

CIBC Defers Loan Advances Against Unearned RBC Insurance SRIA Interest



WESTWARD'S VIEWPOINT

CIBC is no longer making loan advances against unearned RBCI SRIA interest. Loan advances are now deferred to the end of the policy year after the SRIA interest has been earned.

When clients transitioned to CIBC as lender against their RBCI SRIA investment accounts, some transitioned from borrowing at each policy anniversary (1) the current SRIA value to (2) the current SRIA value **plus** the unearned SRIA interest projected forward to the end of the policy year.

This transition resulted in a one-time anniversary loan advance against two years of SRIA interest: the policy year just ended and the policy year to follow.

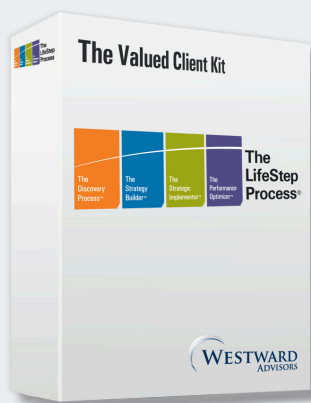
Affected clients will revert to borrowing against their SRIA interest annually in arrears, as they did prior to the transition to CIBC.

For this deferral to take effect, clients who borrowed from CIBC against unearned SRIA interest at their last anniversary will **not have a loan advance at their next policy anniversary**. Loan advances will then resume on the next following anniversary against earned SRIA interest.

This deferral **does not change the overall net cash flow of the plan, just the timing of loan advances against the SRIA**.

The usual anniversary instruction package to affected clients will be issued after the CIBC loan agreement is amended and will reflect the deferral.

For more information, clients can contact their Account Manager or Wayne Stone at waynes@westwardadvisors.com.



CSV SHORTFALL

In a recent Viewpoint, we discussed the current impairment of Smoothed Return Investment Account (SRIA) cash surrender values (CSV) in RBC Insurance (RBCI) Security Fund policies due to market value adjustments (MVA) caused by the current market downturn.

See *"Leveraged RBC Insurance Security Fund SRIA Surrender Value Shortfall"* (October 7, 2022).

The SRIA MVA is a temporary issue affecting the collateral value of the SRIA to lenders in the event of loan default because in many cases the CSV is now less than the loan balance that it secures (SRIA CSV Shortfall).

When the SRIA CSV Shortfall exceeds the lender's risk tolerance, the lender will require **Additional Security** by way of one or more of the following actions until the SRIA CSV recovers:

1. Defer planned loan advances
2. Provide evidence of liquid assets
3. Provide additional guarantees
4. Provide additional collateral
5. Reduce the loan balance

CIBC DEFERS LOAN ADVANCES AGAINST UNEARNED INTEREST

Due to the CSV Shortfall, CIBC is deferring loan advances against unearned SRIA interest.

Some CIBC loan agreements secured by the RBCI SRIA provide for loan advances at the beginning of the policy year against unearned SRIA policy interest projected forward to the end of the policy year.

CIBC has announced that going forward, loan advances at the beginning of the policy year will be limited to raising the outstanding loan balance to match the current SRIA fund value. Loan advances against unearned SRIA interest are now deferred to the next anniversary after the SRIA interest is earned.

CIBC will issue amended loan agreements to affected clients.

The following example illustrates the timing of loan advances and the same overall cash flow for a client that transitioned to CIBC on February 1, 2021 with loan advances for unearned interest and the deferral taking effect on February 1, 2023.

CASH FLOW EXAMPLE

Anniversary Date	SRIA Value @ 4.10% Interest	Loan Advance	Loan Balance
Feb 1, 2020	1,041,000	41,000	1,041,000
Feb 1, 2021	1,083,681	87,112	1,128,112
Feb 1, 2022	1,128,112	46,253	1,174,365
Feb 1, 2023	1,174,365	–	1,174,365
Feb 1, 2024	1,222,513	48,149	1,222,513
5 Year Totals	222,513	222,513	

