



Military Loans:

Important Information About Loans For Military Personnel

In This E-Book:

- Military Emergency Relief Loans**
- VA Home Loans**
- Payday Loans For Military Personnel**
- High Quality Loans**
- Borrowing From Retirement Accounts**

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MILITARY EMERGENCY RELIEF LOANS

All military personnel and eligible family members, if needed, may apply for an “interest-free” relief loan. Basically, and depending upon your branch of service, relief loans can be used for the following reasons:

- Basic living expenses (food, rent, and utilities)
- Emergency travel expenses
- Vehicle repairs
- Funeral expenses
- Medical bills
- Dental bills
- Child care expenses
- Moving expenses
- Disaster relief assistance
- Unforeseen family emergencies
- Miscellaneous expenses

Each branch of service has in place an “interest free” relief assistance loan program. The following is their contact information, loan maximum and eligibility criteria:

ARMY EMERGENCY RELIEF (AER)

AER maximum loan: No limit. AER will respond to your specific need.

Eligibility criteria:

- A. Members of the Army National Guard and the U.S. Army Reserve on continuous active duty for more than 30 days and their dependents. This applies to soldiers on AD for training (ADT) and serving under various sections of title 10, United States Code.
- B. Soldiers retired from active duty because of longevity or physical disability, or retired upon reaching age 60 (Reserve Components) and their dependents.
- C. Widows, widowers and orphans of soldiers who died while on active duty or after they retired.

Phone: 703-428-0000

Toll Free: (866) 878-6378 / DSN: 328-0000

Email: aer@aerhq.org

Website: www.aerhq.org/dnn563

AER locator: www.aerhq.org/dnn563/AERLocations.aspx

NAVY-MARINE CORPS RELIEF SOCIETY (NMCRS)

NMCRS maximum loan: \$300. If the need is for more than \$300, an appointment must be made with the NMCRS Office.

Eligibility criteria for relief assistance:

- A. Active-duty and retired members of the regular Navy and Marine Corps Reservists on extended active duty and certain retired reservists.
- B. Dependents and dependent survivors of the above members Indigent mothers (65 years or older) of deceased service members who have limited resources and no family to provide for their welfare.
- C. Ex-spouses “20-20-20” (un-remarried former spouses) whose marriage to a service member lasted for at least 20 years while the service member was on active duty.
- D. Uniformed members of the National Oceanic and Atmospheric Administration (NOAA)

Phone: (703) 696-4904 / DSN: 426-4904

Website: www.nmcrs.org/quickassist.html or www.nmcrs.org/intfreeloan.html

NMCRS locator: <http://nmcrs.org/locations.html>

AIR FORCE AID SOCIETY (AFSA)

AFSA maximum loan: \$500

Eligibility criteria:

- A. Active duty Air Force personnel and eligible family members
- B. Retired Air Force personnel and their eligible family members, but not on a continuing basis, and based on a case-by-case review
- C. Air National Guard or Air Force Reserve personnel on extended active duty 15 days or more under Title 10 USC
- D. Spouses and dependent age children of deceased Air Force personnel (who died on active duty or in retired status)

Toll Free: (800) 769-8951

Website: www.afas.org/Assistance/HowWeCanHelp.cfm#

AFAS locator: www.afas.org/Location/Location_index.cfm

COAST GUARD MUTUAL ASSISTANCE (CGMA)

CGMA maximum loan: \$500

Eligibility criteria:

- A. Active Duty Members, reserve and auxiliary members
- B. PHS officers and chaplains
- C. Retired Military Personnel
- D. Civilian Employees
- E. CGMA Employees
- F. Immediate Family Members
- G. Surviving Family Members

Toll Free: (800) 881-2462

Website: www.cgmahq.org

CGMA locator: www.cgmahq.org/Map/repMembers.html

MILITARY SERVICEMEMBERS GIVE FEEDBACK ABOUT MILITARY RELIEF LOANS

In a 2011 military survey conducted by Money Matters USA Research®[1] in North Carolina regarding installment loans, servicemembers were asked these significant questions:

- A. Military Relief Societies offer loans to military members. Are you familiar with their services?
- Yes 79%
 - No 21%

Summary: The majority of respondents are aware of interest free loans that are made available to them from military relief organizations.

- B. Would a Military Relief Society loan be an option for you for your current installment loan?
- No 50%
 - Yes 30%
 - No Opinion 20%

Summary: A majority who applied for installment loans said their credit need did not qualify for an interest-free loan from Military Relief Societies. However, 30% who felt they qualified, chose to forgo that option and apply for an installment loan instead.

