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ING PRIME RATE TRUST  
Form POS 8C  
June 28, 2004

As filed with the Securities and Exchange Commission on June 28, 2004  
Securities Act File No. 333-61831  
Investment Company Act File No. 811-05410

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U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM N-2

(CHECK APPROPRIATE BOX OR BOXES)

Registration Statement Under The Securities Act Of 1933            /X/  
Pre-Effective Amendment No.    / /  
Post-Effective Amendment No. 12                                        /X/

and/or

Registration Statement Under The Investment Company Act Of 1940    /X/  
Amendment No. 57   /X/  
(Check appropriate box or boxes)

ING PRIME RATE TRUST  
(Exact Name of Registrant Specified in Charter)  
7337 E. Doubletree Ranch Road  
Scottsdale, AZ 85258  
(Address of Principal Executive Offices)  
Registrant's Telephone Number, Including Area Code: (800) 992-0180

Huey P. Falgout, Jr.   With copies to:  
ING Investments, LLC   Jeffrey S. Puretz, Esq.  
7337 E. Doubletree Ranch Road   Dechert LLP  
Scottsdale, AZ 85258   1775 I Street, NW  
(Name and Address of Agent for Service)                                 Washington, DC 20006

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APPROXIMATE DATE OF PROPOSED OFFERING:  
As soon as practical after the effective date of this Registration Statement

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. /X/

It is proposed that this filing will become effective:

/X/ When declared effective pursuant to Section 8(c) of the Securities Act of 1933.

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# Edgar Filing: ING PRIME RATE TRUST - Form POS 8C

PROSPECTUS

PROSPECTUS

JULY 1, 2004

25,000,000  
COMMON SHARES

ING PRIME RATE TRUST

[GRAPHIC]

THIS PROSPECTUS SETS FORTH CONCISELY THE INFORMATION ABOUT THE ING PRIME RATE TRUST (THE TRUST) THAT A PROSPECTIVE INVESTOR OUGHT TO KNOW BEFORE INVESTING. YOU SHOULD READ IT CAREFULLY BEFORE YOU INVEST, AND KEEP IT FOR FUTURE REFERENCE.

THE TRUST HAS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION (THE SEC) A STATEMENT OF ADDITIONAL INFORMATION DATED JULY 1, 2004 (THE SAI) CONTAINING ADDITIONAL INFORMATION ABOUT THE TRUST. THE SAI IS INCORPORATED BY REFERENCE IN ITS ENTIRETY INTO THIS PROSPECTUS. YOU MAY OBTAIN A FREE COPY OF THE SAI BY CONTACTING THE TRUST AT (800) 992-0180 OR BY WRITING TO THE TRUST AT 7337 E. DOUBLETREE RANCH ROAD, SCOTTSDALE, ARIZONA 85258. THE PROSPECTUS, SAI AND OTHER INFORMATION ABOUT THE TRUST ARE AVAILABLE ON THE SEC'S WEBSITE (<http://www.sec.gov>). THE TABLE OF CONTENTS FOR THE SAI APPEARS ON PAGE 30 OF THIS PROSPECTUS.

COMMON SHARES OF THE TRUST TRADE ON THE NEW YORK STOCK EXCHANGE (THE NYSE) UNDER THE SYMBOL PPR.

MARKET FLUCTUATIONS AND GENERAL ECONOMIC CONDITIONS CAN ADVERSELY AFFECT THE TRUST. THERE IS NO GUARANTEE THAT THE TRUST WILL ACHIEVE ITS INVESTMENT OBJECTIVE. INVESTMENT IN THE TRUST INVOLVES CERTAIN RISKS AND SPECIAL CONSIDERATIONS, INCLUDING RISKS ASSOCIATED WITH THE TRUST'S USE OF LEVERAGE. SEE "RISK FACTORS AND SPECIAL CONSIDERATIONS" BEGINNING ON PAGE 15 FOR A DISCUSSION OF ANY FACTORS THAT MAKE INVESTMENT IN THE TRUST SPECULATIVE OR HIGH RISK.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES, OR DETERMINED THAT THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

[ING FUNDS LOGO]

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[GRAPHIC] OBJECTIVE

[GRAPHIC] INVESTMENT STRATEGY

This Prospectus describes the Trust's objective, investment strategy and risks.

[GRAPHIC] RISKS

You'll also find:

WHAT YOU PAY TO INVEST.

[GRAPHIC] WHAT YOU PAY TO INVEST

A list of the fees and expenses you pay -- both directly and indirectly -- when you invest in the Trust.

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### INTRODUCTION TO THE TRUST

THIS PROSPECTUS IS DESIGNED TO HELP YOU MAKE AN INFORMED DECISION ABOUT MAKING AN INVESTMENT IN ING PRIME RATE TRUST. PLEASE READ IT CAREFULLY AND RETAIN IT FOR FUTURE REFERENCE.

Who should invest in the Trust?

ING PRIME RATE TRUST MAY SUIT YOU IF YOU:

- are seeking a high level of current income; and
- are willing to accept the risks associated with an investment in a leveraged portfolio consisting primarily of senior loans that are typically below investment grade credit quality.

### DESCRIPTION OF THE TRUST

The Trust is a diversified, closed-end management investment company that seeks to provide investors with as high a level of current income as is

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consistent with the preservation of capital. The Trust seeks to achieve this objective by investing in a professionally managed portfolio comprised primarily of senior loans, an investment typically not available directly to individual investors.

The Trust cannot guarantee that it will achieve its investment objective. In addition, since the senior loans in the Trust's portfolio typically are below investment grade credit quality and the portfolio is leveraged, the Trust has speculative characteristics.

Common Shares of the Trust trade on the NYSE under the symbol PPR.

The Trust's investment manager is ING Investments, LLC. The Trust's sub-adviser is ING Investment Management Co. (formerly known as Aeltus Investment Management, Inc.)

[SIDENOTE]

Risk is the potential that your investment will lose money or not earn as much as you hope. All funds have varying degrees of risk, depending upon the securities they invest in.

This Trust involves certain risks and special considerations, including risks associated with investing in below investment grade assets and risks associated with the Trust's use of borrowing and other leverage strategies. See "Risk Factors and Special Considerations" beginning on page 15.

Please read this Prospectus carefully to be sure you understand the principal risks and strategies associated with the Trust. You should consult the SAI for a complete list of the risks and strategies.

[GRAPHIC]

If you have any questions about the Trust, please call your financial consultant or us at (800) 992-0180.

[GRAPHIC]

If you have any questions, please call (800) 992-0180.

Introduction to the Trust 1

### PROSPECTUS SYNOPSIS

The following synopsis is qualified in its entirety by reference to the more detailed information appearing elsewhere in this Prospectus.

### DESCRIPTION OF THE TRUST

#### THE TRUST

The Trust is a diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act). It was

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organized as a Massachusetts business trust on December 2, 1987. As of June 15, 2004, the Trust's net asset value (NAV) per Common Share was \$7.35.

### NYSE LISTED

As of June 15, 2004, the Trust had 137,821,394 Common Shares outstanding, which are traded on the NYSE under the symbol PPR. As of June 15, 2004, the last reported sales price of a Common Share of the Trust was \$7.90.

### INVESTMENT OBJECTIVE

To provide investors with as high a level of current income as is consistent with the preservation of capital. There is no assurance that the Trust will achieve its investment objective.

### INVESTMENT MANAGER/SUB-ADVISER

The Trust's investment manager is ING Investments, LLC (ING Investments or the Investment Manager), an Arizona limited liability company. The Investment Manager had assets under management of over \$35.4 billion as of March 31, 2004.

The Investment Manager is an indirect wholly-owned subsidiary of ING Groep N.V. (NYSE: ING) (ING Groep). ING Groep is a global financial institution active in the fields of insurance, banking and asset management in more than 65 countries with more than 100,000 employees.

The Investment Manager receives an annual fee, payable monthly, in an amount equal to 0.80% of the Trust's average daily gross asset value, minus the sum of the Trust's accrued and unpaid dividends on any outstanding preferred shares and accrued liabilities (other than liabilities for the principal amount of any borrowings incurred, commercial paper or notes issued by the Trust and the liquidation preference of any outstanding preferred shares) (Managed Assets). This definition includes the assets acquired through the Trust's use of leverage.

Effective August 1, 2003, ING Investment Management Co. (INGIM or Sub-Adviser) (formerly known as Aeltus Investment Management, Inc.) serves as Sub-Adviser to the Trust. See "Investment Management and Other Service Providers -- Sub-Adviser" on page 23. INGIM is an affiliate of the Investment Manager.

### DISTRIBUTIONS

Income dividends on Common Shares accrue and are declared and paid monthly. Income dividends may be distributed in cash or reinvested in additional full and fractional shares of the Trust through the Trust's Shareholder Investment Program.

### PRIMARY INVESTMENT STRATEGY

The Trust seeks to achieve its investment objective by investing under normal circumstances at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in higher yielding, U.S. dollar denominated, floating rate secured senior loans (Senior Loans). The Senior Loans are typically rated below investment grade credit quality. The Trust makes its investments in Senior Loans by purchasing a portion of the overall loan, I.E., the Trust becomes one

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of a number of lenders participating in the loan. The Trust will provide shareholders with at least 60 days' prior notice of any change in this investment policy.

The Trust only invests in Senior Loans made to corporations or other business entities organized under U.S. or Canadian law and which are domiciled in the U.S., Canada or in U.S. territories or possessions. Senior Loans either hold the most senior position in the capital structure of the borrower or hold an equal ranking with other senior debt or have characteristics that the Investment Manager believes justify treatment as senior debt.

### 2 Prospectus Synopsis

#### PROSPECTUS SYNOPSIS

##### OTHER INVESTMENT STRATEGIES AND POLICIES

Assets not invested in Senior Loans may be invested in unsecured loans, subordinated loans, short-term debt securities, and equities acquired in connection with investments in loans. See "Investment Objective and Policies" on page 11.

Loans in which the Trust invests typically have interest rates which reset at least quarterly and may reset as frequently as daily. The maximum duration of an interest rate reset on any loan in which the Trust may invest is one year. In order to achieve overall reset balance, the Trust will ordinarily maintain a dollar-weighted average time to next interest rate adjustment on its loans of 90 days or less.

Normally at least 80% of the Trust's portfolio will be invested in Senior Loans with maturities of one to ten years. The maximum maturity on any loan in which the Trust may invest is ten years.

To seek to increase the yield on the Common Shares, the Trust may engage in lending its portfolio securities. Such lending will be fully secured by investment grade collateral held by an independent agent.

The Trust may hold a portion of its assets in short-term interest bearing instruments. Moreover, in periods when, in the opinion of the Investment Manager or Sub-Adviser, a temporary defensive position is appropriate, up to 100% of the Trust's assets may be held in cash or short-term interest bearing instruments. The Trust may not achieve its investment objective when pursuing a temporary defensive position.

The Trust may not invest in Senior Loans made to foreign borrowers other than borrowers organized under Canadian law and which are domiciled in the U.S., Canada or in U.S. territories or possessions.

The Trust may engage in executing repurchase and reverse repurchase agreements.

##### LEVERAGE

To seek to increase the yield on the Common Shares, the Trust employs financial leverage by borrowing money and issuing preferred shares. See "Risk Factors and Special Considerations -- Leverage" on page 16.

##### BORROWINGS

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Under the 1940 Act, the Trust may borrow up to an amount equal to 33 1/3% of its total assets (including the proceeds of the borrowings) less all liabilities other than borrowings. The Trust's obligations to holders of its debt are senior to its ability to pay dividends on, or redeem or repurchase, Common Shares and preferred shares, or to pay holders of Common Shares and preferred shares in the event of liquidation.

### PREFERRED SHARES

Under the 1940 Act, the Trust may issue preferred shares so long as immediately after any issuance of preferred shares the value of the Trust's total assets (less all Trust liabilities and indebtedness that is not senior indebtedness) is at least twice the amount of the Trust's senior indebtedness plus the involuntary liquidation preference of all outstanding shares.

The Trust is authorized to issue an unlimited number of shares of a class of preferred stock in one or more series. In November 2000, the Trust issued 3,600 shares each of Series M, T, W, Th and F Auction Rate Cumulative Preferred Shares, \$0.01 par value, \$25,000 liquidation preference per share, for a total issuance of \$450 million (the Preferred Shares). The Trust's obligations to holders of the Preferred Shares are senior to its ability to pay dividends on, or redeem or repurchase, Common Shares, or to pay holders of Common Shares in the event of liquidation.

The 1940 Act also requires that the holders of the Preferred Shares, voting as a separate class, have the right to:

- elect at least two trustees at all times; and
- elect a majority of the trustees at any time when dividends on any series of Preferred Shares are unpaid for two full years.

