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Securitization

SECURITIZATION IS THE POOLING of identifiable cash flows that pay over time and the transfer of these interests to investors either with or without the support of further collaterals.¹ Currently, the intent behind the securitization of viatical and life settlements is to acquire financing from institutional investors.

Institutional investors—banks, insurance companies, pension funds—have long played a role in the financing of viaticated life insurance policies. When a formal industry began to exist and viatical providers acquired licenses, insurers realized profits could be made with this industry (due to the predictably fatal nature of AIDS). One of the small viatical funding firms, Viaticus, was purchased from its founder, John Banks, by CNA insurance. TransAmerica Corporation funded National Capital Benefits Group companies, which included the first two viatical companies, Living Benefits and American Life Resources, and provided a credit line for Life Benefactors, a San Diego viatical provider. In 1995 Cargill Financial Services Corporation invested with Minnesota-based ViatiCare, providing the company with a \$150 million secure revolving credit agreement.²

Also in 1995 Dignity Partners, a San Francisco-based viatical provider, securitized part of its portfolio and sold it for \$50 million to a Connecticut finance company. Early the following year Dignity went public; its initial public offering brought in \$23 million. Two months later, due to the Vancouver AIDS Conference, TransAmerica and other financing entities pulled their credit lines. Two-thirds of the licensed viatical providers folded, including Dignity Partners. That resulted in a shareholder lawsuit. Shareholders were furious to learn that most of Dignity's policies