Conclusion: Although interest-free Military Relief loans are available to certain qualified servicemembers, those respondents stated that their service core values and stated desire to take personal responsibility outweighed the use of charitable loans or services, even if it saved a few more dollars per month.

NOTE: [1] Money Matters USA Research® examined the impact of availability and usage of installment loans offered exclusively under North Carolina's Consumer Finance Act. For the complete survey report, visit www.moneymattersusa.org/.

VA HOME LOANS

The VA HOME LOAN PROGRAMS are designed to assist you, the VETERAN, in obtaining the goal of home ownership.

- VA offers NO DOWN PAYMENT home loans.
- VA interest rates are competitive with other types of loans.
- VA allows you to purchase MORE HOUSE WITH LESS INCOME than other types of loans.
- VA allows the assumption of your loan by another party that assists you in selling your home.
- VA allows you to refinance your VA loan to a lower rate with NO APPRAISAL, NO CREDIT CHECK, and NO INCOME QUALIFYING.
- VA allows you to take CASH OUT UP TO 100% OF THE CURRENT VALUE OF YOUR HOME.

With the assistance of the information in this section, you can begin to enjoy:

- APPRECIATION in VALUE
- GREAT tax advantages
- FREEDOM from WASTED RENT, landlords, base housing
- PRIDE of OWNERSHIP in your HOME

THERE ARE THREE TYPES OF VA HOME LOANS

1. PURCHASE A VA HOME WITH NO MONEY DOWN.

You will be required to put down “EARNEST MONEY” when you write a purchase contract. This money will be returned to you at closing, and is usually used to pay closing costs. Closing costs will estimate around 3%-4% of your loan amount, or \$5,250 on a \$150,000 home. In addition to this, VA charges a VA FUNDING FEE that can be added to the loan and sales price. VETERANS WITH 10% DISABILITY or MORE DO NOT HAVE TO PAY THIS FEE.

There are several ways to handle these costs!

- You may pay them with your own funds.
- You may have the SELLER or BUILDER pay part or all of these costs for you.
- You may get a rebate from the REALTOR to pay a portion of the costs.

2. VA LOAN LIMITS

Legislation now allows the VA to use a locality-based approach in determining ceilings on its no-down payment home loans.

To see limits, visit: www.homeloans.va.gov/docs/2009_county_loan_limits.pdf. VA no-down payment loans are available for as high as \$1,000,000 or more. If a large VA loan is needed, it may be obtained with a relatively small down payment.

3. EASY INCOME QUALIFYING

The VA uses two methods of income qualifying. The first is that your new house payment and other monthly obligations cannot exceed 42% of your GROSS INCOME (not take home pay). A veteran making \$3,400 per month, including allowances could afford a house payment of \$1,428. If the veteran has a \$220 car payment and a \$50 credit card payment, these must be deducted.

Debt Free Payment	\$1,428
Less Car Payment	-220
Less Credit Card Payment	-50

House Payment you can afford \$1,158

VA also uses a generous residual income approach that is more complicated. If you do not qualify by the 42% method, see a VA LOAN SPECIALIST to get the MAXIMUM AMOUNT YOU CAN BORROW. Veterans can borrow MORE with less income than non-veterans can.

The benefits of Veteran vs. Non-Veteran purchasing a \$150,000 home:

VETERAN

A debt free Veteran must make \$2,753 per month.

A Veteran buyer must put down \$ 0.

Veterans have to add \$250 in income, to make up \$250 car payment.

Typical closing costs \$2,077.

NON-VETERAN

A debt free Non-Veteran must make \$4,128 per month.

FHA buyer must put down approximately \$4,500.

Home Conventional buyer must put down \$7,500.

Non-Veterans have to add \$750 in income, to make up a \$250 car payment!

Typical closing costs \$2,822.

VA STREAMLINE REFINANCE

VA doesn't abandon you after closing like other loan types. Once you have your VA LOAN, you can refinance to a lower rate as long as you are current on your mortgage payments. Unlike other loans, the VA STREAMLINE LOAN can often be closed in a week!

You do *not* need:

- another appraisal
- to have your credit checked
- income to qualify
- to come up with any money at closing
- to live in the home anymore

VA wants you to have the lowest rate possible and will make it SUPER EASY for you.

VA REFINANCE: CASH BACK, CONSOLIDATION

VA allows you to borrow up to 100% of the current appraised value of your house. The interest rates are the same as regular VA rates. Other types of loans charge higher rates and points for this loan. You will need to qualify to VA standards for this type of loan.