In each case, the holders of Common Shares voting separately as a class will elect the remaining trustees.

[GRAPHIC]

If you have any questions, please call (800) 992-0180.

Prospectus Synopsis 3

### PROSPECTUS SYNOPSIS

#### DIVERSIFICATION

The Trust maintains a diversified investment portfolio, a strategy which seeks to limit exposure to any one issuer or industry.

As a diversified investment company, the Trust may not make investments in any one issuer (other than the U.S. government) if, immediately after such purchase or acquisition, more than 5% of the value of the Trust's total assets would be invested in such issuer, or the Trust would own more than 25% of any outstanding issue. The Trust will consider a borrower on a loan, including a loan participation, to be the issuer of that loan. This strategy is a fundamental policy that may not be changed without shareholder approval. With respect to no more than 25% of its total assets, the Trust may make investments that are not subject to the foregoing restrictions.

In addition, a maximum of 25% of the Trust's total assets, measured at the time of investment, may be invested in any one industry. This strategy is also a fundamental policy that may not be changed without shareholder approval.

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### PLAN OF DISTRIBUTION

The Common Shares are offered by the Trust through the Trust's Shareholder Investment Program. The Shareholder Investment Program allows participating shareholders to reinvest all dividends in additional shares of the Trust, and also allows participants to purchase additional Common Shares through optional cash investments in amounts ranging from a minimum of \$100 to a maximum of \$100,000 per month. The Trust reserves the right to reject any purchase order. Please note that cash, travelers checks, third party checks, money orders and checks drawn on non-US banks (even if payment may be effected through a US bank) generally will not be accepted. Common Shares may be issued by the Trust under the Shareholder Investment Program only if the Trust's Common Shares are trading at a premium to net asset value (NAV). If the Trust's Common Shares are trading at a discount to NAV, Common Shares purchased under the Shareholder Investment Program will be purchased on the open market. See "Plan of Distribution" on page 21.

Shareholders may elect to participate in the Shareholder Investment Program by telephoning the Trust or submitting a completed Participation Form to DST Systems, Inc. (DST).

Common Shares also may be offered pursuant to privately negotiated transactions between the Trust or ING Funds Distributor, LLC and individual investors. Common Shares of the Trust issued in connection with privately negotiated transactions will be issued at the greater of (i) NAV per Common Share of the Trust's Common Shares or (ii) at a discount ranging from 0% to 5% of the average daily market price of the Trust's Common Shares at the close of business on the two business days preceding the date upon which Common Shares are sold pursuant to the privately negotiated transaction. See "Plan of Distribution" on page 21.

### ADMINISTRATOR

The Trust's administrator is ING Funds Services, LLC (the Administrator). The Administrator is an affiliate of the Investment Manager. The Administrator receives an annual fee, payable monthly, in a maximum amount equal to 0.25% of the Trust's Managed Assets.

### RISK FACTORS AND SPECIAL CONSIDERATIONS

#### CREDIT RISK ON LOANS

Loans in the Trust's portfolio will typically be below investment grade credit quality. Investment in the Trust involves the risk that borrowers may default on obligations to pay principal or interest when due, that lenders may have difficulty liquidating the collateral securing the loans or enforcing their rights under the terms of the loans, and that the Trust's investment objective may not be realized.

#### 4 Prospectus Synopsis

#### PROSPECTUS SYNOPSIS

#### INTEREST RATE RISK

Changes in market interest rates will affect the yield on the Trust's Common Shares. If market interest rates fall, the yield on the Trust's Common Shares will also fall. In addition, changes in market interest rates may cause the



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Trust's NAV to experience moderate volatility because of the lag between changes in market rates and the resetting of the floating rates on assets in the Trust's portfolio. To the extent that market interest rate changes are reflected as a change in the market spreads for loans of the type and quality in which the Trust invests, the value of the Trust's portfolio may decrease in response to an increase in such spreads. Finally, substantial increases in interest rates may cause an increase in loan defaults as borrowers may lack the resources to meet higher debt service requirements.

### DISCOUNT FROM NAV

As with any security, the market value of the Common Shares may increase or decrease from the amount that you paid for the Common Shares.

The Trust's Common Shares may trade at a discount to NAV. This is a risk separate and distinct from the risk that the Trust's NAV per Common Share may decrease.

### LEVERAGE

The Trust's use of leverage through borrowings and the issuance of preferred shares can adversely affect the yield on the Trust's Common Shares. To the extent that the Trust is unable to invest the proceeds from the use of leverage in assets which pay interest at a rate which exceeds the rate paid on the leverage, the yield on the Trust's Common Shares will decrease. In addition, in the event of a general market decline in the value of assets such as those in which the Trust invests, the effect of that decline will be magnified in the Trust because of the additional assets purchased with the proceeds of the leverage. As of June 15, 2004, the Trust had \$444 million of borrowings outstanding under two credit facilities totaling \$525, and \$450 million of Preferred Shares.

### LIMITED SECONDARY MARKET FOR LOANS

Because of the limited secondary market for loans, the Trust may be limited in its ability to sell loans in its portfolio in a timely fashion and/or at a favorable price.

### DEMAND FOR LOANS

An increase in demand for loans may adversely affect the rate of interest payable on new loans acquired by the Trust, and it may also increase the price of loans in the secondary market.

### IMPACT OF SHAREHOLDER INVESTMENT PROGRAM AND PRIVATELY NEGOTIATED TRANSACTIONS

The issuance of Common Shares through the Shareholder Investment Program and/or through privately negotiated transactions may have an adverse effect on prices in the secondary market for the Trust's Common Shares by increasing the number of Common Shares available for sale. In addition, the Common Shares may be issued at a discount to the market price for such Common Shares, which may put downward pressure on the market price for Common Shares of the Trust.

[GRAPHIC]

If you have any questions, please call (800) 992-0180.

WHAT YOU PAY TO INVEST -- TRUST EXPENSES

The cost you pay to invest in the Trust includes the expenses incurred by the Trust. In accordance with SEC requirements, the table below shows the expenses of the Trust, including interest expense on borrowings, as a percentage of the average net assets of the Trust, and not as a percentage of gross assets or Managed Assets. By showing expenses as a percentage of net assets, expenses are not expressed as a percentage of all of the assets that are invested for the Trust. The Table below assumes that the Trust has issued \$450 million of Preferred Shares and has borrowed an amount equal to 25% of its Managed Assets. For information about the Trust's expense ratios if the Trust had not borrowed or issued Preferred Shares, see "Risk Factors and Special Considerations -- Annual Expenses Without Borrowings or Preferred Shares."

SHAREHOLDER TRANSACTION EXPENSES

|   |      |
|---|------|
| Shareholder Investment Program Fees   | NONE |
| Privately Negotiated Transactions<br>Commission (as a percentage of offering price) | NONE |

ANNUAL EXPENSES (AS A PERCENTAGE OF NET ASSETS ATTRIBUTABLE TO COMMON SHARES)

|                                       |       |
|---------------------------------------|-------|
| Management and Administrative Fees(1) | 2.05% |
| Interest Expense on Borrowed Funds    | 0.89% |
| Other Operating Expenses(2)           | 0.43% |
| Total Annual Expenses(3)              | 3.37% |

- (1) Pursuant to the Investment Management Agreement with the Trust, ING Investments is paid a fee of 0.80% of the Trust's Managed Assets. Pursuant to its Administration Agreement with the Trust, ING Funds Services, LLC, the Trust's Administrator, is paid a fee of 0.25% of the Trust's Managed Assets. See "Investment Management and Other Service Providers -- The Administrator."
- (2) "Other Operating Expenses" are based on estimated amounts for the current fiscal year, which, in turn, are based on "other operating expenses" for the fiscal year ended February 29, 2004, and does not include the expenses of borrowing.
- (3) If the Total Annual Expenses of the Trust were expressed as a percentage of Managed Assets (assuming the same 25% borrowing), the Total Annual Expense ratio would be 1.73%.

6 What You Pay to Invest -- Trust Expenses

WHAT YOU PAY TO INVEST -- TRUST EXPENSES

EXAMPLE

The following hypothetical example shows the amount of the expenses that an

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investor in the Trust would bear on a \$1,000 investment that is held for the different time periods in the table. The example assumes that all dividends and other distributions are reinvested at NAV and that the percentage amounts listed under Total Annual Expenses above remain the same in the years shown. The tables and the assumption in the hypothetical example of a 5% annual return are required by regulation of the SEC applicable to all investment companies. The assumed 5% annual return is not a prediction of, and does not represent, the projected or actual performance of the Trust's Common Shares. For more complete descriptions of certain of the Trust's costs and expenses, see "Investment Management and Other Service Providers."

The following example applies to shares issued in connection with the Trust's Shareholder Investment Program and shares issued in connection with privately negotiated transactions. This example does not take into account whether such shares are purchased at a discount or a premium to the Trust's net asset value.

|  | 1 YEAR | 3 YEARS | 5 YEARS | 1 |
|--|--------|---------|---------|---|
| -----  |        |         |         |   |
| You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return and where the Trust has borrowed in an amount equal to 25% of its Managed Assets | \$ 34  | \$ 106  | \$ 183  |   |
| You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return and where the Trust has not borrowed   | \$ 20  | \$ 62   | \$ 106  |   |

The purpose of the above table is to assist you in understanding the various costs and expenses that an investor in the Trust will bear directly or indirectly.

THE FOREGOING EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF FUTURE EXPENSES, AND ACTUAL EXPENSES MAY BE GREATER OR LESS THAN THOSE SHOWN.

[GRAPHIC]  
If you have any questions, please call (800) 992-0180.

What You Pay to Invest -- Trust Expenses 7

### FINANCIAL HIGHLIGHTS

#### FINANCIAL HIGHLIGHTS TABLE

The table below sets forth selected financial information which has been derived from the financial statements in the Trust's Annual Report dated as of February 29, 2004. The information in the table below has been audited by KPMG LLP, independent registered public accounting firm. The auditors' report is contained in the Trust's Annual Report dated as of February 29, 2004 which is incorporated by reference into the SAI. A free copy of the Annual Report may be obtained by calling (800) 992-0180.

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|  | YEARS ENDED FEBRUARY |            |            |
|--|----------------------|------------|------------|
|  | 2004                 | 2003       | 2002       |
| <b>PER SHARE OPERATING PERFORMANCE</b>   |                      |            |            |
| Net asset value, beginning of year   | \$ 6.73              | \$ 7.20    | \$ 8.00    |
| Net investment income  | 0.46                 | 0.50       | 0.00       |
| Net realized and unrealized gain (loss) on investments                         | 0.61                 | (0.47)     | (0.00)     |
| Increase (decrease) in net asset value from investment operations              | 1.07                 | 0.03       | (0.00)     |
| Distributions to Common Shareholders from net investment income                | (0.42)               | (0.45)     | (0.00)     |
| Distribution to Preferred Shareholders   | (0.04)               | (0.05)     | (0.00)     |
| Reduction in net asset value from Preferred Shares offerings                   | --                   | --         | --         |
| Net asset value, end of year   | \$ 7.34              | \$ 6.73    | \$ 7.00    |
| Closing market price at end of year  | \$ 7.84              | \$ 6.46    | \$ 6.00    |
| <b>TOTAL INVESTMENT RETURN(1)</b>  |                      |            |            |
| Total investment return at closing market price(2)                             | 28.77%               | 2.53%      | (9.00)%    |
| Total investment return at net asset value(3)                                  | 15.72%               | 0.44%      | (3.00)%    |
| <b>Ratios/Supplemental Data</b>  |                      |            |            |
| Net assets end of year (000's)   | \$ 1,010,325         | \$ 922,383 | \$ 985,000 |
| Preferred Shares Aggregate amount outstanding (000's)                          | \$ 450,000           | \$ 450,000 | \$ 450,000 |
| Borrowings at end of year (000's)  | \$ 225,000           | \$ 167,000 | \$ 282,000 |
| Liquidation and market value per share of Preferred Shares                     | \$ 25,000            | \$ 25,000  | \$ 25,000  |
| Asset coverage per \$1,000 of debt(6)  | \$ 2,500             | \$ 2,500   | \$ 2,500   |
| Average borrowings (000's)   | \$ 143,194           | \$ 190,671 | \$ 365,000 |
| <b>Ratios to average net assets including Preferred Shares(7)</b>              |                      |            |            |
| Expenses (before interest and other fees related to revolving credit facility) | 1.45%                | 1.49%      | 1.45%      |
| Expenses   | 1.65%                | 1.81%      | 2.00%      |
| Net investment income  | 4.57%                | 4.97%      | 6.00%      |
| <b>Ratios to average net assets plus borrowing</b>                             |                      |            |            |
| Expenses (before interest and other fees related to revolving credit facility) | 1.84%                | 1.82%      | 1.84%      |
| Expenses   | 2.09%                | 2.23%      | 2.09%      |
| Net investment income  | 5.82%                | 6.10%      | 7.00%      |
| <b>Ratios to average net assets</b>  |                      |            |            |
| Expenses (before interest and other fees related to revolving credit facility) | 2.11%                | 2.19%      | 2.11%      |
| Expenses   | 2.40%                | 2.68%      | 3.00%      |
| Net investment income  | 6.68%                | 7.33%      | 9.00%      |
| Portfolio turnover rate  | 87%                  | 48%        | 87%        |
| Common shares outstanding at end of year (000's)                               | 137,638              | 136,973    | 136,000    |

