BOLI Strategic Partners
Practical Solutions for Community Banks

Selecting the Right BOLI Product for Your Bank

Today, over 61% of U.S. banks utilize Bank-Owned Life Insurance (“BOLI”) to finance existing employee benefits as well as fund new benefit plans. BOLI is a very stable, attractive source of financing that has offered crediting rates which have been higher than returns from traditional bank investments. BOLI Strategic Partners can help you select the right type of BOLI product to meet your bank’s particular needs.

Bank-Owned Life Insurance (BOLI) is generally accepted as a favorable tax deferred financing strategy. “Because the cash flows from a BOLI policy are generally income tax-free if the institution holds the policy for its full term, BOLI can provide attractive tax-equivalent yields to help offset the rapidly rising cost of providing employee benefits.”(1)

Depending on your bank’s needs, selecting the right type of BOLI product is an important decision. According to the OCC in Bulletin 2004-56: “An institution should review the characteristics of the various insurance products available, understand the products it is considering purchasing, and select those with the characteristics that best match the institution’s objectives, needs, and risk tolerance.” There are three basic types of BOLI products: **General Account**, **Separate Account** and **Hybrid Separate Account**.*

GENERAL ACCOUNT

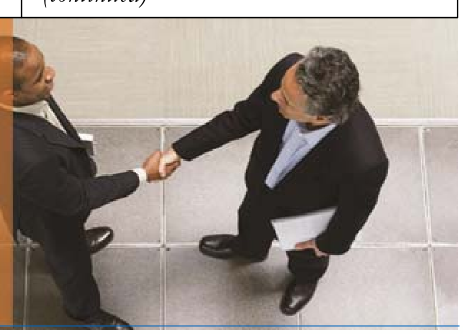
These products typically provide minimum interest rate guarantees. The insurance company credits an interest rate declared in advance and carries the investment risk. Current interest is typically credited monthly or quarterly. The net rates credited reflect the overall earnings of insurance company’s general account, as well as any expenses associated with the policies. With General Account BOLI the bank’s premium dollars are invested in the insurance company’s general investment portfolio; therefore, the credit quality of a potential carrier is a critical issue to potential buyers.

General Account BOLI carriers use one of two primary interest crediting methods. “New money” product returns reflect current interest yields available at plan inception. Over time, the underlying assets, or a simulated portfolio that reflects them, are tracked to determine future crediting rates. “Portfolio” products typically reflect the returns of assets backing a broad group of policies and provide the same rate for all policies. The differences in renewal crediting rates between the two crediting philosophies may be significant in early plan years, but tend to diminish over time. General Account products are typically risk weighted at 100%.

SEPARATE ACCOUNT

With Separate Account BOLI, the bank directs its premium dollars into a variety of separate accounts with different underlying investment portfolios. Separate Account BOLI cash surrender value reflects assets that are segregated from the general assets of the insurance carrier and not subject to the carrier’s general creditors. With Separate Account BOLI, the bank does not own the underlying separate account and does not control the selection or timing of investments in the account. Plan returns are subject to market fluctuations. With a separate account product, the policy owner bears the risk of default of assets in the separate account.
The investment performance of a Separate Account BOLI policy may be more volatile than that of a General Account BOLI policy.
(continued)

(1) OCC Bulletin 2004-56



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However, volatility of earnings of separate accounts can be controlled through a stable value rider which smooths the pattern of year-to-year earnings. Prior to Basel III, Separate Account BOLI generally had a lower risk-based capital requirement than general account BOLI. It is yet undetermined how Basel III will ultimately impact this requirement, however, some suggested that all BOLI be risk weighted at 100%.

HYBRID SEPARATE ACCOUNT

Similar to Separate Account BOLI, the bank directs its premium dollars into a variety of separate accounts with different underlying investment portfolios. The bank has a choice of separate account portfolios and the insurance company protects the bank from market losses by guaranteeing a minimum crediting rate. The Hybrid Separate Account BOLI combines features of a general account universal life policy with many separate account BOLI features including: segregated investment accounts, may have lower risk based capital requirements, multiple investment options and a yield based formula

CONSULTATION

BOLI Strategic Partners is a nationally recognized vendor led by Peter Dinardi and Jeff Marsh who have years of experience helping banks analyze proposed BOLI transactions. Their charge is to work closely with the bank to ensure that the transaction is consistent with the bank's objectives (due diligence, carrier and product selection, implementation and regulatory compliance).

Banks should consult their own advisors and regulators as needed in relation to the treatment of their BOLI and other holdings under Basel III or any other applicable laws or regulations.

ABOUT BOLI STRATEGIC PARTNERS

In early 2013, the BOLI business of NYLEX Benefits was transitioned to BOLI Strategic Partners. We focus on developing cost-effective practical solutions for community banks throughout the country.

Our services are designed to assist clients at all stages in the adoption and operation of their Bank-Owned Life Insurance programs and include:

- Initial assessment
- Plan design
- Funding
- Plan implementation
- Ongoing administration coordination with the Pangburn Group

BOLI Strategic Partners works closely with independent third parties in the following professional disciplines, all dedicated to supporting our clients' programs, processes, systems and services:

- Accountants
- Actuaries
- Attorneys
- Benefit specialists
- Insurance specialists

We take great care to assure that client programs are practical and that they are designed to achieve our clients' strategic and operational goals.

For more information, call us at (800)584-9114 or visit www.bolistrategicpartners.com