A Veteran can:

- Refinance another type of loan into a VA.
- Refinance VA loan to VA loan re-using the same eligibility.
- Consolidate a first mortgage and a high second mortgage.
- Pay off high interest credit cards and other obligations.
- Get cash out to make home improvements.
- Get cash out to invest in other real estate or for any other reason.
- Go on a trip, but don't forget to send in your house payment.

STEPS TO PURCHASING A HOME

1. PRE-QUALIFY FOR A LOAN:

Many lenders will accept your loan application and begin processing the loan for only the cost of a credit report, usually under \$25. Pre-qualifying will:

- Tell you how much house you can afford to buy.
- Get your CERTIFICATE OF ELIGIBILITY ordered or updated.
- Check your credit, and begin repairs if necessary.
- Keep you from looking at a home you cannot afford.
- Home sellers and their realtors will look favorably on your offer because they can be confident that your loan will go through.
- If your credit report is in and your ELIGIBILITY CERTIFICATE is ordered, your loan will close much faster.

2. LOCATE A REALTOR IN THE AREA YOU WANT TO LIVE IN:

As a purchaser, the Realtor works for you FREE (since the seller pays the commission). Certain Realtors will also help you with your closing costs. If a Realtor wants money from you to find you a home, RUN, don't walk, to another Realtor!

3. WRITE A CONTRACT ON THE HOME YOU WANT:

Your Realtor will prepare this for you. VA contracts contain a clause called the "VA ESCAPE CLAUSE" which protects your EARNEST MONEY if the house does not appraise for the purchase price.

4. APPRAISE THE HOUSE:

A VA approved appraiser will now determine the value of the home. He will note any obvious repairs that need to be done to bring the house up to VA STANDARDS. The VA then reviews his work to further safeguard your interest and issues a VA Certificate of Reasonable Value.

5. LOAN APPROVAL & CLOSING:

VA or a lender's underwriter approved by VA now issues the final approval and the loan closing is scheduled. You will sign many papers, all approved by the VA. The lender and Title Company are limited in the closing costs; they can charge you. The VA will not let them charge UN-allowable closing costs. This does NOT prevent them from charging you too high an interest rate.

6. MOVE IN:

Congratulations! You have taken a major step toward financial freedom and wealth building.

OPM—THE SECRET TO WEALTH BUILDING

OPM stands for OTHER PEOPLES MONEY. If you borrowed \$150,000 to purchase a home, you have \$150,000 of someone else's money working for you. If your home goes up 5% in value each year, you are getting richer by \$7,500 per year or \$625 per month! PLUS, now your gains compound!

EXAMPLE: 5% yearly appreciation on a \$150,000 home over a 30-year period.

5th year: \$191,442
10th year: \$244,334
15th year: \$311,839
20th year: \$397,995
25th year: \$507,953
30th year: \$648,291

MORE INFORMATION ON HOME LOANS

VA home loans (start here and explore): www.homeloans.va.gov

State Veterans Affairs Offices (state home loan programs): www.va.gov/statedva.htm

More information on VA home loans: www.valoans.com

PAYDAY LOANS FOR MILITARY PERSONNEL

Beneath their uniforms, military personnel are also people. They do not differ from civilian men and women when it comes to financial needs. Yet, they are more favored by some lenders who consider them to be less risky. You must have heard of payday loans. Many civilians frequent payday lenders to meet financial emergencies. There are also some military personnel who take out payday loans although theirs are termed “military payday loans.”

WHAT ARE PAYDAY LOANS?

Payday loans are mostly in small amounts ranging from \$100 to \$1,000, just enough for people to meet their particular emergencies. Payday loans are normally granted only to people with regular salaries because risks are kept to a minimum when there is a steady source of income. Since the loan amount is small, the borrower is expected to pay it back shortly, usually on the coming payday. Depending on the negotiation between borrower and lender, repayment period can be extended for two more months or even longer.

PROFITABILITY OF MILITARY PAYDAY LOANS

Lenders granting military payday loans are more profitable than their brethren lending to civilians. Their success can be attributed to the nature of their customers -- the military personnel. For lenders, nothing can be better than military payday loans:

- Men and women working in the military receive a fixed monthly salary. They earn more than the civilian employees with a minimum wage of about \$1,500. Because of the regularity of their income, they have the capability of repaying small loans on time.
- Lenders regard them as very desirable customers because of their willingness to get payday loans without care for the high interest rates. They do not wince even if the interest reaches 400%.
- Military personnel have a better repayment record than civilians. They are prompt in paying their bills and are known to really work hard so they can pay off all their obligations.

There is no doubt that payday loans may be helpful to *some* of the military personnel.

