recommended Suresh to her partner.

Omar's *deal:*

He selected the bank that supports the advisor/client relationship

The opportunity:
Advisor Omar Aaron was designing an estate strategy for a large developer, involving an IFA. The plan incorporated a sizeable universal life policy, invested in Guaranteed Investment Accounts, with an initial side account. Loan proceeds would be used to invest in a new office building. Omar presented the IFA concept to the developer and his CFO, who were impressed.

The problem:
The insurance carrier Omar selected was owned by a large Canadian bank. Omar's contact at the insurer encouraged him to put the IFA together through the bank's private banking arm. However, the private banker wanted to meet with Omar's client in person. Omar was uncomfortable sending his client to a competitor.

The solution:
Instead, Omar contacted Manulife Bank. He had already put together an IFA with Manulife Bank and knew that its lenders are scrupulous about respecting and reinforcing the advisor/client relationship. Omar put together this second deal with Manulife Bank and he now brings all his IFAs to them.

[3] However, where an IFA is cost justified through tax benefits, it's important for an advisor and for the client's accountant that the intended investment complies with CRA requirements around interest and premium deductibility.

Common IFA structures

There are many different variations of the IFA strategy. Many of these structures accomplish specific tax management objectives and should be vetted by the client's accountant.

From a lending perspective, however, there are two general structures with many variations: 100% CSV Lending and 100% Replacement of Premium.

100%

CSV Lending

With this strategy, a client borrows only 100% of the CSV of a policy each year which is, of course, less than the premium payment. The advantage to this structure is that the CSV of the policy creates a rapidly increasing borrowing capacity over time. The drawback is that there is a significant net funding requirement from the client in the early years of the policy.

In a variation on this structure...
the growing CSV can, in later years, be used as collateral security to lend back the net cash outflow in the early years.

100%

Replacement of premium

With this strategy, a client pays the annual premium then provides extra collateral security – in addition to the CSV of the policy – in order to borrow back 100% of the premium each year. (See Acceptable additional collateral security box.) The advantage of this structure is that the client experiences only a modest net cash outflow (net annual interest costs) in comparison to the death benefit, which increases the rate of return of the structure. The drawback is the requirement to provide that additional collateral security. (However, the additional collateral security requirement may well fall and eventually disappear over time.)

In a variation on this structure...
in addition to 100% replacement of premium, a client can also borrow back net interest payments at the end of each year. Note that, in this variation, additional collateral security requirements take much longer to disappear and the loan continues to rise each year.

Putting your IFA together

There are 3 stages to the process for putting an IFA in place: Discussion Paper, Commitment Letter and Completion.

1. Discussion Paper

We require the following information in order to put a Discussion Paper together for your client. Once you have provided that information, we typically have a Discussion Paper back to you in two to three business days.

- In-force policy illustration
- IFA illustration, showing dividend scale less 1% (via a sensitivity if that's easier) and a conservative loan interest (e.g. 5% or higher) in case rates rise
- First four pages of two most recent T1 General personal tax returns for client & spouse
- Two most recent Notices of Assessment for client & spouse
- Signed Personal Financial Statement (blank form to be provided by Manulife Bank)
- If corporate
  - three most recent years of accountant prepared financial statements for the company which owns the insurance policy
  - Organizational chart (hand written is fine)
- If 100% replacement of premium is requested, an indication of what will be provided as additional collateral security
- A brief history of the applicant(s) and outline of any special considerations

2. Commitment Letter

The Commitment Letter is the Bank's formal commitment to proceed with the deal. Here are the Bank's requirements in order to put together a Commitment Letter. Once these items have been provided, we typically have a Commitment Letter back to you in three to five days.

- A returned copy of the Discussion Paper, signed by the applicant(s)
- Any additional information requested in the Discussion Paper (for example, a copy of the policy contract &/or current policy summary)
- ½ of the application fee, as requested in the Discussion Paper[iii]

3. Completion

At this stage, the Bank compiles forms and documentation for signature by clients. If external lawyers are required, any legal costs incurred will be for the account of the client. The Completion phase typically takes three to four weeks.

Keep it simple

It's amazing how an expert can simplify a complex process. When you're putting together an IFA for a High Net Worth client, keep it simple. Work with the IFA experts at Manulife Bank.

To discuss an Immediate Financing Arrangement with Manulife Bank, contact your Business and Insurance Lending Specialist. Or, to find a Business and Insurance Lending Specialist, visit us at **www.manulifebank.ca** and select "Professional Advice". We look forward to working with you.

[i] Manulife Bank retains the right to assess each policy to ensure that it complies with the Bank's underwriting criteria.
[ii] Manulife Bank has no set maximum and has never encountered an IFA too large to fund. However, funding decisions on very large IFAs will be subject to the Bank's capital constraints and concentration limits. In any event, all lending is subject to the discretion of Manulife Bank.
[iii] If, after issuing a Discussion Paper, the Bank decides not to proceed to Commitment Letter, the Bank will refund the application fee. If, however, the client signs and returns the Discussion Paper then subsequently decides not to proceed, the Bank will retain the application fee.

Manulife Bank

For more information, please contact your Business and Insurance Lending Specialist or visit www.manulifebank.ca

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