8 Financial Highlights

FINANCIAL HIGHLIGHTS

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|  | YEARS ENDED FEBRUARY 2 |              |              |
|--|------------------------|--------------|--------------|
|  | 1999 (4)               | 1998 (4)     | 1997 (4)     |
| <b>PER SHARE OPERATING PERFORMANCE</b>   |                        |              |              |
| Net asset value, beginning of year   | \$ 9.34                | \$ 9.45      | \$ 9.34      |
| Net investment income  | 0.79                   | 0.87         | 0.87         |
| Net realized and unrealized gain (loss) on investments                         | (0.10)                 | (0.13)       | (0.13)       |
| Increase (decrease) in net asset value from investment operations              | 0.69                   | 0.74         | 0.74         |
| Distributions to Common Shareholders from net investment income                | (0.82)                 | (0.85)       | (0.85)       |
| Distribution to Preferred Shareholders   | 0.03                   | --           | --           |
| Reduction in net asset value from Preferred Shares offerings                   | --                     | --           | --           |
| Net asset value, end of year   | \$ 9.24                | \$ 9.34      | \$ 9.34      |
| Closing market price at end of year  | \$ 9.56                | \$ 10.31     | \$ 10.31     |
| <b>TOTAL INVESTMENT RETURN(1)</b>  |                        |              |              |
| Total investment return at closing market price(2)                             | 1.11%                  | 12.70%       | 15.1%        |
| Total investment return at net asset value(3)                                  | 7.86%                  | 8.01%        | 8.01%        |
| <b>Ratios/Supplemental Data</b>  |                        |              |              |
| Net assets end of year (000's)   | \$ 1,202,565           | \$ 1,034,403 | \$ 1,031,000 |
| Preferred Shares Aggregate amount outstanding (000's)                          | --                     | --           | --           |
| Borrowings at end of year (000's)  | \$ 534,000             | --           | --           |
| Liquidation and market value per share of Preferred Shares                     | --                     | --           | --           |
| Asset coverage per \$1,000 of debt(6)  | \$ 3,250               | --           | --           |
| Average borrowings (000's)   | \$ 490,978             | \$ 346,110   | \$ 131,000   |
| <b>Ratios to average net assets including Preferred Shares(7)</b>              |                        |              |              |
| Expenses (before interest and other fees related to revolving credit facility) | --                     | --           | --           |
| Expenses   | --                     | --           | --           |
| Net investment income  | --                     | --           | --           |
| <b>Ratios to average net assets plus borrowing</b>                             |                        |              |              |
| Expenses (before interest and other fees related to revolving credit facility) | 1.05% (5)              | 1.04%        | 1.04%        |
| Expenses   | 2.86% (5)              | 2.65%        | 2.65%        |
| Net investment income  | 6.00%                  | 6.91%        | 6.91%        |
| <b>Ratios to average net assets</b>  |                        |              |              |
| Expenses (before interest and other fees related to revolving credit facility) | 1.50% (5)              | 1.39%        | 1.39%        |
| Expenses   | 4.10% (5)              | 3.54%        | 3.54%        |
| Net investment income  | 8.60%                  | 9.23%        | 9.23%        |
| Portfolio turnover rate  | 68%                    | 90%          | 90%          |
| Common shares outstanding at end of year (000's)                               | 130,206                | 110,764      | 109,000      |

- (1) Total investment return calculations are attributable to common shareholders.
- (2) Total investment return measures the change in the market value of your investment assuming reinvestment of dividends and capital gain distributions, if any, in accordance with the provisions of the dividend reinvestment plan.
- (3) Total investment return at net asset value has been calculated assuming a purchase at net asset value at the beginning of each period and a sale at net asset value at the end of each period and assumes reinvestment of

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dividends and capital gain distributions in accordance with the provisions of the dividend reinvestment plan. This calculation differs from total investment return because it excludes the effects of changes in the market values of the Trust's shares.

- (4) The Investment Manager agreed to reduce its fee for a period of three years from the Expiration Date of the November 12, 1996 Rights Offering to 0.60% of the average daily net assets, plus the proceeds of any outstanding borrowings, over \$1.15 billion.
- (5) Calculated on total expenses before impact of earnings credits.
- (6) Asset coverage represents the total assets available for settlement of Preferred Stockholder's interest and notes payables in relation to the Preferred Shareholder interest and notes payable balance outstanding. The Preferred Shares were first offered November 2, 2000.
- (7) Ratios do not reflect the effect of dividend payments to Preferred Shareholders; income ratios reflect income earned on assets attributable to preferred shares.
- (8) Calculation of total return excludes the effects of the per share dilution resulting from the rights offering as the total account value of a fully subscribed shareholder was minimally impacted.
- (9) Pilgrim Investments, Inc., the Trust's investment manager, acquired certain assets of Pilgrim Management Corporation, the Trust's former investment manager, in a transaction that closed on April 7, 1995.

[GRAPHIC]

If you have any questions, please call (800) 992-0180.

Financial Highlights 9

### TRADING AND NAV INFORMATION

The following table shows for the Trust's Common Shares for the periods indicated: (1) the high and low closing prices as shown on the NYSE Composite Transaction Tape; (2) the NAV per Common Share represented by each of the high and low closing prices as shown on the NYSE Composite Transaction Tape; and (3) the discount from or premium to NAV per Share (expressed as a percentage) represented by these closing prices. The table also sets forth the aggregate number of shares traded as shown on the NYSE Composite Transaction Tape during the respective quarter.

| CALENDAR QUARTER ENDED | PRICE    |          | NAV     |         | PREMIUM/ (DISCOUNT)<br>TO NAV |         | REPO<br>NYSE |
|------------------------|----------|----------|---------|---------|-------------------------------|---------|--------------|
|                        | HIGH     | LOW      | HIGH    | LOW     | HIGH                          | LOW     |              |
| March 31, 2002         | \$ 6.950 | \$ 6.640 | \$ 7.29 | \$ 7.25 | (4.66)%                       | (8.41)% | 11,78        |
| June 30, 2002          | 6.950    | 6.230    | 7.25    | 7.13    | (4.14)                        | (12.62) | 13,75        |
| September 30, 2002     | 6.290    | 5.610    | 7.07    | 6.96    | (11.03)                       | (19.40) | 16,51        |
| December 31, 2002      | 6.100    | 5.440    | 6.69    | 6.55    | (8.82)                        | (16.95) | 16,67        |
| March 31, 2003         | 6.690    | 6.130    | 6.74    | 6.69    | (0.74)                        | (8.37)  | 16,70        |
| June 30, 2003          | 7.240    | 6.690    | 6.98    | 6.74    | 3.72                          | (0.74)  | 19,96        |
| September 30, 2003     | 7.660    | 7.000    | 7.00    | 7.08    | 9.43                          | (1.13)  | 17,90        |
| December 31, 2003      | 8.020    | 7.250    | 7.27    | 7.13    | 10.32                         | 1.68    | 15,52        |
| March 31, 2004         | 8.170    | 7.710    | 7.36    | 7.34    | 11.01                         | 5.04    | 18,28        |

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On June 15, 2004, the last reported sale price of a Common Share of the Trust's Common Shares on the NYSE was \$7.90. The Trust's NAV on June 15, 2004 was \$7.35. See "Transaction Policies -- Net Asset Value." On June 15, 2004 the last reported sale price of a share of the Trust's Common Shares on the NYSE (\$7.90) represented a 7.4% premium above NAV (\$7.35) as of that date.

The Trust's Common Shares have traded in the market above, at, and below NAV since March 9, 1992, when the Trust's Common Shares were listed on the NYSE. The Trust cannot predict whether its Common Shares will trade in the future at a premium or discount to NAV, and if so, the level of such premium or discount. Shares of closed-end investment companies frequently trade at a discount from NAV.

### 10 Trading and NAV Information

#### INVESTMENT OBJECTIVE AND POLICIES

##### INVESTMENT OBJECTIVE

The Trust's investment objective is to provide investors with as high a level of current income as is consistent with the preservation of capital. The Trust seeks to achieve this investment objective by investing in the types of assets described below:

1. SENIOR LOANS. Under normal circumstances, at least 80% of the Trust's net assets, plus the amount of any borrowings for investment purposes, will be invested in higher yielding, U.S. dollar denominated, floating rate secured senior loans (Senior Loans). The Trust will provide shareholders with at least 60 days' prior notice of any change in this investment policy.

The Trust only invests in Senior Loans made to corporations or other business entities organized under U.S. or Canadian law and which are domiciled in the U.S., Canada or in U.S. territories or possessions. These Senior Loans are typically below investment grade in quality. The Trust makes its investments in Senior Loans by purchasing a portion of the overall loan, I.E., the Trust becomes one of a number of lenders participating in the loan.

Senior Loans either hold the most senior position in the capital structure of the borrower or hold an equal ranking with other senior debt or have characteristics that the Investment Manager or Sub-Adviser believes justify treatment as senior debt.

The Trust does not invest in Senior Loans whose interest rates are tied to non-domestic interest rates other than the London Inter-Bank Offered Rate (LIBOR).

2. OTHER INVESTMENTS. Under normal circumstances the Trust may also invest up to 20% of its total assets in the following types of investments (Other Investments):
  - unsecured loans
  - subordinated loans
  - short-term debt securities

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- equity securities incidental to investment in loans

3. CASH AND SHORT-TERM INSTRUMENTS. Under normal circumstances, the Trust may invest in cash and/or short-term instruments. During periods when, in the opinion of the Investment Manager or Sub-Adviser, a temporary defensive posture in the market is appropriate, the Trust may hold up to 100% of its assets in cash and/or short-term instruments.

### FUNDAMENTAL DIVERSIFICATION POLICIES

1. INDUSTRY DIVERSIFICATION. The Trust may invest in any industry. The Trust may not invest more than 25% of its total assets in any single industry.
2. BORROWER DIVERSIFICATION. As a diversified investment company, the Trust may not make investments in any one issuer (other than the U.S. government) if, immediately after such purchase or acquisition, more than 5% of the value of the Trust's total assets would be invested in such issuer, or the Trust would own more than 25% of any outstanding issue. The Trust will consider the borrower on a loan, including a loan participation, to be the issuer of such loan. With respect to no more than 25% of its total assets, the Trust may make investments that are not subject to the foregoing restrictions.

These fundamental diversification policies may only be changed with approval by a majority of all shareholders, including the vote of a majority of the holders of Preferred Shares, and holders of any other preferred shares, voting separately as a class.

### INVESTMENT POLICIES

The Investment Manager and Sub-Adviser follow certain investment policies set by the Trust's Board of Trustees. Some of those policies are set forth below. Please refer to the SAI for additional information on these and other investment policies.

1. PAYABLE IN U.S. DOLLARS. All investments purchased by the Trust must be denominated in U.S. dollars.
2. MATURITY. Normally at least 80% of the Trust's total assets will be invested in Senior Loans with maturities of one to ten years. The maximum maturity on any loan in which the Trust can invest is ten years.
3. INTEREST RATE RESETS. Normally, at least 80% of the Trust's total assets will be invested in assets with rates of interest which reset either daily, monthly, or quarterly. The maximum duration of an interest rate reset on any loan investment in which the Trust may invest is one year. In addition, the Trust will ordinarily maintain a dollar-weighted average time until the next interest rate adjustment on its loan investments of 90 days or less.
4. LIMITATIONS ON SUBORDINATED AND UNSECURED LOANS. The Trust may also invest up to 5% of its total assets, measured at the time of investment, in subordinated and unsecured loans. The Trust may acquire a subordinated loan only if, at the time of acquisition, it acquires or holds a Senior Loan from the same borrower. The Trust will acquire unsecured loans only where the Investment Manager or Sub-Adviser believes, at the time of acquisition, that the Trust would have the right to payment upon default that is not subordinate to any other creditor. The maximum of 5% of the Trust's assets invested in subordinated and unsecured loans will constitute part of the 20% of the Trust's assets that may be invested in "Other Investments" as described above, and will not count toward the 80% of the Trust's assets that are normally invested in Senior Loans.