However, this loan product makes the military men and women vulnerable to abuse by unscrupulous lenders. There are even allegations that some military men are forced to pay interest at 800%.

As such, this concern is made one of the many that were addressed by the Fiscal Year 2007 Military Authorization Act.

FISCAL YEAR 2007 MILITARY AUTHORIZATION ACT PROHIBITIONS

The fact that payday loan offices have mushroomed within the vicinity of military bases is an indication of the big volume of payday loans for military personnel. Devious lenders, however, can no longer prey on their military customers because of the new law that expressly prohibits the following in loan policies:

- Requirement that an allotment be set up even before the loan is received
- Use of the vehicle title as collateral for loans
- Using checks or electronic methods to gain access to the bank accounts of military personnel
- Waiving of rights under selected federal laws such as the Servicemembers Civil Relief Act
- Including unfair clauses in the loan agreement that can make it difficult for the borrower to seek legal recourse against the lender
- Penalizing early repayments

With fair creditors, payday loans can be a wonderful resource for anyone who needs financial assistance. Military personnel stand to benefit from payday loans too. ***However, when lenders become unconscionable and focus on their profits alone, payday loans turn into a yoke that will only cause more financial difficulties.***

HIGH QUALITY LOANS

What is a “High Quality” loan? The Center for Financial Services Innovation (CFSI[2]), the nation’s leading authority on financial services, defines high quality credit with the following important benchmarks:

- Marketed transparently
- Affordable and structured to support a responsible repayment plan
- Amortization periods that extend beyond a single pay period
- Repayment history is reported to credit bureaus

Characteristic “high quality” loans: High quality loans can be used for various reasons such as:

- Achieve financial goals
- Education for higher learning/school supplies and clothing
- Leave/vacation
- Purchase consumer goods
- Car or home improvement or repairs
- Systematically reduce or eliminate cycle of debt
- Bill consolidation
- Cash infusion
- Unexpected situations
- Establish or improve credit history

Regardless of what your status is credit history wise, the following “high quality” loans, if budgeted and used properly, will be a smart, positive and valued addition to building a strong and excellent credit history.

1) THE TRADITIONAL INSTALLMENT LOAN (TIL)

The valued features of a “high quality” loan are the hallmark of the Traditional Installment Loan (TIL)[3]. A TIL provides a properly structured and timely repayment schedule based on an individual’s actual ability to pay. They are repaid with a fixed number of periodic equal-sized payments that fully amortizes (pays down) the debt over the term of the loan. TILs are a transparent, affordable, and financially disciplined form of credit that helps consumers meet important economic needs.

Key features and benefits:

- Fixed rate and full transparency of loan terms, conditions, interest rate, and cost explained at the time of origination
- Fixed monthly affordable payments and easy record-keeping
- Fully amortizing. Principal is reduced in a timely manner and paid off over the term of the loan
- Customer has choice of the most convenient payment method
- Fast turn-around and limited documentation required
- Promotes budgeting and encourages saving
- In most cases, credit score is not the main requirement to qualify for a loan. Lenders are mostly interested in your debt to income ratio and ability to make timely payments
- Payments are reported to credit bureaus

The most successful and beneficial loan that meets an important need: The Center for Financial Services Innovation states, “Federal agencies have recognized the importance of ensuring that high quality loans are a priority. The Traditional Installment Loan (TIL) has historically been the most successful in meeting this important need.”

What’s more, in 2007, the DOD issued regulatory guidelines for certain loans to service-members through the Talent Amendment[4] which capped credit products that were considered harmful at 36%. Excluded from these regulations was the traditional installment loan which was identified as being “beneficial” to servicemembers.

COST EFFECTIVE, STRUCTURED, AND PAYMENT DISCIPLINED LOAN

Be aware that there is more cost to the lender in providing and servicing these unsecured loans, so the interest rates on traditional installment loans (TILs) are higher. Yet, because TILs are fully amortized loans, the principal balance is paid down more rapidly than, for example, a credit card’s minimum repayment requirement.

<i>Example:</i>	\$1,000 Installment Loan vs. Credit Card Minimum Cost	
	Traditional Installment Loan	Credit Card Minimum
<i>Loan financing:</i>	36% / 12 months	15%[6] / 97 months
<i>Monthly payments:</i>	\$100.46	\$16.87 (2.5% minimum)
<i>Total amount paid:</i>	\$1,205.52	\$1,636.94
<i>Total interest paid:</i>	\$205.52	\$636.94

Summary: While the credit card may have a lower interest rate and APR, the traditional installment loan’s overall cost is lower and the debt is reduced faster. Moreover, while making comparable payments on the lower APR credit card would result in less interest paid, the evidence of credit card usage[7] shows that doing so is very difficult as it lacks the payment discipline that’s built into the traditional installment loan.

