



3 CASE STUDY: Family Trust Revitalization

A beautiful five-generation old horse farm is owned by the “Jones” Family Trust. The trust also possesses a sizable portfolio of stocks and bonds. In two short years, the asset values in the trust have dropped from \$160 million to \$96 million. Currently, four brothers (ages 39 through 54) preside as co-trustees over trust management. They now have to deal with the fact that a 40% loss in trust value is jeopardizing the very survival of the farm. Due to the high cost of maintenance, they now have to contemplate selling the horse farm, which would deprive their seven children the privilege of carrying on the family tradition of raising prize thoroughbreds.

Fortunately for this family, their advisors have recommended the ABIL (asset backed insurance lending) strategy offered through CFS as a means to provide the solution for this dilemma. The plan will be for each brother to finance a new \$25 million life insurance policy through the program. In addition, they will also finance a \$5 million life insurance policy on each of the seven children (ages 3 through 10). All “Jones” family policies will be financed through one loan facility and the children’s policies will be specially designed with *CashStream™* to produce steady annual income after 19 years, either to pay for their college educations or to provide cash flow for farm maintenance. The family trust will be owner and beneficiary of every policy. As the brothers pass away over the next 20-50 years, each \$25 million policy will create a tax-free death benefit of \$25+ million to “revitalize” the trust. This amount could be well in excess of \$100 million.

During a portion of the loan term, a relatively small amount of the trust’s securities portfolio will be pledged as collateral to secure the bank loan until it is paid off. This loan redemption typically occurs within 20 years, by using excess policy cash values. Two loan exit strategies are designed into the program. This case has been modeled with several key benefits: the full loan is expected to be paid off in year nineteen, there is a high probability of no out-of-pocket cost to the family trust and all assignments of pledged collateral supporting the loan will be released after year twelve. Since 2000, this asset backed insurance lending strategy has been a viable financial solution using “intelligent leverage” that will enable the family to save cash, gift taxes and the farm for future generations!