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Can Life Insurance Help You Get That Business Loan?

Most businesses run on credit, or at least ready access to it. Without credit at reasonable rates, many businesses would find it nearly impossible to carry out expansion plans or get through times of tight cash flow. That's one reason businesses watch interest rates so closely. A lower rate usually means better access to more credit at lower rates.

Life insurance may be a player in the credit game. When banks evaluate a loan application from a business client, they frequently take into consideration whether a key employee in that business has life insurance. In the event that the employee's loss causes a business disruption, the life insurance could serve as a means of secondary collateral. In a sole proprietorship or other closely held business, a life insurance policy can possibly be a deciding factor to the bank as to whether or not to grant the loan. The chances for obtaining a loan approval may be enhanced if the business itself is named as the policy beneficiary.

How Can a Life Insurance Policy Help Your Business?

A life insurance policy can help in the following ways:

- May make a lender more willing to grant credit or a loan.
- May open access to higher amounts of credit.
- In some instances, it may result in a more competitive loan rate.

Which Insurance Is Right for You?

Term is often used, especially when:

- Protection needs are short-term or limited, such as to cover a single loan for a specific period of time.
- The situation calls for a high dollar amount of coverage.
- Dollars are tight. Term insurance provides coverage for a lower immediate premium dollar than does permanent insurance.
- Most businessowners prefer no-frills protection. You can buy it when you need it and drop it when you're done.

However, term life insurance has its drawbacks:

- It's pure cost. Unlike permanent life insurance, term provides no living benefits in the form of cash value accumulation.
- If you need coverage for more than a short period of time, keep in mind that the premium cost is likely to increase over time. Eventually, as you get older, the cost may become prohibitive.

- If you experience health problems and become uninsurable, you may not be able to buy coverage when you next apply for it.

Many Businessowners Opt for Permanent Life Insurance

Cash value accumulation can be an important feature of permanent life insurance for businessowners, especially since many businesses rely on credit on an ongoing basis. In fact, it's not uncommon for businessowners to routinely assign insurance benefits to their lending bank. In a nutshell, here are several of the highlights of purchasing a cash value, permanent life insurance policy:

1. Once you buy it, you can keep it for life, as long as you pay your premiums. The death benefit protection is with you for life as long as you pay your premiums. With term coverage, on the other hand, there is always the risk that the term insurance will expire and you may become uninsurable as you get older. Then you might not be able to purchase insurance, which can compromise your access to credit.
2. The price doesn't go up. It remains level.
3. The cash value that accumulates can be borrowed against at a competitive interest rate. (However, it's important to remember that loans against your policy accrue interest and decrease the death benefit and cash value by the amount of the outstanding loan and interest.)

The Reality of Business

Business relies on credit, and life insurance can sometimes help you get that credit. For more information on how life insurance can help your business and family, please contact Jason M. Woodward, J.D. today at financialattorney@gmail.com.