

## **Credit Enhancement:**

Senior Advisory Services, Inc. has created a fungible and pliable credit enhancement and or mitigation model that can be deployed within the framework of:

- Equity Funds.
- Chapter 11 Administration.
- Lending & Warehouse Facilities.
- MBS & CMBS Securities.
- Private Placements.
- Longevity Swaps.
- Rated Securities / Collateralized Bonds.
- Distribution Risk-Arbitrage” Trades.

Senior Advisory Services, Inc. understands that most investors are searching for low life expectancies, and they are not plentiful in supply, but we have strategically created a skeletal structure that maintains longevity. This asset can be bought and sold 3 to 4 tranches out, creating an opportunity for leverage and credit enhancement longevity.

## **The Asset Class:**

Senior Advisory Services, Inc. is a clearinghouse for Longevity Investments; in particular Life Settlement Pools that are non cash flowing and cash flowing instruments. We offer portfolio diversification through our credit enhancement structure, which seeks to distill the risk of your companies’ core investment by utilizing a range of conservative policy maturity estimates from leading impartial third-party underwriters of our Life Settlement Pools.

Through our Life Settlement Portfolio model, we deploy various applications of institutional methods to liquidate and exit from Life Settlement Portfolios, in the aggregate, these assets are typically priced to provide investors with a minimum expected rate of return, IRR, equal to no less than 10%.

All policies held in our portfolios are issued by “A”, or better, AM Best rated insurance carriers. The investor will, upon purchase of a Life Settlement Portfolio, own all rights to future death benefits and policy premium payments held within the securitized asset.

All policies within each portfolio have medically underwritten actuarial life expectancies determined by third party underwriters. The Company targets effective life expectancy using a time stress variable of between 6 months - 24 months. The degree of sensitivity analysis employed with respect to life expectancy is contingent upon the risk tolerance of each investor.

## **Risk Factors:**

Intrinsic risk of investing in Life Settlement Portfolios is clearly failure to:

- Maintain policy premiums.
- The risk of the policy failing to mature at the expected future date (longevity risk).
- Have medical examiners systemically estimate life expectancies.

These risk factors are distilled by:

- Up front impounding of policy premiums predicated by hold period of asset. An implementation of a credit facility may be implemented in cases of longer-term strategies, such as “buy and hold”.
- Exiting asset within a predetermined traunch period, with a preset buy and sell price until asset has matured. Deploy short and moderate term strategies to avoid Alpha and Beta longevity risk.
- Utilizing two independent medical examiners. Three are utilized when Life Settlement Portfolio consists of less than 300 policies.

Within Life Settlement Portfolios, Alpha and Beta longevity risk in correlation to each investor’s tolerance can be measured.

The population mortality improvement risk (unexpected increase or decrease in actual lifespan of general population) is a consideration in long-term hold strategies, and when deploying Life Settlement Portfolios as a tail end investor & viatical purchaser.

## **Protection from Core Asset Default:**

An attenuation algorithm reduces the likelihood of longevity index drift and unfair margin computations “wear-out” and relative-risk ratio (mortality scaling factor).

Specified policies are documented in each transaction and are already owned by the Life Settlement Portfolio, not a “blind pool”.

Future expiration of Life Settlement Portfolio or Life Settlement Portfolio Security, utilizes statistical (actuarial) outcomes: There is an 85% statistical maturity rate

on all policies, hence any future IRR under this asset class can be charted with predictability.

With IRR's from 10%, the Life Settlement Portfolio acts as a backstop for under and non-performing core assets. No need for acquiring Surety or Performance Bonds.

### **Portfolio Diversification:**

The Life Settlement Portfolio consists of a diverse segment of monetized Life Insurance Policies ranging in spectrum from:

- Universal Life.
- Whole Life.
- Convertible Term.
- Key Man Policies.

### **Exit Strategies:**

Each Life Settlement Portfolio deploys a single, double or triple layered exit from said investment class:

- Arbitrage from attenuation via 36-month traunch period.
- Short-term fuse of initial seed capital inducement. (if deployed)
- Creation of Mutual Fund, with Private to Public offering via Special Purpose Vehicle (SPV).
- Spot Market.
- Swap Participation. (Emerging market)

### **Mitigants:**

- All policies are "STOLI Free" (Stranger Transacted).
- All policies are past the 2-year contestability period (Suicide Clause).
- All Life Settlement Portfolio processes are transparent to potential investors.
- All Life Settlement Portfolios follow AM Best guidelines for Securitization.