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5. INVESTMENT QUALITY; CREDIT ANALYSIS. Loans in which the Trust invests generally are rated below investment grade credit quality or are unrated. In acquiring a loan, the Investment

[GRAPHIC]

If you have any questions, please call 1-800-992-0180.

Investment Objective and Policies 11

### INVESTMENT OBJECTIVE AND POLICIES

Manager or Sub-Adviser will consider some or all of the following factors concerning the borrower: ability to service debt from internally generated funds; adequacy of liquidity and working capital; appropriateness of capital structure; leverage consistent with industry norms; historical experience of achieving business and financial projections; the quality and experience of management; and adequacy of collateral coverage. The Investment Manager or Sub-Adviser performs its own independent credit analysis of each borrower. In so doing, the Investment Manager or Sub-Adviser may utilize information and credit analyses from agents that originate or administer loans, other lenders investing in a loan, and other sources. The Investment Manager or Sub-Adviser also may communicate directly with management of the borrowers. These analyses continue on a periodic basis for any Senior Loan held by the Trust. See "Risk Factors and Special Considerations -- Credit Risk on Senior Loans."

6. USE OF LEVERAGE. The Trust may borrow money and issue preferred shares to the fullest extent permitted by the 1940 Act. See "Policy on Borrowing" and "Policy on Issuance of Preferred Shares" below.
7. SHORT-TERM INSTRUMENTS. Short-term instruments in which the Trust invests may include (i) commercial paper rated A-1 by Standard and Poor's or P-1 by Moody's Investors Service, Inc., or of comparable quality as determined by the Investment Manager, (ii) certificates of deposit, banker's acceptances, and other bank deposits and obligations, and (iii) securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities.
8. SECURITIES LENDING. The Trust also may lend portfolio securities on a short-term or long-term basis, an amount equal to up to 33 1/3% of its total assets.

### POLICY ON BORROWING

Beginning in May of 1996, the Trust began a policy of borrowing for investment purposes. The Trust seeks to use proceeds from borrowing to acquire loans and other investments which pay interest at a rate higher than the rate the Trust pays on borrowings. Accordingly, borrowing has the potential to increase the Trust's total income available to holders of its Common Shares.

The Trust may issue notes, commercial paper, or other evidences of indebtedness and may be required to secure repayment by mortgaging, pledging, or otherwise granting a security interest in the Trust's assets. The terms of any such borrowings are subject to the provisions of the 1940 Act, and also subject to the more restrictive terms of the credit agreements relating to borrowings and additional guidelines imposed by rating agencies which are more restrictive than the provisions of the 1940 Act. The Trust is permitted to borrow an amount equal to up to 33 1/3%, or such other percentage permitted by law, of its total assets (including the amount borrowed) less all liabilities other than borrowings. See

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"Risk Factors and Special Considerations -- Leverage" and "Risk Factors and Special Considerations -- Restrictive Covenants and 1940 Act Restrictions."

### POLICY ON ISSUANCE OF PREFERRED SHARES

The Trust has a policy of issuing preferred shares for investment purposes. The Trust seeks to use the proceeds from preferred shares to acquire loans and other investments which pay interest at a rate higher than the dividends payable on preferred shares. The terms of the issuance of preferred shares are subject to the 1940 Act and to additional guidelines imposed by rating agencies, which are more restrictive than the provisions of the 1940 Act. Under the 1940 Act, the Trust may issue preferred shares so long as immediately after any issuance of preferred shares the value of the Trust's total assets (less all Trust liabilities and indebtedness that is not senior indebtedness) is at least twice the amount of the Trust's senior indebtedness plus the involuntary liquidation preference of all outstanding shares. In November 2000, the Trust issued 18,000 Preferred Shares for a total of \$450 million. See "Risk Factors and Special Considerations -- Leverage."

### 12 Investment Objective and Policies

#### THE TRUST'S INVESTMENTS

As stated above under Investment Objective and Policies, the Trust will invest primarily in Senior Loans. This section contains a discussion of the characteristics of Senior Loans, the manner in which those investments are made and the market for Senior Loans.

#### SENIOR LOAN CHARACTERISTICS

Senior Loans are loans that are typically made to business borrowers to finance leveraged buy-outs, recapitalizations, mergers, stock repurchases and internal growth. Senior Loans generally hold the most senior position in the capital structure of a borrower and are usually secured by liens on the assets of the borrowers, including tangible assets such as cash, accounts receivable, inventory, property, plant and equipment, common and/or preferred stock of subsidiaries, and intangible assets including trademarks, copyrights, patent rights and franchise value. The Trust may also receive guarantees as a form of collateral.

By virtue of their senior position and collateral, Senior Loans typically provide lenders with the first right to cash flows or proceeds from the sale of a borrower's collateral if the borrower becomes insolvent (subject to the limitations of bankruptcy law, which may provide higher priority to certain claims such as, for example, employee salaries, employee pensions and taxes). This means Senior Loans are generally repaid before unsecured bank loans, corporate bonds, subordinated debt, trade creditors, and preferred or common stockholders.

Senior Loans typically pay interest at least quarterly at rates which equal a fixed percentage spread over a base rate such as LIBOR. For example, if LIBOR were 2.00% and the borrower were paying a fixed spread of 3.00%, the total interest rate paid by the borrower would be 5.00%. Base rates and, therefore, the total rates paid on Senior Loans float, I.E., they change as market rates of interest change.

Although a base rate such as LIBOR can change every day, loan agreements for Senior Loans typically allow the borrower the ability to choose how often the base rate for its loan will change. Such periods can range from one day to one

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year, with most borrowers choosing monthly or quarterly reset periods. During periods of rising interest rates, borrowers will tend to choose longer reset periods, and during periods of declining interest rates, borrowers will tend to choose shorter reset periods. The fixed spread over the base rate on a Senior Loan typically does not change.

Senior Loans generally are arranged through private negotiations between a borrower and several financial institutions represented by an agent who is usually one of the originating lenders. In larger transactions, it is common to have several agents; however, generally only one such agent has primary responsibility for ongoing administration of a Senior Loan. Agents are typically paid fees by the borrower for their services. The agent is primarily responsible for negotiating the loan agreement which establishes the terms and conditions of the Senior Loan and the rights of the borrower and the lenders. The agent also is responsible for monitoring collateral and for exercising remedies available to the lenders such as foreclosure upon collateral.

Loan agreements may provide for the termination of the agent's agency status in the event that it fails to act as required under the relevant loan agreement, becomes insolvent, enters FDIC receivership or, if not FDIC insured, enters into bankruptcy. Should such an agent, lender or assignor with respect to an assignment interpositioned between the Trust and the borrower become insolvent or enter FDIC receivership or bankruptcy, any interest in the Senior Loan of such person and any loan payment held by such person for the benefit of the Trust should not be included in such person's or entity's bankruptcy estate. If, however, any such amount were included in such person's or entity's bankruptcy estate, the Trust would incur certain costs and delays in realizing payment or could suffer a loss of principal or interest. In this event, the Trust could experience a decrease in NAV.

The Trust acquires Senior Loans from lenders such as banks, insurance companies, finance companies, other investment companies and private investment funds. The Trust may also acquire Senior Loans from U.S. branches of foreign banks that are regulated by the Federal Reserve System or appropriate state regulatory authorities.

### INVESTMENT BY THE TRUST

The Trust invests in Senior Loans primarily by purchasing an assignment of a portion of a Senior Loan from a third party, either in connection with the original loan transaction (I.E., in the primary market) or after the initial loan transaction (I.E., in the secondary market). When the Trust purchases an assignment in the primary market, it may share in a fee paid to the original lender. When the Trust acquires a Senior Loan in the secondary market, it may pay a fee to, or forego a portion of interest payments from, the lender making the assignment. The Trust will act as lender, or purchase an assignment with respect to a Senior Loan, only if the agent is determined by the Investment Manager or Sub-Adviser to be creditworthy.

Except for rating agency guidelines imposed on the Trust's portfolio while it has outstanding Preferred Shares, there is no minimum rating or other independent evaluation of a borrower limiting the Trust's investments and most Senior Loans that the Trust may acquire, if rated, will be rated below investment grade credit quality. See "Risk Factors and Special Considerations -- Credit Risk on Senior Loans."

ASSIGNMENTS. When the Trust is a purchaser of an assignment, it succeeds to all the rights and obligations under the loan agreement of the assigning lender and becomes a lender under the loan agreement with the same rights and obligations as the assigning lender. These rights include the ability to vote along with the other lenders on such matters as enforcing the terms of the loan agreement, E.G., declaring defaults, initiating collection action, etc. Taking such actions

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usually requires at least a vote of the lenders holding a majority of the investment in the loan, and may require a vote by lenders holding

[GRAPHIC]

If you have any questions, please call 1-800-992-0180.

The Trust's Investments 13

### THE TRUST'S INVESTMENTS

two-thirds or more of the investment in the loan. Because the Trust typically does not hold a majority of the investment in any loan, it will not be able by itself to control decisions that require a vote by the lenders.

**ACQUISITION COSTS.** When the Trust acquires an interest in a Senior Loan in the primary market, it typically acquires the loan at par less its portion of the fee paid to all originating lenders. When the Trust acquires an interest in a Senior Loan, in the secondary market, it may be at par, but typically the Trust will do so at premium or discount to par.

### SENIOR LOAN MARKET

Total U.S. domestic Senior Loan volume has increased dramatically over the last 10 years. This increase has helped improve the liquidity of Senior Loans. However, this increase has also been accompanied by an increase in the number of participants in the Senior Loan market. Currently, the Senior Loan market is experiencing a narrowing of spreads over LIBOR and some relaxation in credit standards due to an insufficient number of loans to satisfy the requirements of all lenders. More loans may become available if the U.S. economy continues to show signs of improvement.

### 14 The Trust's Investments

### RISK FACTORS AND SPECIAL CONSIDERATIONS

RISK IS INHERENT IN ALL INVESTING. THE FOLLOWING DISCUSSION SUMMARIZES SOME OF THE RISKS THAT YOU SHOULD CONSIDER BEFORE DECIDING WHETHER TO INVEST IN THE TRUST. FOR ADDITIONAL INFORMATION ABOUT THE RISKS ASSOCIATED WITH INVESTING IN THE TRUST, SEE "ADDITIONAL INFORMATION ABOUT INVESTMENTS AND INVESTMENT TECHNIQUES" IN THE SAI.

#### CREDIT RISK ON SENIOR LOANS

The Trust's ability to pay dividends and repurchase its Common Shares is dependent upon the performance of the assets in its portfolio. That performance, in turn, is subject to a number of risks, chief among which is credit risk on the underlying assets.

Credit risk is the risk of nonpayment of scheduled interest or principal payments. In the event a borrower fails to pay scheduled interest or principal payments on a Senior Loan held by the Trust, the Trust will experience a reduction in its income and a decline in the market value of the Senior Loan, which will likely reduce dividends and lead to a decline in the NAV of the Trust's Common Shares. See "The Trust's Investments -- Investment by the Trust."

Senior Loans generally involve less risk than unsecured or subordinated debt and equity instruments of the same issuer because the payment of principal and interest on Senior Loans is a contractual obligation of the issuer that, in most

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instances, takes precedence over the payment of dividends, or the return of capital, to the issuer's shareholders and payments to bond holders. The Trust generally invests in Senior Loans that are secured with specific collateral. However, the value of the collateral may not equal the Trust's investment when the loan is acquired or may decline below the principal amount of the Senior Loan subsequent to the Trust's investment. Also, to the extent that collateral consists of stock of the borrower or its subsidiaries or affiliates, the Trust bears the risk that the stock may decline in value, be relatively illiquid, or may lose all or substantially all of its value, causing the Senior Loan to be undercollateralized. Therefore, the liquidation of the collateral underlying a Senior Loan may not satisfy the issuer's obligation to the Trust in the event of non-payment of scheduled interest or principal, and the collateral may not be readily liquidated.

In the event of the bankruptcy of a borrower, the Trust could experience delays and limitations on its ability to realize the benefits of the collateral securing the Senior Loan. Among the credit risks involved in a bankruptcy are assertions that the pledge of collateral to secure a loan constitutes a fraudulent conveyance or preferential transfer that would have the effect of nullifying or subordinating the Trust's rights to the collateral.

