Episode #207: The Best 3-to-1 Leverage in a Premium Finance Plan

Video Transcription

Hello, my name is Sal Mendoza and welcome back to "Money Script Monday." Today we're going to be talking about the best three-to-one leverage in a premium finance plan. Before I get started, I typically see three different types of premium finance cases here at LifePro Financial. The first is for your high net worth families. They don't have an income issue. They have a tax issue. Those families are 20 million and above.

The second type are your athletes, your surgeons, your doctors, your dentists, your small business owners. Those are making around $400,000 a year. They have a net worth of about $5, $7, $8, $9, $10 million and they have the ability to put up what we call "gap collateral."

The third type of premium finance requests that I get here are the three-to-one leverage. What's nice about this is this is more for your bigger book of business. In fact, I can even be speaking to you. The three-to-one leverage, the underlying requirement is there is no net worth requirement. You don't have to put up any gap collateral, but you do have to be making at minimum of $150, I would say to be comfortable, about 200,000 in income. More importantly is you have to be able to actually show that in a W-2 to the strategic vendors and the insurance companies with which we're working.

The other commitment that you have is that once you decide that you're going to move forward with the premium finance, that the premium outlay, which is typically a seven-year structure, is you cannot miss a payment. You can't go six years. You can't go eight years. It's exactly seven years in that exact amount. There is no modification to that whatsoever. So that's it and then you can get your own three to one leverage.

The question is what is a three-to-one leverage? Let me put it to you in way that you can understand it a little bit more. Let's say you go to the car lot and you buy a Mustang. It's a beautiful car. It's fast. It's beautiful. It's American-made. It's Ford – a Ford Mustang.

What happens if you were to get that car and all of a sudden take it over to Shelby and discover you need to improve on the performance, because that's what Shelby does. All of a sudden your car still looks the same but the performance is just so much better, so much faster, and so much more powerful. That is what the difference is between a nonpremium finance and a financed plan. A nonpremium finance is getting your beautiful Mustang and your three to one leverage is getting a Shelby, combining them both.

Let's take a look at that a little bit. In the contribution, I already explained that to you that it's a seven-year outlay. The most important part is that we don't do any six-year or eight-year. It's a seven-year outlay for the client. The banks - they're going to pay for 10 years and that's it. They're not paying for nine years. They're not paying for 11 years. They're paying for 10 years. It's a strict box. We don't change that part.

There is some flexibility in some other areas, not in the premium outlay. What's nice about that is if we had a 43-year-old male preferred, and we ran an illustration, it would be roughly around $29,000 a year. $29,000 a year times seven is roughly around $203,000. That's your Mustang. If you take it over to Shelby and this Shelby alone or the bank, they're willing to contribute about $56,345 a year for the next 10 years, so that's around $563,450. If you combine both of them, which is how you get your Shelby Mustang, all of a sudden it's around $766,000. That is quite a performance. A huge leap.

Let's move on. The next two pieces I'm going to talk about is the death benefit and the income and we're always gonna start off with the death benefit because one of the things is we lead with insurance. It's always about the death benefit first and foremost so let's talk about that a little bit. We're going to talk a little bit about the non-financed and financed. If your client is 43-years-old, if it's non-financed, in other words, they weren't using the Shelby or the bank, the death benefit would be around $792,000. If they went to Shelby and they got it souped up, all of a sudden that death benefit increased to about $1,482,000. That's an 87% increase in performance on your death benefit.

By the time you go down to age 100, on a non-financed plan, just buying a regular Mustang, that death benefit, because remember you've been taking out money or what you call income, now your death benefit is around $285,000. If you have that souped up Shelby, all of a sudden your death benefit is still, even at age 100, still over $1 million. That's a 285% increase in performance on the death benefit alone and I haven't even gotten to the best part of the story is the income.

Let's talk about the income a little bit. At age 65, if you were doing a non-financed plan, or just a regular Mustang, you're putting in, there's $29,000 a year, no bank at all, no Shelby, then all of a sudden you're pulling out around $39,000 a year. If you were to take it to Shelby and they were to soup it up, all of a sudden now you can take out $57,000 a year. That's an increase of 45%. That's almost 50% more in income. This is after the exit strategy and you've gotten rid of the bank, which is the other part that's really important. By the time you're 100 on a non-financed plan, it's about $1.377 million that you've taken out in income. On a souped up Shelby Mustang, you've taken out over $2 million.

My question to you, ladies and gentlemen who are listening, when you look at your book of business, I want you to think do I have clients that have an estate problem, do I have clients that are doctors, athletes, or do I have more clients that would fit into this three to one leverage, or what we call a Shelby IUL, a souped up performance?

My name is Sal. Thank you for letting me share today.