# Immediate Financing Arrangement (IFA)
## A Comprehensive Guide for Advisors

**The IFA is a unique and sophisticated financial strategy designed for high-net-worth individuals or incorporated business owners.**

Flexible and convenient, the Equitable Bank IFA offers access to up to 100% of the premium in your client's policy, without requiring additional collateral or compromising future policy growth.

At Equitable Bank, we're committed to delivering the exceptional service and expertise you need, so you can find the best solution for your clients.

Equitable Bank

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# Eligibility

## Your client may be eligible for an Equitable Bank IFA if they:

- Are the age of majority and a resident of Canada
- Have, or are in the process of obtaining, a whole life insurance policy with a minimum annual premium of $100,000 with one of Equitable Bank's approved insurance carriers
- Meet financial qualifications to ensure interest payments can be made

## The IFA is typically an ideal solution for high-net-worth clients who are:

- Using it as an efficient tool for tax planning
- Looking to increase the rate of return on an estate planning strategy that incorporates whole life insurance
- Looking to facilitate the purchase of life insurance, while maintaining the ability to invest in their business or other opportunities
- Structuring retirement planning to recoup more value from their whole life policies
- Remaining liquid, while also protecting their loved ones

# Why choose the Equitable Bank IFA?

## Access up to 100% of policy premium

Borrowers can access up to 100% of policy premiums, even if the policy premium exceeds the current CSV.[1]

## No additional collateral

Reliance on insurance policy as the key underlying security.

## Competitive rates & fees

Competitive loan specific pricing based on Equitable Bank CSV Prime Rate.**

One-time application fee is the greater of $1,000 or 0.25% of annual premium amount.

## Technology to enhance client and advisor experience

Use our document management platform (EQ Connect), where you can easily upload client documentation, get instant access to deal status, and communicate with your underwriter throughout the process.

## Advisor-centric

Trained to help you and your clients through every step, our dedicated Insurance Lending team provides full requirements upfront to limit delays.

## Availability

Many potential borrowers are underserved by lenders who focus primarily on ultra-high-net-worth borrowers. Our minimum premium of $100,000 provides IFA solutions to a wide range of borrowers.

**The CSV Prime Rate is the annual rate of interest established from time to time by Equitable Bank as the reference rate for determining interestrates on Equitable Bank CSV Lines of Credit or IFA. Rates are subject to change at any time without notice. Interest is calculated daily and charged monthly.

[1]Subject to internal underwriting and discretion & Projected year end CSV must be equal to at least 70% of the premium amount.

# How a typical IFA works at Equitable Bank

1. Client works with their advisor and determines whether the IFA strategy would benefit them.
2. Client purchases a whole life insurance policy, while in parallel, their advisor engages Equitable Bank to determine whether the client qualifies to borrow up to 100% of the policy premium paid.
3. If the client qualifies for the IFA, the policy is assigned to Equitable Bank.
4. Equitable Bank lends the client up to 100% of the policy premium. Interest is calculated daily and charged monthly.
5. Client uses the funds as they wish (I.e., to reinvest in their business or for other investment opportunities).
6. Upon each policy anniversary, the client pays the policy premium for the additional year.
7. Client may submit a Credit Limit Increase (CLI) application ($500 fee) in order to borrow up to 100% of the year's premium (approval subject to fulfilling underwriting criteria).
8. Steps 6 and 7 are repeated each year.
9. Outstanding loan balance is typically paid due to the death of the life insured, a future liquidity event, or where there is a default on the line of credit.[5]

[5]Equitable Bank IFAs are demand credit credit facilities, meaning Equitable Bank can demand payment of all or part of the outstanding balance at any time.

# Equitable Bank IFA product overview

| | Personal | Corporate |
|---|---|---|
| **Borrower details** | | |
| Typical client profile | High net worth | Owner-managed businesses, holding company, professional corporations (personal guarantee required) |
| Security | Cash surrender value of whole life insurance from an approved carrier | |
| Approved carriers | • Canada Life<br>• BMO Insurance<br>• Empire Life<br>• Sun Life<br>• Manulife | • Equitable Life of Canada<br>• Industrial Alliance Financial Group<br>• RBC Insurance Assurances<br>• Desjardins Insurance<br>• Foresters Financial |
| **Loan specifics** | | |
| Loan amount | **$100,000** minimum annual premium (maximum **100%** of annual premium amount) | |
| Unsecured portion | Maximum 30% of loan[6] | |
| Premium frequency | Annual only | |
| Payment | Interest only | |
| Repayment | Any time, without penalty | |
| **Pricing & select fees** | | |
| Rates | Competitive loan specific pricing based on Equitable Bank CSV Prime Rate** | |
| Application fee | Greater of $1,000 or 0.25% of annual premium account[2] | |
| Credit limit change fee* | $500 (per request) | |

*Credit limit changes are not guaranteed and subject to the discretion of Equitable Bank.

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[2]Fees subject to change at any time.

[6]Maximum collateral gap of up to $1,000,000.