The Senior Loans in which the Trust invests are generally rated lower than investment grade credit quality, I.E., rated lower than "Baa" by Moody's or "BBB" by S&P, or have been issued by issuers who have issued other debt securities which, if unrated, would be rated lower than investment grade credit quality. Investment decisions will be based largely on the credit analysis performed by the Investment Manager or Sub-Adviser, and not on rating agency evaluation. This analysis may be difficult to perform. Information about a Senior Loan and its issuer generally is not in the public domain. Moreover, Senior Loans are not often rated by any nationally recognized rating service. Many issuers have not issued securities to the public and are not subject to reporting requirements under federal securities laws. Generally, however, issuers are required to provide financial information to lenders and information may be available from other Senior Loan participants or agents that originate or administer Senior Loans.

### INTEREST RATE RISK

During normal market conditions, changes in market interest rates will affect the Trust in certain ways. The principal effect will be that the yield on the Trust's Common Shares will tend to rise or fall as market interest rates rise and fall. This is because almost all of the assets in which the Trust invests pay interest at rates which float in response to changes in market rates. However, because the interest rates on the Trust's assets reset over time, there will be an imperfect correlation between changes in market rates and changes to rates on the portfolio as a whole. This means that changes to the rate of interest paid on the portfolio as a whole will tend to lag behind changes in market rates.

Market interest rate changes may also cause the Trust's NAV to experience moderate volatility. This is because the value of a loan asset in the Trust is partially a function of whether it is paying what the market perceives to be a market rate of interest for the particular loan, given its individual credit and other characteristics. If market interest rates change, a loan's value could be affected to the extent the interest rate paid on that loan does not reset at the same time. As discussed above, the rates of interest paid on the loans in which the Trust invests have a weighted average reset period that typically is less than 90 days. Therefore, the impact of the lag between a change in market interest rates and the change in the overall rate on the portfolio is expected to be minimal.

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To the extent that changes in market rates of interest are reflected not in a change to a base rate such as LIBOR but in a change in the spread over the base rate which is payable on loans of the type and quality in which the Trust invests, the Trust's NAV could also be adversely affected. Again, this is because the value of a loan asset in the Trust is partially a function of whether it is paying what the market perceives to be a market rate of interest for the particular loan, given its individual credit and other characteristics. However, unlike changes in market rates of interest for which there is only a temporary lag before the portfolio reflects those changes, changes in a loan's value based on changes in the market spread on loans in the Trust's portfolio may be of longer duration.

Finally, substantial increases in interest rates may cause an increase in loan defaults as borrowers may lack the resources to meet higher debt service requirements.

[GRAPHIC]

If you have any questions, please call 1-800-992-0180.

Risk Factors and Special Considerations 15

### RISK FACTORS AND SPECIAL CONSIDERATIONS

#### CHANGES TO NAV

The NAV of the Trust is expected to change in response to a variety of factors, primarily in response to changes in the creditworthiness of the borrowers on the loans in which the Trust invests. See "Credit Risk on Senior Loans" above. Changes in market interest rates may also have a moderate impact on the Trust's NAV. See "Interest Rate Risk." Another factor which can affect the Trust's NAV is changes in the pricing obtained for the Trust's assets. See "Transaction Policies -- Valuation of the Trust's Assets."

#### DISCOUNT FROM NAV

The Trust's Common Shares have traded in the market above, at, and below NAV since March 9, 1992, when the Trust's shares were listed on the NYSE. The reasons for the Trust's Common Shares trading at a premium to or discount from NAV are not known to the Trust, and the Trust cannot predict whether its Common Shares will trade in the future at a premium to or discount from NAV, and if so, the level of such premium or discount. Shares of closed-end investment companies frequently trade at a discount from NAV. The possibility that Common Shares of the Trust will trade at a discount from NAV is a risk separate and distinct from the risk that the Trust's NAV may decrease.

#### LEVERAGE

The Trust may borrow an amount equal to up to 33 1/3% (or such other percentage permitted by law) of its total assets (including the amount borrowed) less all liabilities other than borrowings. Under the 1940 Act, the Trust may issue preferred shares so long as immediately after any issuance of preferred shares the value of the Trust's total assets (less all Trust liabilities and indebtedness that is not senior indebtedness) is at least twice the amount of the Trust's senior indebtedness plus the involuntary liquidation preference of all outstanding shares. In November 2000, the Trust issued 18,000 Preferred Shares for a total of \$450 million. Borrowings and the issuance of preferred shares are referred to in this Prospectus collectively as "leverage." The Trust may use leverage for investment purposes, to finance the repurchase of its

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Common Shares, and to meet other cash requirements. The use of leverage for investment purposes increases both investment opportunity and investment risk.

Capital raised through leverage will be subject to interest and other costs, and these costs could exceed the income earned by the Trust on the proceeds of such leverage. There can be no assurance that the Trust's income from the proceeds of leverage will exceed these costs. However, the Investment Manager or Sub-Adviser seeks to use leverage for the purposes of making additional investments only if they believe, at the time of using leverage, that the total return on the assets purchased with such funds will exceed interest payments and other costs on the leverage. In addition, the Investment Manager or Sub-Adviser intends to reduce the risk that the costs of the use of leverage will exceed the total return on investments purchased with the proceeds of leveraging by utilizing leverage mechanisms whose interest rates float (or reset frequently). In the event of a default on one or more loans or other interest-bearing instruments held by the Trust, the use of leverage would increase the loss to the Trust and may increase the effect on the Trust's NAV. The Trust's lenders and Preferred shareholders have priority to the Trust's assets over the Trust's Common shareholders.

The Trust currently uses leverage by borrowing money on a floating rate basis and by the issuance of Preferred Shares. The current rate on the borrowings (as of June 15, 2004) is 1.56%. The current dividend rate on the Preferred Shares (as of June 15, 2004) is 1.54%. To cover the annual interest and dividends on the borrowings and the Preferred Shares for the current fiscal year (assuming that the current interest and dividend rates remain in effect for the entire fiscal year and assuming that the Trust borrows an amount equal to 25% of its Managed Assets and the current Preferred Shares remain outstanding), the Trust would need to earn 0.74% on its amount of Managed Assets as of June 15, 2004.

The Trust's leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objectives and policies. The funds borrowed pursuant to the credit facilities or obtained through the issuance of Preferred Shares, or any other preferred shares, constitute a substantial lien and burden by reason of their prior claim against the income of the Trust and against the net assets of the Trust in liquidation.

### 16 Risk Factors and Special Considerations

#### RISK FACTORS AND SPECIAL CONSIDERATIONS

The Trust is not permitted to declare dividends or other distributions, including dividends and distributions with respect to Common Shares or Preferred Shares, or to purchase Common Shares or Preferred Shares unless (i) at the time thereof the Trust meets certain asset coverage requirements and (ii) there is no event of default under any credit facility program that is continuing. See "Risk Factors and Special Considerations Restrictive Covenants and 1940 Act Restrictions" below. In the event of a default under a credit facility program, the lenders have the right to cause a liquidation of the collateral (I.E., sell Senior Loans and other assets of the Trust) and, if any such default is not cured, the lenders may be able to control the liquidation as well.

In addition, the Trust is not permitted to pay dividends on or redeem Common Shares unless all accrued dividends on the Preferred Shares and all accrued interest on borrowings have been paid or set aside for payment.

Because the fee paid to the Investment Manager will be calculated on the basis of Managed Assets, the fee will be higher when leverage is utilized, giving the Investment Manager an incentive to utilize leverage.

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The Trust is subject to certain restrictions imposed by lenders to the Trust and by guidelines of one or more rating agencies which issue ratings for the Preferred Shares issued by the Trust. These restrictions impose asset coverage, fund composition requirements and limits on investment techniques, such as the use of financial derivative products, that are more stringent than those imposed on the Trust by the 1940 Act. These covenants or guidelines could impede the Investment Manager or Sub-Adviser from fully managing the Trust's portfolio in accordance with the Trust's investment objective and policies.

### ANNUAL EXPENSES WITHOUT BORROWINGS OR PREFERRED SHARES

If the Trust were not to have borrowed or have Preferred Shares outstanding, the remaining expenses, as a percentage of the net assets of the Trust, would be as follows:

### ANNUAL EXPENSES WITHOUT BORROWINGS OR PREFERRED SHARES (AS A PERCENTAGE OF NET ASSETS ATTRIBUTABLE TO COMMON SHARES)

|                                       |       |
|---------------------------------------|-------|
| Management and Administrative Fees(1) | 1.05% |
| Other Operating Expenses(2)           | 0.43% |
| Total Annual Expenses                 | 1.48% |

(1) Pursuant to the Investment Management Agreement with the Trust, ING Investments is paid a fee of 0.80% of the Trust's Managed Assets. Pursuant to its Administration Agreement with the Trust, ING Funds Services, LLC, the Trust's Administrator, is paid a fee of 0.25% of the Trust's Managed Assets. See "Investment Management and Other Service Providers -- The Administrator."

(2) "Other Operating Expenses" are based on estimated amounts for the current fiscal year, which, in turn, are based on "other operating expenses" for the fiscal year ended February 29, 2004, and does not include the expenses of borrowing.

### EFFECT OF LEVERAGE

The following table is designed to illustrate the effect on return to a holder of the Trust's Common Shares of the leverage created by the Trust's use of borrowing, using an assumed initial interest rate of 1.82%, assuming the Trust has used leverage by borrowing an amount equal to 25% of the Trust's Managed Assets and assuming hypothetical annual returns on the Trust's portfolio of minus 10% to plus 10%. As can be seen, leverage generally increases the return to shareholders when portfolio return is positive and decreases return when the portfolio return is negative. Actual returns may be greater or less than those appearing in the table.

|  |          |         |         |
|--|----------|---------|---------|
| Assumed Portfolio Return, net of expenses(1)   | (10%)    | (5%)    | 0%      |
| Corresponding Return to Common Shareholders(2) | (13.94%) | (7.27%) | (0.61%) |



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- (1) The Assumed Portfolio Return is required by regulation of the SEC and is not a prediction of, and does not represent, the projected or actual performance of the Trust.
- (2) In order to compute the "Corresponding Return to Common Shareholders," the "Assumed Portfolio Return" is multiplied by the total value of the Trust's assets at the beginning of the Trust's fiscal year to obtain an assumed return to the Trust. From this amount, all interest accrued during the year is subtracted to determine the return available to shareholders. The return available to shareholders is then divided by the total value of the Trust's net assets attributable to Common Shares as of the beginning of the fiscal year to determine the "Corresponding Return to Common Shareholders."

[GRAPHIC]

If you have any questions, please call 1-800-992-0180.

Risk Factors and Special Considerations 17

### RISK FACTORS AND SPECIAL CONSIDERATIONS

#### IMPACT OF SHAREHOLDER INVESTMENT PROGRAM AND PRIVATELY NEGOTIATED TRANSACTIONS

The issuance of Common Shares through the Trust's Shareholder Investment Program may have an adverse effect on the secondary market for the Trust's Common Shares. The increase in the number of the Trust's outstanding Common Shares resulting from issuances pursuant to the Trust's Shareholder Investment Program or pursuant to privately negotiated transactions, and the discount to the market price at which such Common Shares may be issued, may put downward pressure on the market price for Common Shares of the Trust. Common Shares will not be issued pursuant to the Trust's Shareholder Investment Program at any time when Common Shares are trading at a price lower than the Trust's NAV per Common Share.

#### LIMITED SECONDARY MARKET FOR LOANS

Although the resale, or secondary, market for loans is growing, it is currently limited. There is no organized exchange or board of trade on which loans are traded. Instead, the secondary market for loans is an unregulated inter-dealer or inter-bank re-sale market.

Loans usually trade in large denominations (typically in \$1 million or larger) and trades can be infrequent. The market has limited transparency so that information about actual trades may be difficult to obtain. Accordingly, some or many of the loans in which the Trust invests will be relatively illiquid.

In addition, loans in which the Trust invests may require the consent of the borrower and/or the agent prior to sale or assignment. These consent requirements can delay or impede the Trust's ability to sell loans and can adversely affect the price that can be obtained. The Trust may have difficulty disposing of loans if it needs cash to repay debt, to pay dividends, to pay expenses or to take advantage of new investment opportunities. Although the Trust has not conducted a tender offer since 1992, if it determines to again conduct a tender offer, limitations of a secondary market may result in

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difficulty raising cash to purchase tendered Common Shares.

These considerations may cause the Trust to sell securities at lower prices than it would otherwise consider to meet cash needs or cause the Trust to maintain a greater portion of its assets in cash equivalents than it would otherwise, which could negatively impact performance. The Trust seeks to avoid the necessity of selling assets to meet such needs by the use of borrowings.

