Financing Options AT A GLANCE

This chart summarizes some of the financing options available to fund a large life insurance need.

	PRIVATE FINANCING	SALE TO AN INTENTIONALLY DEFECTIVE GRANTOR TRUST	COMMERCIAL PREMIUM FINANCING	DUAL LOAN	PRIVATE SPLIT DOLLAR
Lender	Grantor	Grantor	Third Party Lender and Grantor	Institutional Lender and Grantor	Grantor
Borrower	ILIT	ILIT	ILIT	ILIT	ILIT
Description	Loan technique that offers flexibility in plan design, and requires grantor to have cash available.	Sale technique that requires income producing and/or appreciating assets.	Approved third-party lender provides loan to ILIT for purchase of life insurance.	Combines different loan arrangements (private and institutional loan) to minimize loan interest cost and offer flexibility in plan design.	Grantor pays premium on behalf of ILIT and ILIT owes greater of cash value or premiums paid.
How it Works	Grantor loans cash to ILIT to provide liquidity to pay for large premiums.	Grantor sells income producing assets to IDGT[2] in exchange for a promissory note. Trustee uses income to purchase life insurance.	Third-party lender lends the premium to the ILIT to provide liquidity to pay large premiums.	Combination of institutional loan to grantor and a private finance loan between grantor and ILIT.	Grantor as lender provides liquidity to the ILIT to pay large premiums on needed policy.
Annual Cost of Financing/ Interest Rate	Applicable Federal Rate (AFR)	Applicable Federal Rate (AFR)	Libor + spread (typically)	Rates linked to each type of loan arrangement (typically combination of institutional loan rate and AFR).	Economic Benefit costs (annual term costs or Table 2001 rates).
Potential Gift Tax Impact (often associated with Interest Due)[1]	Generally Grantor makes gifts to the trust to pay the interest due. If grantor makes a lump sum loan upfront, trust may be able to pay the interest without requiring gifts from grantor.	No gift required other than the initial "seed" gift. Interest payments received on the note are not income taxable to grantor.	Grantor gifts the interest due to ILIT. ILIT pays interest to lender. May be subject to gift tax if above exemption.	PRIVATE FINANCE LOAN: If lump sum, ILIT has assets to pay interest to grantor; no gift necessary. INSTITUTIONAL LOAN: Grantor pays lender interest directly; thus, gifting is not needed.	Economic Benefit cost is a gift to ILIT and is requires gifting, thus might be subject to gift taxes, especially in later years.
Benefits	Flexibility in plan design based on client resources. Can be designed to either preserve gifting (if available) or avoid gift and transfer taxes (if gifting is not available).	Estate freeze for assets that are expected to appreciate significantly, income and gift tax efficiency.	No need to liquidate taxable assets to fund liquidity needed for premiums.	Minimizes gift taxes and reduces the need to liquidate taxable assets to fund premiums.	Generally requires limited gifting, especially because economic benefit costs in earlier years are typically lower than AFR.
Collateral	Not required but often advisable; policy may be used.	Not required but often advisable.	Policy and/or other liquid assets. Grantor may have to provide personal guaranty.	Collateral requirements of institutional lender.	Policy

1. GST exemption should be allocated to gifts of interest/economic benefit (to avoid potential GST tax impact)
2. Intentionally Defective Grantor Trust

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