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Life Settlements in Mainstream Investment Banking A harbinger for the future

During the first quarter of 2004, two investment banking deals were inked wherein bond offerings were securitized with life settlements. This is groundbreaking in the sense that this is the first time since the inception of the life settlement industry in 1998 that rating agencies and a major investment bank have taken note of the role life settlements can play in the financial services marketplace.

These securitization activities bode well for the life settlement industry since the nature of investment banking is founded upon the stability of assets and longevity in the realization of returns.

Foreign Investment in Life Settlements

Funders (those who purchase life insurance policies on the secondary market) are in some cases portfolio buyers who function as aggregators of investment products that are wrapped into a security. This is particularly popular in Germany where banks and investment houses wrap the product and then sell the security to institutional investors. U. S. life settlement funds are becoming increasingly popular in Germany where investors purchase life insurance policies from policyholders in the U. S. secondary market which carries special tax advantages under the current U. S.-German Double Taxation Treaty.

While a substantial number of the funds that have invested in life settlement transactions originated in Germany, some of our associates who are closely involved in the investment banking community have been recently approached by funds outside of Europe in countries such as Asia and Latin America. As a result, they predict that not only will we see the number of funds investing in these transactions increase, but also the size of the funds will increase. This in turn places a demand in the marketplace and that in turn results in increased activity among those selling their life insurance policies.

AM Best Rates Bonds Collateralized by Life Insurance Policies

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On January 20, 2004, BestWire Services reported that A.M. Best Co. had assigned a debt rating of "aa-" to \$63 million of Class A Asset-Backed Bonds that were collateralized by \$195 million in face value of life insurance policies (life settlements). A.M. Best is a worldwide insurance-rating and information agency founded in 1899 by Alfred M. Best. The company, with offices in the U. S., UK, and Hong Kong, is an issuer of fixed instrument debt ratings that cover bonds, notes, securitization products and other financial instruments issued by insurers and reinsurers. Its debt and commercial paper ratings are used by capital-market issuers and professionals worldwide.

The bond deal, with Tarrytown Second, LLC as issuer, carried an interest rate of 7% per annum maturing on Dec. 15, 2011. The rating was based on a representative portfolio held by collateral manager Seabury Insurance Services, LLC. The life insurance policies in the portfolio were purchased from individuals with life expectancies ranging from 4 years to 7 years.

According to BestWire Services, major considerations in rating the bonds included the diversity of diseases in the life settlement pool, the credit risk of insurance companies backing the life settlements and the mortality risk of the insured individuals.

Wall Street Journal reports on \$70 Million Bond Deal involving Merrill Lynch

On April 30, 2004, The Wall Street Journal reported on a recent "ground breaking bond sale" securitized by life insurance policies.

Legacy Benefits Corp, a company that purchases life insurance policies sold through life settlement transactions, sold \$70 million in bonds in a private placement arranged by Merrill Lynch. The deal included two tranches with a final maturity date in 2039.

Moody's Investors Services rated the bond transactions. The Class A notes were rated A1 and pay a coupon of 5.35%, while the Class B notes were rated Baa2 and paid a coupon of 6.05%.

The article quotes Meir Eliav, president of Legacy Benefits, who explained that there is unbelievable growing demand to sell policies, and that "the demand is coming from senior citizens who don't need their coverage anymore for a variety of family, business or estate planning reasons."

Experts comment on the future outlook for life settlements and investment banking

Baker & McKenzie, a 50-year-old international law firm with offices in 38 countries and one in each of the world's major money centers, has substantial knowledge in this arena. According to Boris Ziser of Baker & McKenzie, "It appears there is a growing acceptance in the capital markets for life settlement transactions. We expect to see a dramatic increase in transactions in the next six to 12 months." Ziser observed that the recent participation of Merrill Lynch and Moody's in a securities transaction involving life settlements will be of great benefit to the industry. Combined with the growth that is taking place, Ziser noted that this will lead other investment banks to become involved in these transactions. Baker & McKenzie was named international Law Firm of the Year and was ranked number one in the PLC Global 50 World Rankings 2003.

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