# Borrower qualification

Borrowers may qualify based on one of two approaches, giving you flexibility to choose what best suits your client.

| | Program 1 | Program 2 |
|---|---|---|
| Minimum FICO Score | 680 | 680 |
| Minimum income | $100,000 | $100,000 |
| Tangible net worth (TNW) | 8x annual premium | AND ONE OF<br>20x annual premium |
| Minimum liquid assets | AND ONE OF<br>1.5x annual premium (over & above premium payment) | OR<br>10x annual premium |
| Debt servicing | OR<br>45% max TDSR for personal or min 1.05x DSCR for corporate | - |

For information on our **high-level credit parameters** and **simplified documentation requirements** for personal and corporate loans, please download our IFA Loan Qualification Overview. If you have any questions, reach out to a Sales Representative, they'll be happy to walk you through it.

# Our Process

1. **New advisor**
   Advisor completes advisor agreement.

2. **Advisor & Business Development Representative discuss opportunity**
   Equitable Bank Insurance Lending sales representative to provide indicative pricing, documentation requirements, and potential approval amount.

3. **Application & package completion**
   Equitable Bank Insurance Lending sales representative assists advisor in completing application and understanding documentation requirements. A one-time application fee equal to the greater of $1,000 or 0.25% of annual premium amount is charged and will be deducted from the loan proceeds.

4. **Application submitted**
   Application package submitted to underwriting.

5. **Introductory call**
   Underwriter sets up introductory call to discuss loan details.

6. **Adjudication & conditional approval**
   Underwriter completes adjudication. If policy is not in place, a conditional approval will be issued.

7. **Policy issued & final approval**
   Client pays the premium and policy is issued, based on illustration already provided to underwriting. Underwriter issues final approval package, client has 60 days to sign.

8. **Insurer acknowledgement**
   As part of the approval package, client will execute an assignment of the policy. Equitable Bank requires acknowledgement of the assignment from insurer prior to funding.

   Please note, for all Quebec applications, a Hypothec must be registered with the applicable provincial registry prior to assigning the policy. The applicant is responsible for engaging a notary to complete the registration, and providing notary contact details to Equitable Bank.[4]

9. **Funding**
   Equitable Bank funding team to advance funds directly into client bank account.

[4]Please note that the applicant is also responsible for all costs associated with the registration, including all legal costs.

# Case Study: Meet Richard[3]

Richard is the owner of a successful family-owned manufacturing company. As he looks towards the future, Richard wants to ensure a seamless transition of his business to his two sons, while minimizing the potential tax implications that might arise upon his death. He recognizes the value of leaving behind a tax-efficient inheritance for his children, while maintaining the growth of his company.

**Age: 75**

**Income: $250,000**

**Corporate net worth: $6M**

**Personal net worth: $4M**

## Challenge

Richard's concern surrounds the potential capital gains taxes that could be triggered upon his death, as he plans to pass on his manufacturing company to his sons. He is also cautious about withdrawing capital from the corporation, as it could impact the company's operations and hinder its ongoing growth. Richard is looking for a solution that will allow him to mitigate the tax burden, maintain business capital, and leave a meaningful inheritance to his sons.

## Solution

Richard added a corporately-owned whole life insurance to his inheritance plan, ensuring the necessary life insurance coverage is in place. Using the IFA, Richard can apply to borrow against the policy, accessing up to 100% of the annual premium, with the death benefit paid to the corporation. This will allow him to maintain corporate capital for ongoing investments and facilitate the smooth transfer of the business to his sons.

[3]Illustrative only—Equitable Bank does not provide tax advice. Consult with your client to discuss their unique tax situation and the tax-free benefits of an Equitable Bank IFA.

# How it works

1. **Insurance purchase**

   The corporation purchases the whole life insurance policy with an annual premium amount of $500,000.

2. **Borrower qualification**

   The underwriting team will request the necessary documentation to confirm $4M in net worth and $750,000 in liquid assets under the corporation, falling under Program 1 (please refer to the “borrower qualification” section above for details).

3. **Borrowing strategy**

   Through the IFA, once the premium is paid and the policy is in place, the corporation can borrow back up to 100% of the premium, which may be a tax deductible for the corporation. This borrowed capital is then reinvested within the company, ensuring that it remains available for ongoing corporate and other investment needs.

4. **Tax mitigation**

   Upon Richard’s passing, the whole life insurance policy provides a death benefit to the corporation. This death benefit helps mitigate the potential capital gains tax that might have been triggered by transferring ownership of the manufacturing company to his children. The IFA loan will be repaid using the proceeds from the death benefit.

## Benefits

### Tax-efficient inheritance

The corporate-owned whole life insurance policy provides Richard’s sons with a tax-efficient inheritance, reducing the potential tax burden associated with inheriting the manufacturing company.

### Capital preservation

The IFA strategy allows Richard to maintain corporate capital within the business, allowing it to continue operations and growth without disruption.

### Seamless transition

By having the necessary insurance coverage in place and  assuming Richard has worked with his financial and legal associates to ensure that the transition of the business is effectively set up, Richard facilitates a smooth transition of the manufacturing company to his sons.

## Ready to get started?

For your client's insurance lending needs, count on our Wealth Solutions team to find a solution.

Contact us today at **1-844-235-2000** or email wealthsolutions@eqbank.ca.

**Equitable Bank**

We offer a diverse suite of lending and savings solutions so that no matter what your client's aspirations are, we have the right options to help them achieve them.

Visit us at equitablebank.ca


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