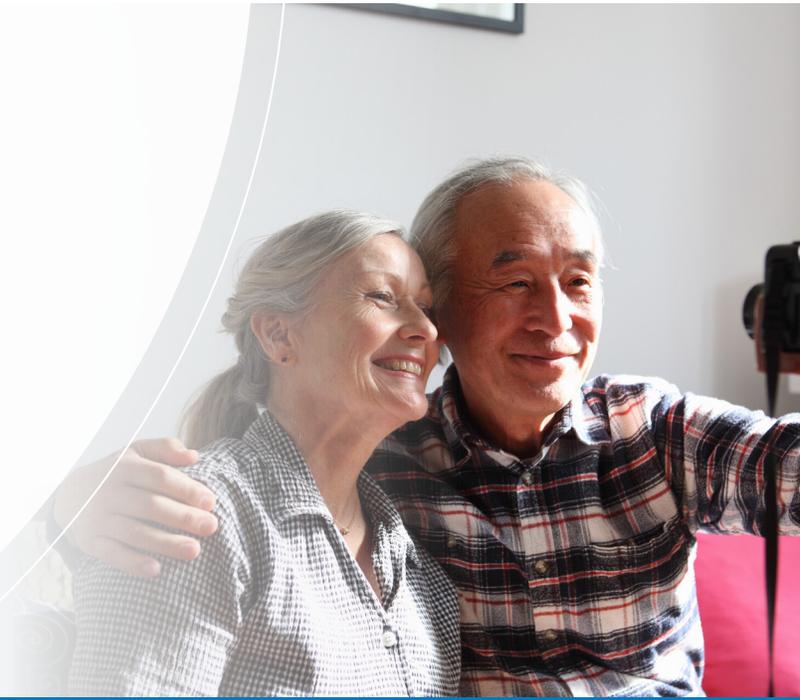


Leveraged Life Insurance



An Overview of the
BMO Private Banking program

The primary purpose of life insurance is to provide a benefit at death. However, many permanent life insurance plans such as universal life and whole life also include a cash value which grows on a tax-deferred basis. Over time, this cash value can accumulate to a substantial amount making it an integral part of your financial plan.

You can choose to access the cash value in several ways and use the funds to meet your needs. Business borrowers may reinvest in their business to finance operations, purchase new assets, or acquire a new business. Personal borrowers can use the funds to invest, run a personal business, or supplement income.

For instance, you can take a withdrawal from the cash value. Alternatively, you can choose to let the cash value accumulate and use your policy as collateral for a loan. You can then use the loan as a source of funds for the purpose you need.

Ultimately, when the death benefit of your policy is paid, the outstanding balance of your loan is then paid back to the lender.

BMO Insurance issues both universal life and whole life insurance policies which may qualify as collateral for loans from third party lenders. The following outlines the program offered by BMO Private Banking.¹

Loans can be made to Canadian residents, Canadian Corporations or Canadian partnerships. These are made on an on-demand basis and interest is calculated monthly. Typically, there are no scheduled principal payments and no set amortization period.



Front-end leveraging is a key component of the Insured Corporate Financing Concept from BMO Insurance (also called an Immediate Financing Arrangement)

Front-end leveraging from BMO Private Banking

Front-end leveraging, often referred to as an Immediate Financing Arrangement, may be a smart option for clients who want to secure life insurance without tying up capital. Under this arrangement, BMO Private Banking (the bank) can lend clients up to 100% of the initial deposit and the subsequent premiums paid into their insurance policy. While there are some limitations, typically the bank will margin advances between 90% to 100% of the Cash Surrender Value (CSV).

If the proposed loan exceeds the CSV margin, additional security may be required until the margin on the CSV of the policy covers the loan amount by itself. Once the loan amount is covered by the CSV, the additional security is normally released.



Back-end leveraging is an integral part of the BMO Insurance Insured Retirement Plan and Corporate Insured Retirement Plan.

Back-end leveraging from BMO Private Banking

Back-end leveraging may be a smart strategy for clients who have accumulated substantial cash value in their life insurance policy. By using their policy as collateral, clients can take out a loan while allowing the funds within their policy to continue growing on a tax-deferred basis.

This loan is secured by a collateral assignment of the insurance policy with interest-only payments.

Points to keep in mind

- The primary driver of any of these strategies must be the need for life insurance (such as estate or business protection) and not the ancillary benefits of being able to access the cash value of the policy over the short or long-term.
- These are long-term strategies and clients/borrowers must have enough “other” income and a net worth to make the premium payments and meet the lender’s criteria.

These types of arrangements are subject to minimum lending amounts so may not be available to all clients. Clients must be aware of these requirements before entering into a leveraged insurance strategy.