Conclusion: The traditional installment loan has been around for 100 years and continues to be a popular loan option and beacon for responsible lending. Not only does it allow individuals to purchase the things they need in life, whether a car or home repair, vacations, consumer goods, or the unexpected emergency, more importantly, it keeps debt under control with its structured budgeting conditions and disciplined repayment plan. Loan options: \$500 minimum and \$10,000 maximum.

MILITARY SERVICEMEMBERS GIVE FEEDBACK ABOUT TRADITIONAL INSTALLMENT LOANS

In a 2011 military survey conducted by Money Matters USA Research@[5] in North Carolina regarding installment loans, servicemembers were asked and answered these significant questions:

A. How did you hear about this loan company?

- Referral by Servicemember 51%
- Internet 24%
- Other 16%
- Drive-by / Walk-in 9%

Summary: It appears that friends or “battle buddies” often refer other soldiers to loan offices for financial assistance. It’s very telling that servicemembers appear to have a high degree of trust and respect for traditional installment loan companies.

B. What are the 5 most important features to you in obtaining an installment loan from this office (by ranking of first choice)?

- Convenience 28%
- Fast Approval Process 16%
- Service 10%
- Establish Credit 10%
- Fixed Repayment Terms 5%
- Confidentiality 5%
- Understand Circumstances 5%
- Relationship 5%
- Price/Cost 5%

Summary: While one might expect price/cost to be a top criteria when selecting an installment loan, it was ranked lowest in importance. Numerous marketing surveys and analyses have consistently confirmed that price is not the main consideration unless it is considered excessive to the benefit.

C. How would you describe this type of loan (installment) for military personnel?

- Beneficial 91%
- No Opinion 8%
- Not Beneficial 1%

Summary: Respondents strongly indicated that installment loans are beneficial not only for themselves, but for other soldiers too.

D. Financial distress is often cited as a concern with mission readiness and carrying out military duty in the field. Do you feel that this loan:

- Would positively impact my readiness and performance 61%
- Would have no impact on my readiness and performance 20%
- No Opinion 17%
- Would negatively impact my readiness and performance 1%

Summary: Respondents who obtained a traditional installment loan feel it promotes a positive impact on their mission readiness and helps with carrying out their military duty in the field. Several soldiers who viewed their loans as positive explained that the loans offer “affordable monthly (budgeted) payments.”

E. Were loan terms and conditions fully explained so that you understood the total costs, scheduled payments, interest rates, etc.?

- Yes 98%
- No 2%

Summary: Overwhelmingly, It was indicated that traditional installment loans were offered with full transparency and consideration for the applicant’s budget and ability to repay the loan.

F. Would you recommend this loan office to your family or friends for their credit needs?

- Yes 88%
- No Opinion 9%
- No 3%

Summary: The vast majority of servicemembers would recommend traditional installment loans to family and friends.

2) THE CREDIT UNION SECURED LOAN

If you've taken the time to save money in a credit union share account or certificate of deposit (CD), and if a loan is ever needed, you'll have the opportunity and good fortune to be able to take advantage of a "high quality" secured loan, which is considered one of the best loan options available today. Low cost, guaranteed approval and ability to customize repayment plan are three attractive features of a secured loan. With this type of loan, savings is pledged as collateral and repayment is only 2%-3% (net) above what you earn on share savings or CD account. The collateral acts as security for repayment of the loan in the event that you're unable to meet your loan repayment commitment. You'll know exactly how much you'll pay each month, making it easy to budget due to a fixed term and rate, and secured loans are transparent, affordable, and a disciplined form of credit that can assist consumers to significantly meet their financial needs.

Key features and benefits:

- Guaranteed approval. Savings in account(s) is the qualifier.
- Fixed monthly loan repayment plan can be customized from 1 day to 96 months, which provides easy record keeping.
- Simple application and immediate access to loan proceeds.
- Low loan interest rate. Effective net interest rates for share secured loans or CDs range between 2%-3%.
- Full transparency of fixed rate and terms, loan conditions, interest rate, and cost are explained at the time of origination.
- Fully amortizing. Principal is reduced in a timely manner and paid off over the term of the loan.
- Customer has choice of the most convenient payment method.
- Access funds without withdrawing savings from account. Share savings account or CD continue to earn interest while pledged.
- Promotes budgeting and encourages saving
- No hidden fees or prepayment penalty
- Builds or improves credit history. However, some credit unions may not report payments to credit bureaus. So, it's important to ask and make sure that the loan is reported to the bureaus.