The Trust values its assets daily. However, because the secondary market for loans is limited, it may be difficult to value loans. Reliable market value quotations may not be readily available for some loans and valuation of such loans may require more research than for liquid securities. In addition, elements of judgment may play a greater role in valuation of loans, than for securities with a more developed secondary market, because there is less reliable, objective market value data available. In addition, if the Trust purchases a relatively large portion of a loan to generate extra income sometimes paid to large lenders, the limitations of the secondary market may inhibit the Trust from selling a portion of the loan and reducing its exposure to a borrower when the Investment Manager or Sub-Adviser deems it advisable to do so.

### LENDING PORTFOLIO SECURITIES

To generate additional income, the Trust may lend portfolio securities in an amount equal to up to 33 1/3% of total Trust assets to broker-dealers, major banks, or other recognized domestic institutional borrowers of securities. As with other extensions of credit, there are risks of delay in recovery or even loss of rights in the collateral should the borrower default or fail financially. The Trust intends to engage in lending portfolio securities only when such lending is fully secured by investment grade collateral held by an independent agent.

### DEMAND FOR LOANS

Although the volume of loans has increased in recent years, demand for loans has also grown. An increase in demand may benefit the Trust by providing increased liquidity for loans and higher sales prices, but it may also adversely affect the rate of interest payable on loans acquired by the Trust, the rights provided to the Trust under the terms of a loan agreement, and increase the price of loans that the Trust wishes to purchase in the secondary market.

### UNSECURED LOANS AND SUBORDINATED LOANS

Subject to the 20% of the Trust's assets that may be invested in Other Investments, the Trust may invest up to 5% of its total assets, measured at the time of investment, in unsecured loans and in subordinated loans. Unsecured loans and subordinated loans share the same credit risks as those discussed above under "Credit Risk on Senior Loans" except that unsecured loans are not secured by any collateral of the borrower and subordinated loans are not the most senior debt in a borrower's capital structure. Unsecured loans do not enjoy the security associated with collateralization and may pose a greater risk of nonpayment of interest or loss of principal than do secured loans. The primary additional risk in a subordinated loan is the potential loss in the event of default by the issuer of the loan. Subordinated loans in an insolvency bear an increased share, relative to senior secured lenders, of the ultimate risk that the borrower's assets are insufficient to meet its obligations to its creditors.

### SHORT-TERM DEBT SECURITIES

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Subject to the 20% of the Trust's assets that may be invested in Other Investments, the Trust may invest in short-term debt securities. Short-term debt securities are subject to the risk of the issuer's inability to meet principal and interest payments on the obligation and also may be subject to price volatility due to such factors as interest rates, market perception of the creditworthiness of the issuer and general market liquidity.

Because short-term debt securities pay interest at a fixed-rate, when interest rates decline, the value of the Trust's short-term debt securities can be expected to rise, and when interest rates rise, the value of those securities can be expected to decline.

### 18 Risk Factors and Special Considerations

#### RISK FACTORS AND SPECIAL CONSIDERATIONS

##### INVESTMENTS IN EQUITY SECURITIES INCIDENTAL TO INVESTMENT IN LOANS

Subject to the 20% of the Trust's assets that may be invested in Other Investments, the Trust may acquire equity securities as an incident to the purchase or ownership of a loan or in connection with a reorganization of a borrower or its debt. Investments in equity securities incidental to investment in loans entail certain risks in addition to those associated with investment in loans. The value of these securities may be affected more rapidly, and to a greater extent, by company-specific developments and general market conditions. These risks may increase fluctuations in the Trust's NAV. The Trust may frequently possess material non-public information about a borrower as a result of its ownership of a loan of such borrower. Because of prohibitions on trading in securities of issuers while in possession of such information the Trust might be unable to enter into a transaction in a security of such a borrower when it would otherwise be advantageous to do so.

##### BORROWINGS UNDER THE CREDIT FACILITY PROGRAM

In May 1996, the Trust began a policy of borrowing to acquire income-producing investments which, by their terms, pay interest at a rate higher than the rate the Trust pays on borrowings. Accordingly, borrowing has the potential to increase the Trust's total income. The Trust currently is a party to two credit facilities with financial institutions that permit the Trust to borrow up to an aggregate of \$525 million. Interest is payable on the credit facilities by the Trust at a variable rate that is tied to either LIBOR, the federal funds rate, or a commercial paper based rate and includes a facility fee on unused commitments. As of June 15, 2004, the Trust had outstanding borrowings under the credit facilities of approximately \$444 million. Collectively, the lenders under the credit facilities have a security interest in all assets of the Trust. Under each of the credit facilities, the lenders have the right to liquidate Trust assets in the event of default by the Trust under such credit facility, and the Trust may be prohibited from paying dividends in the event of certain adverse events or conditions respecting the Trust or Investment Manager or Sub-Adviser until the credit facility is repaid in full or until the event or condition is cured.

##### RANKING OF SENIOR INDEBTEDNESS

The rights of lenders to receive payments of interest on and repayments of principal of any borrowings made by the Trust under the credit facility program are senior to the rights of holders of Common Shares and Preferred Shares with respect to the payment of dividends or upon liquidation.

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### RESTRICTIVE COVENANTS AND 1940 ACT RESTRICTIONS

The credit agreements governing the credit facility program (the Credit Agreements) include usual and customary covenants for their respective type of transaction, including limits on the Trust's ability to (i) issue preferred shares, (ii) incur liens or pledge portfolio securities, (iii) change its investment objective or fundamental investment restrictions without the approval of lenders, (iv) make changes in any of its business objectives, purposes or operations that could result in a material adverse effect, (v) make any changes in its capital structure, (vi) amend the Trust documents in a manner which could adversely affect the rights, interests or obligations of any of the lenders, (vii) engage in any business other than the businesses currently engaged in, (viii) create, incur, assume or permit to exist certain debt except for certain specified types of debt, and (ix) permit any of its ERISA affiliates to cause or permit to occur an event that could result in the imposition of a lien under the Internal Revenue Code or ERISA. In addition, the Credit Agreements do not permit the Trust's asset coverage ratio (as defined in the credit agreements) to fall below 300% at any time (the Credit Agreement Asset Coverage Test).

Under the requirements of the 1940 Act, the Trust must have asset coverage of at least 300% immediately after any borrowing, including borrowing under the credit facility program. For this purpose, asset coverage means the ratio which the value of the total assets of the Trust, less liabilities and indebtedness not represented by senior securities, bears to the aggregate amount of borrowings represented by senior securities issued by the Trust. The Credit Agreements limit the Trust's ability to pay dividends or make other distributions on the Trust's Common Shares, or purchase or redeem Common Shares, unless the Trust complies with the Credit Agreement Asset Coverage Test. In addition, the Credit Agreements do not permit the Trust to declare dividends or other distributions or purchase or redeem Common Shares or any preferred shares (i) at any time that an event of default under a Credit Agreement has occurred and is continuing; or (ii) if, after giving effect to such declaration, the Trust would not meet the Credit Agreement Asset Coverage Test set forth in the Credit Agreements.

[GRAPHIC]

If you have any questions, please call 1-800-992-0180.

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### TRANSACTION POLICIES

#### NET ASSET VALUE

The NAV per Common Share of the Trust is determined each business day as of the close of regular trading on the New York Stock Exchange (NYSE) (normally 4:00 p.m. Eastern time). The Trust is open for business every day the NYSE is open. The NYSE is closed on all weekends and on all national holidays and Good Friday. Trust shares will not be priced on those days. The NAV per Common Share is determined by dividing the value of the Trust's loan assets plus all cash and other assets (including interest accrued but not collected) less all liabilities (including accrued expenses but excluding capital and less the liquidation preference of any outstanding preferred shares) by the number of Common Shares outstanding. The NAV per Common Share is made available for publication.

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### VALUATION OF THE TRUST'S ASSETS

The assets in the Trust's portfolio are valued daily in accordance with the Trust's Loan Valuation Procedures adopted by the Board of Trustees. A majority of the Trust's assets are valued using quotations supplied by a third party loan pricing service. However, the loans in which the Trust invests are not listed on any securities exchange or board of trade. Some loans are traded by institutional investors in an over-the-counter secondary market that has developed in the past several years. This secondary market generally has fewer trades and less liquidity than the secondary markets for other types of securities. Some loans have few or no trades. Accordingly, determinations of the value of loans may be based on infrequent and dated trades. Because there is less reliable, objective market value data available, elements of judgment may play a greater role in valuation of loans than for other types of securities. For further information, see "Risk Factors and Special Considerations -- Limited Secondary Market for Loans."

Loans are normally valued at the mean of the means of one or more bid and asked quotations obtained from a pricing service or other sources believed to be reliable. Loans for which reliable market value quotations are not readily available from a pricing service may be valued with reference to another loan or a group of loans for which reliable market value quotations are readily available and whose characteristics are comparable to the loan being valued. Under this approach, the comparable loan or loans serve as a proxy for changes in value of the loan being valued. The Trust has engaged an independent pricing service to provide quotations from dealers in loans and to calculate values under this proxy procedure.

It is expected that most of the loans held by the Trust will be valued with reference to quotations from the independent pricing service or with reference to the proxy procedure described above. The Investment Manager or Sub-Adviser may believe that the price for a loan derived from quotations or the proxy procedure described above is not reliable or accurate. Among other reasons, this may be the result of information about a particular loan or borrower known to the Investment Manager or Sub-Adviser that they believe may not be known to the pricing service or reflected in a price quote. In this event, the loan is valued at fair value under procedures established by the Trust's Board of Trustees, and in accordance with the provisions of the 1940 Act.

Under these procedures, fair value is determined by the Investment Manager or Sub-Adviser and monitored by the Trust's Board of Trustees through its Valuation and Proxy Voting Committee. In fair valuing a loan, consideration is given to several factors, which may include, among others, the following:

- the characteristics of and fundamental analytical data relating to the loan, including the cost, size, current interest rate, period until the next interest rate reset, maturity and base lending rate of the loan, the terms and conditions of the loan and any related agreements, and the position of the loan in the borrower's debt structure;
- the nature, adequacy and value of the collateral, including the Trust's rights, remedies and interests with respect to the collateral;
- the creditworthiness of the borrower and the cash flow coverage of outstanding principal and interest, based on an evaluation of its financial condition, financial statements and information about the borrower's business, cash flows, capital structure and future prospects;
- information relating to the market for the loan, including price quotations for, and trading in, the loan and interests in similar loans and the market environment and investor attitudes towards the loan and interests in similar loans;

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- the reputation and financial condition of the agent of the loan and any intermediate participants in the loans;
- the borrower's management; and
- the general economic and market conditions affecting the fair value of the loan.

Securities for which the primary market is a national securities exchange are stated at the last reported sale price on the day of valuation. Securities reported by NASDAQ National Market System will be valued at the NASDAQ Official Closing Price on the valuation day. Debt and equity securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the mean between the last reported bid and asked price. Valuation of short term cash equivalent investments is at amortized cost. Securities maturing in 60 days or less are valued at amortized cost, which, when combined with accrued interest, approximates market value.

### ACCOUNT ACCESS

Unless your Common Shares are held through a third-party fiduciary or in an omnibus registration at your bank or brokerage firm, you may be able to access your account information over the internet at [www.ingfunds.com](http://www.ingfunds.com), or via a touch tone telephone by calling (800) 992-0180 and selecting Option 1. Should you wish to speak with a Shareholder Services Representative, you may call the toll-free number listed above and select Option 2.

### 20 Transaction Policies

### TRANSACTION POLICIES

### PRIVACY POLICY

The Trust has adopted a policy concerning investor privacy. To review the privacy policy, contact a Shareholder Services Representative at (800) 992-0180 and select Option 1, obtain a policy over the internet at [www.ingfunds.com](http://www.ingfunds.com) or see the privacy policy that accompanies this Prospectus.

### HOUSEHOLDING

To reduce expenses, we may mail only one copy of the Trust's prospectus and each annual and semi-annual report to those addresses shared by two or more accounts. If you wish to receive individual copies of these documents, please call us at (800) 992-0180 or your investment professional. We will begin sending you individual copies 30 days after receiving your request.

### PLAN OF DISTRIBUTION

### SHAREHOLDER INVESTMENT PROGRAM

The following is a summary of the Shareholder Investment Program (Program). Shareholders are advised to review a fuller explanation of the Program contained in the Trust's SAI.

Common Shares are offered by the Trust through the Program. The Program allows participating shareholders to reinvest all dividends (Dividends) in additional Common Shares of the Trust, and also allows participants to purchase additional

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Common Shares through optional cash investments in amounts ranging from a minimum of \$100 to a maximum of \$100,000 per month.