- These strategies should only be considered by clients who are comfortable with complex lending strategies that involve some risk.
- To ensure that the lending strategy continues to meet their financial objectives, clients should understand that these strategies involve ongoing administration.
- Before discussing any lending strategy involving their life insurance policy, clients should discuss their intentions with their insurance advisor, financial advisor, lawyer and/or accountant before making a decision.

Important information advisors and their clients need to know.

Program parameters for back-end and front-end leveraging from BMO Private Banking		
<p>Conditions Precedent</p> <p>A normal credit due diligence analysis will be completed. Clients must seek their own independent/external tax, accounting and legal advice regarding the program and are responsible for all associated costs.</p>	<p>Collateral</p> <ul style="list-style-type: none"> • Assignment of life insurance policy and acknowledgement by the insurer that the Bank has a priority lien on the policy • Other collateral as required (if applicable – see margin requirements) 	<p>Rates</p> <p>Please speak with your BMO Private Banking Professional.</p>
<p>Borrower</p> <p>Loans can be made to Canadian residents, Canadian Corporations or Canadian partnerships.</p>	<p>Margin Requirements</p> <p>Advances to remain within 100% of Cash Surrender Value (CSV) of a Whole Life policy or up to 90% of CSV of a Universal Life policy, provided the Account value:</p> <ul style="list-style-type: none"> • is made up of Canadian-based Indexed Accounts and/or Guaranteed Interest Accounts and/or the Enhanced Market Indexed Account (EMIA) and/or to the Guaranteed Market Indexed Account (GMIA), and; • has a combined equity component that does not exceed 30% of the Total Account Value of the policy. Investment terms for Guaranteed Interest Accounts must not exceed 10-years. <p>If a request for financing is in excess of the CSV, additional security may be required pending the loan amount being able to margin to the CSV.</p> <p>For details and options please speak with your BMO Private Banking Professional.</p>	<p>Information Required</p> <p>Personal Borrower or Guarantor</p> <ul style="list-style-type: none"> • Signed personal net worth statement on Bank’s standard form • Copy of last three years’ income tax returns and most recent Notice of Assessment (NOA) • Credit Bureau authorization • Other information as required on a case-by-case/ongoing basis <p>Commercial Borrower or Guarantor</p> <ul style="list-style-type: none"> • Copy of last three years’ corporate financial statements T2 and NOA, plus copy of corporate family tree • Most recent interim statements if more than 6 months since fiscal year-end • Other information as required on a case-by-case/ongoing basis <p>Insurance/Borrower Information</p> <p>Outline of proposal, including:</p> <ul style="list-style-type: none"> • Purpose of requested financing and amounts • Name of insurance company • IFA/ICF illustration highlighting deposits required, projected balances, policy type and assumptions used • Name of borrower • Name of insured(s) – identify if first or last to die (if applicable) • Name of policy owner
<p>Authorized Amount</p> <p>Minimum line of credit/loan authorization of \$1,000,000. Initial draws of \$300,000 are typically targeted, but can be less if other business is held within BMO Financial Group.</p>		
<p>Loan Type</p> <p>Personal Line of Credit or revolving demand loan. All loans are subject to annual review.</p>		
<p>Interest Options</p> <p>Generally, a floating-rate versus Bank of Montreal Prime Rate. For larger loans, generally with a minimum of \$5,000,000, the Bank will offer fixed rate options.</p>		
<p>Repayment</p> <p>Interest-only calculated monthly. No scheduled principal payments. Borrowers may make principal payments at their discretion.</p>		
<p>Professional Fees</p> <p>The borrower is responsible for all costs, including professional advice and legal costs.</p>	<p>Fees</p> <p>There are Initial set-up fees.</p>	



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¹ This material is current as of December 2024 and is for information purposes only.

Under current Canadian income tax legislation, using a life insurance policy to secure loan proceeds from a third-party lending institution will not generally result in taxation. All comments related to taxation are general in nature. They are based on current Canadian tax legislation and interpretations for Canadian residents, which are subject to change.

BMO Insurance and BMO Private Banking operate as two separate entities.

Information contained in this document is for illustrative purposes and is subject to change without notice. The information in this publication is intended as a summary of our products and/or services. Please consult the appropriate policy contract for details on the terms, conditions, benefits, guarantees, exclusions and limitations. The actual policy issued governs. Each policyholder's financial circumstances are unique, and they must obtain and rely upon independent tax, accounting, legal and other professional advice concerning the structure of their insurance as they deem appropriate for their particular circumstances. BMO Life Assurance Company does not provide any such advice to the policyholder or to the insurance advisor.

Insurer: BMO Life Assurance Company

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