COST EFFECTIVE, STRUCTURED, AND PAYMENT DISCIPLINED LOAN

Since the loan is secured with pledged funds, interest rates are lower. These secured loans are fully amortized which helps with paying down the principal balance more rapidly—and the savings account continues to earn interest even while funds are pledged as collateral until the loan is paid-off.

Example: **\$1,500 secured loan vs. comparable credit card payments**

	Secured Loan	Credit Card Payment
<i>Loan financing:</i>	3% / 24 months	15% ^[6] / 24 months
<i>Monthly payments:</i>	\$64.47	\$72.73
<i>Total amount paid:</i>	\$1,547.28	\$1,745.52
<i>Total interest paid:</i>	\$47.28	\$245.52

Example continued: **Pledged savings of \$1,500 continues to earn interest**

Pledged savings of \$1,500 earns 1% throughout 2 year loan

Beginning savings balance before loan: \$1,500.00

Total interest earned over 2 year loan: \$30.43

Total savings after 2 year loan: \$1,530.43

Summary: The secured loan in comparison to using a credit card has the overall lower cost. Furthermore, when you add the earned interest from the pledged funds into the loan mix the secured loan formulates into a smart bargain.

Conclusion: The “high quality” secured loan has all the bells and whistles that financially savvy consumers could ever need. However, keep in mind, in order to take advantage of this type of loan you have to belong to a credit union and have enough savings on hand to pledge. Loan options: \$100 minimum and up.

3) THE LIFE INSURANCE POLICY LOAN

If you made the wise and smart decision to purchase a permanent life insurance policy (universal life, whole life, etc.), and have had the policy more than one year, then get ready to reap what you sowed:

- Permanent life insurance accumulates cash value tax-deferred
- If circumstances should arise where you’re in need of a loan, you may use the amount of the accumulated cash value as collateral to take out a life insurance policy loan.
- You are in complete control of customizing and structuring your own financially disciplined form of repayment plan such as the conditions, terms and affordability or choose to base the loan entirely on the sound practice of a traditional installment loan.
- Unlike a traditional installment or secured loan, you don’t have to pay back the loan. However, any money you take out of the policy will be deducted from your beneficiaries death benefit.

Example: **Consumer has a \$200,000 universal life policy.**
However, somewhere down the line, a \$50,000 policy loan was taken out and not repaid. Fast forward a few years, the consumer meets an untimely death. Now, instead of the beneficiaries receiving a \$200,000 death settlement, the unpaid \$50,000 loan is subtracted from the death benefit, and beneficiaries still reel in \$150,000

Interestingly, when taking out a policy loan, and depending on the insurance company, the loan rate may work into a break even net or earn more than the loan itself.

Example A:

5% Cash value savings
<u>- 5% Policy loan</u>
0% Zero net loan

Example B:

5% Cash value savings
<u>- 2% Policy loan</u>
+ 3% Net above loan rate

Key features and benefits:

- Guaranteed approval. Savings in account(s) is the qualifier.
- Fixed monthly loan repayment plan can be customized from 1 day to whenever, which can provide easy record keeping if payments are structured.
- Low loan interest rate. Policy loans can range between 2%-6% or higher, depending on insurer, and regardless of credit history.
- Customer is in control of loan design and repayment plan.
- Customer has choice of the most convenient payment method.
- Access funds without withdrawing savings from account. Cash value in policy continues to earn interest, despite loan.
- Cash value builds tax-deferred with competitive interest rates.
- Simple application and quick access to loan proceeds
- Encourages and enhances budgeting and saving
- Guaranteed interest
- Life insurance coverage and probate free
- No hidden fees or prepayment penalty
- Payments are not reported to credit bureau

CUSTOMIZE AND CREATE YOUR OWN COST EFFECTIVE, STRUCTURED, AND PAYMENT DISCIPLINED LOAN

Because the loan is collateralized with pledged funds, interest rates are much lower. In addition, you can design the loan to fit your financial needs. Also, the cash value in the account continues to earn interest while funds are pledged until loan payoff.