## **Mitigants for Medical Underwriting:**

- A cohesive underwriting unit will be present within in a fully deployed quality control and due diligence process.
- Reviews by qualified Physicians will help when health and lifestyle changes have occurred.

## **Tracking / Servicing Agents:**

Wells Fargo Bank.

## **Cut Through Clause:**

In the event of default, this will not be a credit default swap!

## **Assurances:**

- Senior Advisory Services, Inc. will comply with all federal and state specific insurance laws when purchasing life settlements from individuals and third party sellers.
- A Back up Service Provider is selected on each transaction.
- All HIPAA release forms are fully executed upon inception and periodically thereafter when medical records are obtained for life expectancy updates.
- All policies are fully in force and transferable (insurable interest compliant), and as of any sale date, all policies are free and clear of any filed security interests, liens, charges, encumbrances, and no offsets, defenses or counterclaims.
- Consistency Checks are performed between the original insurance application and the medical records, so that all assurances coincide with each other.
- No one policy will comprise more than 3.3% of collateral pool, unless there are jumbo (\$10m face value) policies involved, then additional stress tests will be performed.
- All pools will have a limit of 15% insurance company concentration.
- Underwriting for possible Indicative Rating or Debt Rating play.
- Pool optimization by reducing premium payments to minimum levels to keep policies in force until age 100 of insured's.
- A bankruptcy remote vehicle will be implemented so that tax advisers can provide recognized opinions on premium and administrative expenses.

- Group policies will be convertible.
- All policies are non-fractionalized.
- All policy language will not prevent lump-sum payments of full insurance benefits.
- All policies will have a minimum rating of “A” (All pools differ with risk).
- Disease Diversity concentration limitations will be implemented to prevent “cure risk”.
- All (VBT) Valuation Basic Tables are the most current when determining LE.
- If and when a security strategy is implemented, all term policies will have been converted to whole and universal life policies.

### **Recoveries of Death Benefits In Case of Insurer Impairments:**

Since Senior Advisory Services, Inc. will use policies that have a minimum rating of “A” or better, in the **unlikely event** that an insurer becomes illiquid; an **impairment strategy** is deployed as such:

- A statutory \$300,000 impairment limit is in effect.
- Remaining Death Benefits are paid from the estate of the insolvent insurance company. Anecdotal evidence indicates policyholders rarely lose money.
- Assumptions of recovery are achievable in three months.

**Exhibit 11**  
**Best's Cumulative Average Impairment Rates\***

Years	A++/A+	A/A-	B++/B+	B/B-	C++/C+	C/C-	D
1	0.06%	0.20%	0.75%	2.09%	3.44%	6.08%	7.38%
2	0.20%	0.61%	1.80%	4.30%	5.73%	9.54%	12.42%
3	0.36%	1.14%	2.89%	6.38%	8.55%	12.08%	17.23%
4	0.53%	1.68%	4.24%	8.24%	11.29%	14.64%	21.50%
5	0.70%	2.30%	5.66%	10.21%	13.64%	17.28%	25.62%
6	0.94%	2.96%	6.88%	12.31%	15.93%	21.00%	29.71%
7	1.19%	3.61%	8.16%	14.27%	18.07%	24.10%	33.12%
8	1.46%	4.34%	9.19%	15.99%	20.85%	27.48%	36.00%
9	1.80%	5.00%	9.99%	17.73%	23.07%	30.04%	38.51%
10	2.15%	5.65%	10.90%	19.38%	24.73%	32.09%	40.87%
11	2.50%	6.33%	11.78%	21.05%	26.08%	34.67%	43.28%
12	2.95%	6.93%	12.72%	22.64%	26.98%	36.71%	45.23%
13	3.45%	7.50%	13.65%	24.13%	27.83%	38.17%	46.92%
14	3.95%	7.97%	14.57%	25.38%	29.12%	39.74%	48.22%
15	4.31%	8.42%	15.19%	26.57%	29.95%	41.42%	49.48%

\*Table is from the methodology document titled "Best's Impairment Rate and Rating Transition Study – 1977 to 2006," published Feb. 26, 2007.

**Developing Markets:**

As of the publishing date of this literature, in the UK there's a developing series of standardized indices that can be used as a global benchmark for trading **longevity** and **mortality risk**. The risk will be traded as swap structures initially, but as the market develops, **longevity bonds** will be created to transfer the risk, similar to cat bonds transactions, in the insurance-linked securities markets.