The Trust reserves the right to reject any purchase order. Please note that cash, travelers checks, third party checks, money orders and checks drawn on non-US banks (even if payment may be effected through a US bank) generally will not be accepted.

Common Shares will be issued by the Trust under the Program when the Trust's Common Shares are trading at a premium to NAV. If the Trust's Common Shares are trading at a discount to NAV, Common Shares issued under the Program will be purchased on the open market. Common Shares issued under the Program directly from the Trust will be acquired at the greater of (i) NAV at the close of business on the day preceding the relevant investment date or (ii) the average of the daily market price of the Common Shares during the pricing period minus a discount of 5% for reinvested Dividends and 0% to 5% for optional cash investments. Common Shares issued under the Program when shares are trading at a discount to NAV will be purchased in the market by DSTSystems, Inc. (DST) at market price. Shares issued by the Trust under the Program will be issued without a fee or a commission.

Shareholders may elect to participate in the Program by telephoning the Trust or submitting a completed Participation Form to DST, the Program administrator. DST will credit to each participant's account funds it receives from: (a) Dividends paid on Trust shares registered in the participant's name, and (b) optional cash investments. DST will apply all Dividends and optional cash investments received to purchase Common Shares as soon as practicable beginning on the relevant investment date (as described below) and not later than six business days after the relevant investment date, except when necessary to comply with applicable provisions of the federal securities laws. For more information on the Trust's distribution policy, see "Dividends and Distributions."

In order for participants to purchase shares through the Program in any month, the Program administrator must receive from the participant any optional cash investment by the relevant investment date. The relevant investment date will be set in advance by the Trust, upon which optional cash investments are first applied by DST to the purchase of Common Shares. Participants may obtain a schedule of relevant dates, including investments dates, the dates by which optional cash investment payments must be received and the dates which shares will be paid by calling ING's Shareholder Services Department at (800) 992-0180.

Participants will pay a pro rata share of brokerage commissions with respect to DST's open market purchases in connection with the reinvestment of Dividends or purchases made with optional cash investments.

The Program is intended for the benefit of investors in the Trust. The Trust reserves the right to exclude from participation, at any time, (i) persons or entities who attempt to circumvent the Program's standard \$100,000 maximum by accumulating accounts over which they have control or (ii) any other persons or entities, as determined in the sole discretion of the Trust.

Currently, persons who are not shareholders of the Trust may not participate in the Program. The Board of Trustees of the Trust may elect to change this policy at a future date, and permit non-shareholders to participate in the Program. Shareholders may request to receive their Dividends in cash at any time by giving DST written notice or by contacting ING's Shareholder Services Department at (800) 992-0180 and selecting Option 2. Shareholders may elect to close their account at any time by giving DST written notice. When a participant closes their account, the participant upon request will receive a certificate for full

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Common Shares in the account. Fractional Common Shares will be held and aggregated with other fractional Common Shares being liquidated by DST as agent of the Program and paid for by check when actually sold.

The automatic reinvestment of Dividends does not affect the tax characterization of the Dividends (I.E., capital gains and

[GRAPHIC]

If you have any questions, please call (800) 992-0180.

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### PLAN OF DISTRIBUTION

income are realized even though cash is not received). If shares are issued pursuant to the Program's dividend reinvestment provisions or cash purchase provisions at a discount from market price, participants may have income equal to the discount.

Additional information about the Program may be obtained by contacting ING's Shareholder Services Department at (800) 992-0180 and selecting Option 2.

### PRIVATELY NEGOTIATED TRANSACTIONS

The Common Shares may also be offered pursuant to privately negotiated transactions between the Trust or ING Funds Distributor, LLC and specific investors. Generally, such investors will be sophisticated institutional investors. The terms of such privately negotiated transactions will be subject to the discretion of the management of the Trust. In determining whether to sell Common Shares pursuant to a privately negotiated transaction, the Trust will consider relevant factors including, but not limited to, the attractiveness of obtaining additional funds through the sale of Common Shares, the purchase price to apply to any such sale of Common Shares and the person seeking to purchase the Common Shares.

Common Shares issued by the Trust in connection with privately negotiated transactions will be issued at the greater of (i) NAV per Common Share of the Trust's Common Shares or (ii) at a discount ranging from 0% to 5% of the average of the daily market price of the Trust's Common Shares at the close of business on the two business days preceding the date upon which Common Shares are sold pursuant to the privately negotiated transaction. The discount to apply to such privately negotiated transactions will be determined by the Trust with regard to each specific transaction.

### USE OF PROCEEDS

It is expected that 100% of the net proceeds of Common Shares issued pursuant to the Shareholder Investment Program and privately negotiated transactions will be invested in Senior Loans and other securities consistent with the Trust's investment objective and policies. Pending investment in Senior Loans, the proceeds will be used to pay down the Trust's outstanding borrowings under its credit facilities. See "Investment Objective and Policies -- Policy on Borrowing."

As of June 15, 2004, the Trust's outstanding borrowings under its credit facilities was \$444 million. By paying down the Trust's borrowings, the Trust can avoid adverse impacts on yields pending investment of such proceeds in Senior Loans. As investment opportunities are subsequently identified, it is



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expected that the Trust will reborrow amounts previously repaid and invest such amounts in additional Senior Loans.

### DIVIDENDS AND DISTRIBUTIONS

DISTRIBUTION POLICY. Income dividends are declared and paid monthly. Income dividends consist of interest accrued and amortization of fees earned less any amortization of premiums paid and the estimated expenses of the Trust, including fees payable to ING Investments. Income dividends are calculated monthly under guidelines approved by the Trustees. Each dividend is payable to shareholders of record on the 10th day of the following month (unless it is a holiday, in which case the next business day is the record date). Accrued amounts of fees received, including facility fees, will be taken in as income and passed on to shareholders as part of dividend distributions. Any fees or commissions paid to facilitate the sale of portfolio Senior Loans in connection with tender offers or other portfolio transactions may reduce the dividend yield.

Capital gains, if any, are declared and paid annually. Because the Trust currently has capital loss carry forwards, it is not anticipated that capital gains distributions will be made for the foreseeable future.

DIVIDEND REINVESTMENT. Unless you instruct the Trust to pay you dividends in cash, dividends and distributions paid by the Trust will be reinvested in additional Common Shares of the Trust. You may request to receive dividends in cash at any time by giving DST written notice or by contacting the ING's Shareholder Services Department at (800) 992-0180 and selecting Option 2.

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### INVESTMENT MANAGEMENT AND OTHER SERVICE PROVIDERS

#### INVESTMENT MANAGER

ING INVESTMENTS, LLC (the Investment Manager or ING Investments), an Arizona limited liability company, serves as Investment Manager to the Trust and has overall responsibility for the management of the Trust under the general supervision of the Board of Trustees. Its principal business address is 7337 East Doubletree Ranch Road, Scottsdale, Arizona 85258.

The Trust and the Investment Manager have entered into an Investment Management Agreement that requires ING Investments to provide all investment advisory and portfolio management services for the Trust. The agreement with ING Investments may be canceled by the Board of Trustees upon 60 days' written notice.

ING Investments is an indirect wholly-owned subsidiary of ING Groep N.V. (NYSE: ING) (ING Groep). ING Groep is a global financial institution active in the fields of insurance, banking and asset management in more than 65 countries with more than 100,000 employees. The Investment Manager is registered as an investment adviser with the SEC. ING Investments began investment management in April, 1995, and serves as an investment adviser to registered investment companies as well as structured finance vehicles. As of March 31, 2004, ING Investments had assets under management of over \$35.4 billion.

The Investment Manager bears its expenses of providing the services described above. The Investment Manager currently receives from the Trust an annual fee,

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paid monthly, of 0.80% of the Trust's Managed Assets.

### SUB-ADVISER

ING Investments has engaged a Sub-Adviser to provide the day-to-day management of the Trust's portfolio. The Sub-Adviser has, at least in part, been selected primarily on the basis of its successful application of a consistent, well-defined, long-term investment approach over a period of several market cycles. ING Investments is responsible for monitoring the investment program and performance of the Sub-Adviser. Under the terms of the sub-advisory agreement, the agreement can be terminated by either ING Investments or the Board of Trustees of the Trust. In the event the sub-advisory agreement is terminated, the Sub-Adviser may be replaced subject to any regulatory requirements or ING Investments may assume day-to-day investment management of the Trust.

### ING INVESTMENT MANAGEMENT CO.

ING Investment Management Co. (Sub-Adviser or INGIM), formerly known as Aeltus Investment Management, Inc., a Connecticut corporation serves as Sub-Adviser to the Trust. Founded in 1972, INGIM is registered with the SEC as an investment adviser. INGIM is an indirect wholly-owned subsidiary of ING Groep, N.V., and is an affiliate of ING Investments. INGIM has acted as adviser or sub-adviser to mutual funds since 1994 and has managed institutional accounts since 1972.

As of March 31, 2004, INGIM managed almost \$53.48 billion in assets. Its principal office is located at 10 State House Square, Hartford, Connecticut 06103-3602. For its services, INGIM is entitled to receive a sub-advisory fee of 0.36%, expressed as an annual rate based on the average daily Managed Assets of the Trust. This sub-advisory fee is paid by ING Investments, not by the Trust.

PORTFOLIO MANAGEMENT. The Trust is managed by INGIM's Senior Debt Group. That team is comprised of the following individuals:

DANIEL A. NORMAN. Mr. Norman is Senior Vice President and Senior Portfolio Manager in the Senior Debt Group, and has served in that capacity since November 1999. Prior to that, Mr. Norman was Senior Vice President and Portfolio Manager in the Senior Debt Group (since April 1995). Mr. Norman also serves as Senior Vice President of the Trust, and he serves as Senior Vice President of ING Senior Income Fund, another closed-end fund sub-advised by INGIM that invests primarily in Senior Loans. Mr. Norman co-manages the Trust with Mr. Bakalar.

JEFFREY A. BAKALAR. Mr. Bakalar is Senior Vice President and Senior Portfolio Manager in the Senior Debt Group, and has served in that capacity since November 1999. Prior to that, Mr. Bakalar was Senior Vice President and Portfolio Manager in the Senior Debt Group (since January 1998). Before joining ING Groep N.V., Mr. Bakalar was Vice President of The First National Bank of Chicago (from 1994 to 1998). Mr. Bakalar also serves as Senior Vice President of the Trust and as Senior Vice President of ING Senior Income Fund, another closed-end fund sub-advised by INGIM that invests primarily in Senior Loans. Mr. Bakalar co-manages the Trust with Mr. Norman.

CURTIS F. LEE. Mr. Lee is Senior Vice President and Chief Credit Officer in the Senior Debt Group and has served in that capacity since August 1999. Prior to joining the Investment Manager, Mr. Lee held a series of positions with Standard Chartered Bank in the credit approval and problem loan management functions (1992 - 1999). Mr. Lee also serves as Senior Vice President and Chief Credit Officer of the Trust (since January 2001), and he serves as Senior Vice President and Chief Credit Officer of ING Senior Income Fund, another closed-end fund sub-advised by INGIM that invests primarily in Senior Loans.

ROBERT L. WILSON. Mr. Wilson is Senior Vice President in the Senior Debt Group

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(since March 2003) and before that was Vice President in the Senior Debt Group (since July 1998). Prior to joining ING Groep N.V., Mr. Wilson was Vice President of Bank of Hawaii (from 1997 to 1998) and Vice President of Union Bank of California (from 1994 to 1997).

MICHEL PRINCE. Mr. Prince is a Vice President in the Senior Debt Group (since May 1998). Prior to joining the Investment Manager, Mr. Prince was Vice President of Rabobank International, Chicago branch (from 1996 to 1998).

JASON T. GROOM. Mr. Groom is a Vice President in the Senior Debt Loan Group (since June 2000), and before that was an Assistant Vice President in the Senior Debt Group (1998 to 2000). Prior to joining ING Groep N.V., Mr. Groom was an Associate in the Corporate Finance Group of NationsBank (in 1998) and Assistant Vice President, Corporate Finance Group, of The Industrial Bank of Japan Limited (from 1995 to 1997).

[GRAPHIC]

If you have any questions, please call 1-800-992-0180.

Investment Management and Other Service Providers 23

### INVESTMENT MANAGEMENT AND OTHER SERVICE PROVIDERS

CHARLES E. LEMIEUX. Mr. LeMieux is a Vice President in the Senior Debt Group (since June 2000), and before that was Assistant Vice President in the Senior Debt Group (from 1998 to 2000). Prior to joining ING Groep N.V., Mr. LeMieux was Assistant Treasurer, Cash Management, with Salt River Project (from 1993 to 1998).