Example: **\$5,000 policy loan (based on the principles of a traditional installment loan) vs. comparable credit card payments**

	Insurance policy loan	Credit Card Payment
<i>Loan financing:</i>	2% / 48 months	15% ^[6] / 48 months
<i>Monthly payments:</i>	\$108.48	\$139.15
<i>Total amount paid:</i>	\$5,207.04	\$6,679.20
<i>Total interest paid:</i>	\$207.04	\$1,679.20

Example continued: **Pledged savings of \$5,000 continues to earn interest**

<i>Pledged savings:</i>	\$5,000 earns 5% throughout 4 year loan
<i>Beginning savings balance before loan:</i>	\$5,000.00
<i>Total interest earned over 2 year loan:</i>	\$1,104.48
<i>Total savings after 2 year loan:</i>	\$6,104.48

Summary: The policy loan in comparison to using a credit card has the overall lower cost. Furthermore, when you combine the earned interest from the pledged funds and the policy loan rate, the loan blossoms into a very profitable and intelligent transaction. *Conclusion:* If you're looking for a quality loan, insurance policy loans have plenty to offer. However, keep in mind, in order to take advantage of this type of loan you must have a permanent life insurance policy (universal life, whole life, etc.) and cash value to pledge as collateral. Loan options: No minimum.

Extra considerations before taking out a policy loan:

There is a possibility that a loan against your life insurance policy may accrue interest and reduce the death benefit or create a policy lapse if you fail or decide not to pay back the loan. Therefore, before taking out a policy loan, contact your insurance company to get more information regarding the financial impact or pitfalls that may possibly affect your policy.

Things to keep in mind when paying back a policy loan:

- If you're having trouble paying back the loan, a good rule of thumb is to at least pay the annual interest due on your policy loan each year to prevent the loan from escalating
- Regularly check and track your loan and unpaid loan interest accumulation
- Finally, the ability to take out loans on your policy is a valuable and powerful feature of permanent life insurance. Make sure that taking advantage of it to fulfill a cash need won't conflict with your long-term financial protection goals.

NOTES:

[1] Moving Forward: The Future of Consumer Credit and Mortgage Finance. In 2010 a national symposium was held at Harvard Business School in Boston, Massachusetts.

[2] CFSI conducts groundbreaking market and industry research, compiles research and case studies, and identifies industry best practices. It translates this information into opportunities, strategies and solutions for the financial services industry.

[3] DO NOT confuse traditional installment loans with payday or car title loans. Payday loans are defined as “short-term” loans intended to be paid in full on a specified date in accordance with the client’s next pay-check, and in most cases, repayment is not reported to credit bureaus. In addition, payday loans are not based on your ability to repay. So, if you’re unable to repay the balloon balance due at maturity, it will trigger the need to “roll-over” the balance due at maturity and create a never ending cycle of debt where initial principal borrowed is never paid down.

[4] 2007 Talent Amendment Consumer Credit Extended to Service Members and Dependents.

[5] Money Matters USA Research® examined the impact of availability and usage of traditional installment loans offered exclusively under North Carolina’s Consumer Finance Act. For the complete survey report, visit www.moneymattersusa.org/.

[6] Average credit card rate as of September 14, 2011
(Source: CreditCards.com Rate Survey).

[7] 40%-45% of American consumers carry credit balances and are called “revolvers.” In 2007, revolvers paid \$18.1 billion in penalty fees to credit card companies and accounts for approximately half of the industry’s \$40.7 billion in profits.
(Source: “Don’t Get Clobbered By Credit Cards”, Parade Magazine and California Department of Consumer Affairs).

BORROWING FROM RETIREMENT ACCOUNTS (VERSUS HIGH QUALITY LOANS)

A study by Hewitt Associates of 170,000 distributions (payouts) from defined contribution plans (retirement plans similar to the Thrift Savings Plan) indicated that 68% of plan participants who changed jobs in 1999 took cash withdrawals from their tax-deferred retirement accounts. The highest percentage of cash payouts (78%) occurred among 20 to 29 year old investors.

Conclusion: This means that 68% of the plan participants, who had the option to avoid hefty tax penalties by leaving their money in the plan or rolling their balances into new employers' plans or IRAs, instead, chose to pay the heavy tax penalties.

Solution: Instead of depleting your savings and investments whenever a rewarding opportunity or unforeseen predicament arises (like the 68% above), seek out "high quality" loans using your funds as collateral.

This means that you get to bring into play your capital to achieve financial goals, make necessary repairs, go on spectacular vacations, repel unforeseen emergencies, etc., while your assets continue to compound and earn interest.

Note:

- If you own an IRA, Roth IRA, TSP, etc., there are stiff tax penalties for early withdrawal of funds and limited options when borrowing from an account.
- Thus, if you're in need of cash, seek out a "high quality" installment loan, so you can continue to benefit from rules that regulate your account(s).

The "high quality" loans on the following pages can be used to your advantage, and above all, assist you in protecting your long-term financial goals, strategies and commitments.

