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Navigating the Executive Benefits Landscape
with The Todd Organization

BOLI Can Help Bank Competiveness and Profitability

Bank-owned life insurance, also known as BOLI, has been a widely used asset at many financial institutions as it helps to cost effectively offset and recover the cost of non-qualified benefit plans, which are used to attract and retain key executives, and to help address the cost of other employee benefits. By taking a disciplined and thoughtful approach to BOLI, banks can improve the bottom line without increasing regulatory risk.

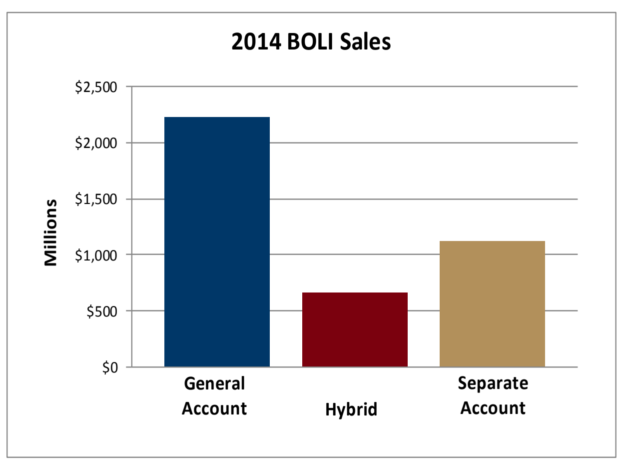
Based upon a review of information filed with the FDIC, at the end of 2014, almost 60% of all banks owned BOLI, with total BOLI holdings exceeding $168 billion. $3 billion of that represents new BOLI purchases in 2014, in a total of 661 transactions.

Even in today's low interest rate environment, the net yields on BOLI are attractive, when compared to other bank-eligible investments. Current net, first year, tax-free returns range from approximately 1.7% - 3.8%, depending upon carrier and type of product used. The returns are tax-deferred and are tax-free if the policies are held until death.

This equates to pre-tax returns of between 2.8% - 6.3%, without the mark-to-market issues inherent in bank eligible securities that are "available for sale."

There are three basic types of BOLI to consider: General Account, Separate Account, and Hybrid. With General Account BOLI, the bank's assets are part of the insurance company's general fund and the insurance company makes all investment decisions and sets the interest rate to be credited.

With Separate Account BOLI, the bank chooses an investment fund, but does not control the investments. Hybrid is essentially a blend of those two product types.



Today many institutions, particularly community institutions, are finding that General Account BOLI best suits their needs.

According to FDIC filings, in 2014, General Account BOLI sales were $2.24 billion, Hybrid sales were $667 million, and Separate Account were only $111.6 million.

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General Account BOLI is less complicated to administer and implement. New rules under BASEL III and Dodd Frank also make General Account BOLI more attractive, particularly for community banks. The new rules prohibit banks from relying on credit rating agencies alone for risk-weighting and due diligence purposes.

General Account BOLI will be considered a corporate exposure and continue to have risk-weighting of 100%. Hybrid "may" also be treated as a corporate exposure, but there is no clear pronouncement yet.

And, the rules for Separate Account due diligence and risk weighting are less easily mastered. For many community banks, it is simply too onerous to do their own due diligence on Separate Account products.

As banks look to potentially purchase new or additional BOLI and review existing holdings, it is essential to make sure of the following:

- The BOLI will address a defined business purpose.
- The BOLI purchase will meet the guidance provided by the Federal Reserve, the Office of the Comptroller of the Currency, and the FDIC in their "Interagency Statement on the Purchase and Risk Management of Life Insurance."
- Vendor(s) serving the bank must be able to help the bank comply with all regulations, including defined risk areas.
- The vendor's administrative platforms must meet banks' stringent regulatory standards and have topnotch security.

The Todd Organization helps financial institutions to analyze, implement, and administer BOLI programs. For more information, please contact your consultant at The Todd Organization.

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