MARK F. HAAK. Mr. Haak is a Vice President in the Senior Debt Group (since June 1999). Prior to joining ING Groep N.V., Mr. Haak was Assistant Vice President, Corporate Banking with Norwest Bank (from 1997 to 1998) and Lead Financial Analyst and Portfolio Manager for Bank One AZ, N.A. (from 1996 to 1997).

WILLIAM F. NUTTING, JR. Mr. Nutting is a Vice President in the Senior Debt Group (since November 1999), and joined ING Funds Services, LLC, an affiliate of the Investment Manager, in 1995 as an Operations Associate.

THEODORE M. HAAG. Mr. Haag is a Vice President in the Senior Debt Group (since March 2001). Mr. Haag joined ING Groep N.V. in June 2000 as Vice President and Senior Portfolio Manager, a position he continues to hold. From 1997 to 2000, Mr. Haag served as Vice President and Portfolio Manager for Gen Re-New England Asset Management. From 1995 to 1997, Mr. Haag was a Director of Fixed Income Securities and Securities Policy Committee member for Providian Capital Management. Prior to working at Providian, Mr. Haag was a high yield portfolio manager at ICH Corporation.

RALPH E. BUCHER. Mr. Bucher is a Vice President in the Senior Debt Group (since November 2001). Prior to joining ING Groep N.V., Mr. Bucher was the North American Head of Special Assets for Standard Chartered Bank (from 1999 to 2001). Mr. Bucher has also held other senior credit approval positions with Societe Generale (from 1997 to 1999).

BRIAN S. HORTON. Mr. Horton is a Vice President in the Senior Debt Group (since September 2001). Prior to joining ING Groep N.V., Mr. Horton was a Vice

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President in the Corporate and Investment Banking Group at Bank of America Securities LLC, where he worked in the Consumer and Retail Industry Group (from 1999 to 2001). Mr. Horton also served in various other corporate finance and relationship management positions during his seven years at Bank of America, including corporate finance specialist for the Southeast U.S. region (from 1997 - 1999).

MOHAMED N. BASMA. Mr. Basma is a Vice President in the Senior Debt Group (since March 2003), and before that was a Research Analyst for the Senior Debt Group (since January 2000). Prior to joining ING Groep N.V., Mr. Basma was a senior auditor/consultant in the audit and business advisory group of Arthur Andersen, LLP (from 1995 to 1997). Mr. Basma attended school for the years between his employment at Arthur Andersen and the Investment Manager.

JAMES E. GRIMES. Mr. Grimes is a Vice President in the Senior Debt Group (since 2001), and before that was Manager of Structured Investments for the Investment Manager (since 1999). Prior to joining ING Groep N.V., Mr. Grimes was Manager of Finance and Strategic Planning for NationsBank Auto Leasing, Inc. (formerly Oxford Resources Corp.) (from 1994 to 1998).

JEFFREY S. SCHULTZ. Mr. Schultz is an Analyst in the Senior Debt Group (since March 2003), and before that was Treasury Operations Assistant (from 1998 to 2000) and Junior Research Analyst (from 2000 to 2003).

### THE ADMINISTRATOR

The Administrator of the Trust is ING Funds Services, LLC (ING Funds Services). Its principal business address is 7337 East Doubletree Ranch Road, Scottsdale, Arizona 85258. The Administrator is a wholly-owned subsidiary of ING Groep and the immediate parent company of the Investment Manager.

Under an Administration Agreement between ING Funds Services and the Trust, ING Funds Services administers the Trust's corporate affairs subject to the supervision of the Board of Trustees of the Trust. In that connection, ING Funds Services monitors the provisions of the Senior Loan agreements and any agreements with respect to interests in Senior Loans and is responsible for recordkeeping with respect to the Senior Loans in the Trust's repurchase offers portfolio. ING Funds Services also furnishes the Trust with office facilities and furnishes executive personnel together with clerical and certain recordkeeping and administrative services. These services include preparation of annual and other reports to shareholders and to the SEC. ING Funds Services also handles the filing of federal, state and local income tax returns not being furnished by the Custodian or Transfer Agent (as defined below). The Administration Agreement also requires ING Funds Services to assist in managing and supervising all aspects of the general day-to-day business activities and operations of the Trust, including custodial, transfer agency, dividend disbursing, accounting, auditing, compliance and related services. ING Funds Services provides the Trust with office space, equipment and personnel necessary to administer the Trust. The Administrator has authorized all of its officers and employees who have been elected as officers of the Trust to serve in such capacities. All services furnished by the Administrator under the Administration Agreement may be furnished by such officers or employees of the Administrator.

The Trust pays ING Funds Services an administration fee, computed daily and payable monthly. The Administration Agreement states that ING Funds Services is entitled to receive a fee at an annual rate of 0.25% of the Trust's Managed Assets. The Administration Agreement may be canceled by the Board of Trustees upon 60 days' written notice.

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### TRANSFER AGENT, DIVIDEND DISBURSING AGENT AND REGISTRAR

The transfer agent, dividend disbursing agent and registrar for the Common Shares is DST Systems, Inc., whose principal business address is 816 Wyandotte, Kansas City, Missouri 64105.

### CUSTODIAN

The Trust's securities and cash are held and maintained under a Custody Agreement with State Street Bank and Trust Company, whose principal place of business is 801 Pennsylvania Avenue, Kansas City, Missouri 64105.

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### DESCRIPTION OF THE TRUST

The Trust is an unincorporated business trust established under the laws of the Commonwealth of Massachusetts by an Agreement and Declaration of Trust dated December 2, 1987, as amended (Declaration of Trust). The Board of Trustees is responsible for protecting the interests of shareholders. The Trustees are experienced executives who oversee the Trust's activities, review contractual arrangements with companies that provide services to the Trust and review the Trust's performance.

The Declaration of Trust provides that the Trustees of the Trust may authorize separate classes of shares of beneficial interest. The Trustees have authorized an unlimited number of shares of beneficial interest, par value \$0.01 per share, all of which were initially classified as Common Shares. The Declaration of Trust also authorizes the creation of an unlimited number of shares of beneficial interest with preference rights, including preferred shares, having a par value of \$0.01 per share, in one or more series, with rights as determined by the Board of Trustees, by action of the Board of Trustees without the approval of the shareholders. The following table shows the number of (i) shares authorized, (ii) shares held by the Trust for its own account and (iii) shares outstanding, for each class of authorized securities of the Trust as of June 15, 2004.

| TITLE OF CLASS<br>-----     | NUMBER<br>AUTHORIZED<br>----- | NUMBER HELD BY<br>TRUST FOR ITS<br>OWN ACCOUNT<br>----- | NUMBER<br>OUTSTANDING<br>----- |
|-----------------------------|-------------------------------|---|--------------------------------|
| Common Shares               | unlimited                     | 0   | 137,821,394                    |
| Preferred Shares, Series M  | 3,600                         | 0   | 3,600                          |
| Preferred Shares, Series T  | 3,600                         | 0   | 3,600                          |
| Preferred Shares, Series W  | 3,600                         | 0   | 3,600                          |
| Preferred Shares, Series Th | 3,600                         | 0   | 3,600                          |
| Preferred Shares, Series F  | 3,600                         | 0   | 3,600                          |

The Common Shares outstanding are fully paid and nonassessable by the Trust. Holders of Common Shares are entitled to share equally in dividends declared by the Board of Trustees payable to holders of Common Shares and in the net assets

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of the Trust available for distribution to holders of Common Shares after payment of the preferential amounts payable to holders of any outstanding Preferred Shares. Neither holders of Common Shares nor holders of Preferred Shares have pre-emptive or conversion rights and Common Shares are not redeemable. Upon liquidation of the Trust, after paying or adequately providing for the payment of all liabilities of the Trust and the liquidation preference with respect to any outstanding preferred shares, and upon receipt of such releases, indemnities and refunding agreements as they deem necessary for their protection, the Trustees may distribute the remaining assets of the Trust among the holders of the Common Shares. Under the rules of the NYSE applicable to listed companies, the Trust is required to hold an annual meeting of shareholders in each year. If the Trust is converted to an open-end investment company or if for any other reason Common Shares are no longer listed on the NYSE (or any other national securities exchange the rules of which require annual meetings of shareholders), the Trust does not intend to hold annual meetings of shareholders.

The Trust is responsible for paying the following expenses, among others: the fees payable to the Investment Manager; the fees payable to the Administrator; the fees and certain expenses of the Trust's custodian and transfer agent, including the cost of providing records to the Administrator in connection with its obligation of maintaining required records of the Trust; the charges and expenses of the Trust's legal counsel, legal counsel to the Trustees who are not "interested persons" of the Trust, as defined in the 1940 Act and independent accountants; commissions and any issue or transfer taxes chargeable to the Trust in connection with its transactions; all taxes and corporate fees payable by the Trust to governmental agencies; the fees of any trade association of which the Trust is a member; the costs of share certificates representing Common Shares of the Trust; organizational and offering expenses of the Trust and the fees and expenses involved in registering and maintaining registration of the Trust and its Common Shares with the SEC, including the preparation and printing of the Trust's registration statement and prospectuses for such purposes; allocable communications expenses with respect to investor services, and all expenses of shareholders' and Trustees' meetings and of preparing, printing and mailing reports, proxy statements and prospectuses to shareholders; fees for independent loan pricing services; the cost of insurance; and litigation and indemnification expenses and extraordinary expenses not incurred in the ordinary course of the Trust's business.

Under Massachusetts law, shareholders, including holders of Preferred Shares, could under certain circumstances be held personally liable for the obligations of the Trust. However, the Declaration of Trust disclaims shareholder liability for acts or obligations of the Trust and requires that notice of such disclaimer be given in each agreement, obligation or instrument entered into or executed by the Trust or the Trustees. The Declaration of Trust provides for indemnification out of Trust property for all loss and expense of any shareholder held personally liable for the obligations of the Trust. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the Trust would be unable to meet its obligations.

Holders of Common Shares are entitled to one vote for each share held and will vote with the holders of any outstanding Preferred Shares or any other preferred shares on each matter submitted to a vote of holders of Common Shares, except as described under "Description of Capital Structure -- Preferred Shares."

Shareholders are entitled to one vote for each share held. The Common Shares, Preferred Shares and any other preferred shares do not have cumulative voting rights, which means that the holders of more than 50% of the shares of Common Shares, Preferred Shares and any other preferred shares voting for the election of Trustees can elect all of the Trustees standing for election by such holders,

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and, in such event, the holders of the remaining shares of Common Shares, Preferred Shares and any other preferred shares will not be able to elect any of such Trustees.

[GRAPHIC]

If you have any questions, please call 1-800-992-0180.

Description of the Trust 25

### DESCRIPTION OF THE TRUST

So long as any Preferred Shares or any other Preferred Shares are outstanding, holders of Common Shares will not be entitled to receive any dividends of or other distributions from the Trust, unless at the time of such declaration, (1) all accrued dividends on preferred shares or accrued interest on borrowings has been paid and (2) the value of the Trust's total assets (determined after deducting the amount of such dividend or other distribution), less all liabilities and indebtedness of the Trust not represented by senior securities, is at least 300% of the aggregate amount of such securities representing indebtedness and at least 200% of the aggregate amount of securities representing indebtedness plus the aggregate liquidation value of the outstanding preferred shares (expected to equal the aggregate original purchase price of the outstanding preferred shares plus redemption premium, if any, together with any accrued and unpaid dividends thereon, whether or not earned or declared and on a cumulative basis). In addition to the requirements of the 1940 Act, the Trust is required to comply with other asset coverage requirements as a condition of the Trust obtaining a rating of the Preferred Shares from a rating agency. These requirements include an asset coverage test more stringent than under the 1940 Act.

The Trust will send unaudited reports at least semi-annually and audited financial statements annually to all of its shareholders.

The Declaration of Trust further provides that obligations of the Trust are not binding upon Trustees individually but only upon the property of the Trust and that the Trustees will not be liable for errors of judgment or mistakes of fact or law, but nothing in the Declaration of Trust protects a Trustee against any liability to which he or she would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

### CONVERSION TO OPEN-END FUND

The Trustees may at any time propose conversion of the Trust to an open-end management investment company depending upon their judgment as to the advisability of such action in light of circumstances then prevailing. In considering whether to submit an open-ending proposal to shareholders, the Trustees might consider, among other factors, the differences in operating expenses between open-end and closed-end funds (due to the expenses of continuously selling shares and of standing ready to effect redemptions), the potentially adverse tax consequences to non-redeeming shareholders once a fund is open-ended, and the impact of open-ending on portfolio management polici