Credit Union - Share Savings

20-year-old deposits \$100 monthly for 15 years into a passbook savings account, then STOPS deposits

15 year avg. interest rate: 1% (15% tax bracket)

Total saved by age 35: \$19,413

Situation: Car dies, and need a car ASAP. Cost of used vehicle \$10,000

Solution: \$10,000 secured loan against savings

5 year loan rate:	- 4%
\$19,413 earns:	+ 1%
Loan average:	- 3%

Monthly Schedule:

Loan payment:	\$184.17
\$19,413 earns 1%:	-16.18
Monthly payment:	\$167.99

Share account stays untouched and continues to accumulate interest throughout the loan:

Age 35.....	\$ 19,413
Age 55.....	\$ 23,709
Age 70.....	\$ 27,544
Age 85.....	\$ 32,000

Bank or Credit Union - Certificate of Deposit

20-year-old deposits \$100 monthly for 15 years into a CD, then STOPS deposits

15 year avg. interest rate: 2% (15% tax bracket)

Total saved by age 35: \$20,973

Situation: Need \$10,000 for down payment on a lake vacation home

Solution: \$10,000 secured loan against CD

5 year loan rate:	- 5%
\$22,148 earns:	+ 2%
Loan average:	- 3%

Monthly Schedule:

Loan payment:	\$188.71
\$22,148 earns 2%:	-36.91
Monthly payment:	\$151.80

CD stays untouched and continues to accumulate interest throughout the loan:

Age 35.....	\$ 20,973
Age 55.....	\$ 31,278
Age 70.....	\$ 42,210
Age 85.....	\$ 56,963

Insurance Company - Universal Life (UL)

20-year-old deposits \$100 monthly for 15 years into a universal life policy, then STOPS deposits

15 year avg. interest rate: 5% (tax-deferred)

Total cash value by age 35: \$26,731 Note: Has life insurance coverage

Situation: Need to eliminate \$15,000 in credit debt

Solution: \$15,000 loan from UL insurer

5 year loan rate:	- 2%
\$18,288 earns:	<u>+ 5%</u>
Loan average:	+ 3%

Monthly Schedule:

Loan payment:	\$262.92
\$18,288 earns 5%:	<u>-76.20</u>
Monthly payment:	\$186.72

Policy stays untouched and continues to accumulate interest throughout the loan:

Age 35.....	\$ 26,731
Age 55.....	\$ 72,512
Age 70.....	\$153,268
Age 85.....	\$323,963

Private Lender - Installment Loan

20-year-old deposits \$100 monthly for 15 years into an IRA, then STOPS deposits

15 year avg. interest rate: 3% (tax deferred)

Total saved by age 35: \$22,699

Situation: Need \$5,000 for unexpected repairs.
Note: Can't borrow from IRA

Solution: \$5,000 installment loan from private lender

5 year loan rate:	-18%
\$22,699 earns:	<u>+ 3%</u>
Loan average:	-15%

Monthly Schedule:

Loan payment:	\$126.97
\$22,699 earns 3%:	<u>-56.75</u>
Monthly payment:	\$123.91

IRA stays untouched and continues to accumulate interest throughout the loan:

Age 35.....	\$ 22,699
Age 55.....	\$ 41,329
Age 70.....	\$ 64,781



Contributors

JEFF BURCH

For the past twenty years, Mr. Burch has specialized in the field of financial planning for the military. He has developed countless educational programs and performed extensive research and surveys. His work includes conducting hundreds of financial training programs, seminars and classes specific to and for all branches of the U.S. Armed Forces. He has written articles for various publications and websites and is a featured speaker for the military at various functions throughout the United States.

In addition, he publishes both *Military City USA - Resource Magazine* (distributed in the states of Texas and North Carolina) and *Spotlight Magazine*, created in partnership with Lackland Airforce Base. Both magazines focus on financial matters and add tips, warnings and articles on current specific topics of interest to all service members.

For more information, visit: www.moneymattersusa.org

TRANS WORLD ASSURANCE BLOG

Trans World Assurance, in an effort to help educate and inform its clients, launched the Trans World Assurance blog. The blog covers issues and information relating to personal finance, college planning, and the military. The blog is one of several initiatives launched by Trans World Assurance to better serve its clients.

Trans World Assurance was founded 50 years ago by Charles P. Woodbury, a decorated Marine aviator and has grown into one of the most solid and safe insurance companies in America. The company has emphasized ultra safe investments and has weathered the financial storms to which other companies have fallen victim. The company is currently and has been a long standing underwriter of the SGLI program, covering all military members.

For more information, visit: www.twasite.com

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