

## Life Settlement Financial's CEO testifies before SEC Life Settlement Task Force

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Peter Mazonas, Life Settlement Financial (LSF) CEO testified today before the SEC Life Settlement Task Force in support of the use of accounting standards to enforce consistency in the valuation of securitized pools of life settlements. As investment banks ramp up their efforts to create new investment opportunities, the SEC Life Settlement Task Force is studying how this can be done in ways that protect investors in this emerging market. Hoping to avoid the catastrophic events brought about by misvalued mortgage pools, the SEC heard from an industry leader who described new methods of individual life settlement evaluation.

A life settlement is the sale of a life insurance policy to a third party. The new owner continues to pay the premiums and receives the face value of the policy at maturity. The original policy owner gets out from under the burden of paying premiums and receives a lump sum cash payment. An increasing number of states have adopted or rewritten life settlement legislation in light of the demand for such transactions.

Now, as investment banks are looking to create securitized pools of these assets, the need for even greater transparency becomes crucial. Whether in an individual policy or pool of policies, the key variable in pricing involves the estimation of the life expectancy of the insured. The shorter the life expectancy (LE), the fewer years of premiums necessary to keep the policy in force. The longer the LE, the more years that premiums will have to be paid out before collecting the death benefit. This is the key determinate in pricing a life settlement policy.

FASB auditing standards require that there be two methods to evaluate or value the policy pool. Since the only real variable is the LE, this would suggest the need for two methods of predicting life expectancy. The currently available method is based on underwriter's review of the medical records of the insured. The nationally recognized underwriters all use the same medical records but apply their own interpretation of the information within. Although this method has been the basis for LE prediction, it contains some inherent errors that can result in significant mispricing.

For the SEC to apply the necessary two methods of evaluation, Mazonas suggested the need for another predictive tool, "A distinctly different methodology exists which is based on current health and accurately predicts the decline of health at the individual level." Based on eighteen years of data from the National Long Term Care Survey, award winning actuary Eric Stallard, research professor at a major research university, has created a model that utilizes more, and more relevant, information than is found in a medical records only LE estimate. This peer reviewed and published model is based on over 317,000 person years of data.

The mortality model has since been independently implemented in the Longevity Cost Calculator (LCC), owned by Life Settlement Financial and a working web based model is available at <https://www.lifesettlementfinancial.com>. The LCC takes into account functional and cognitive impairments as well as range of motion and behavioral changes of the insureds. Health care workers in senior residences and hospitals have long witnessed that these impairments are a greater predictor of mortality than medical conditions. LSF has made this available in a computer model based on 76 questions about the insured that include medical conditions.

Mazonas applauded the SEC's desire to get it right at the beginning as this new wave of securitizations takes shape. "It would seem a shame to squander this opportunity, especially given the problems concerning other types of securitizations that we have all witnessed during the recent past. "

Life Settlement Financial, LLC was founded in 2006 and is located in Northern California. Its management believes that life settlements are a consumer benefit as well as a public policy enhancement. Giving seniors who own life insurance the possibility of finding cash that they did not realize that they had should be encouraged in this economy. As seniors struggle to avoid relying on state and federal Medicaid aid, they should be rewarded for remaining solvent and a life settlement can go a long way toward allowing this to occur.

For more information about life settlements and LSF go to [www.lifesettlementfinancial.com](http://www.lifesettlementfinancial.com) or call 888-321-5970.