

What is BOLI?

- Bank-Owned Life Insurance (BOLI) is a special type of life insurance where the Bank is the owner and beneficiary of the policy.
- BOLI is an asset of the Bank and is normally funded with a single payment.
- Most BOLI policies do not have premium loads and do not have surrender charges. This is a very important benefit compared to ordinary life insurance products.
- BOLI cash value, under FASB Technical Bulletin 85-4, is recorded as “Life Insurance Assets” in “Other Assets” on the Bank’s balance sheet. The increase in the BOLI asset’s cash value is recorded as “Other Non-Interest Income.”
- The income recorded from BOLI grows tax-deferred, which creates an earnings advantage over alternative taxable assets. Upon the death of the insured, the insurance proceeds ultimately received by the Bank (i.e. the cash value PLUS the net insurance value) are not subject to ordinary income tax.
- Banking regulations permit the purchase of BOLI as a means to offset certain current and future employee benefit expenses. Approximately 50% of banks nationwide have implemented BOLI programs to offset rising medical and pension benefit expenses.
- BOLI is normally limited to the executive officers of the bank and they have no rights to the policy cash value or death proceeds. The BOLI purchase will not impact their ability to acquire personal insurance. Positive consent by each insured officer is required.

Why Banks Use BOLI?

Banks are permitted to use BOLI under OCC. Bulletin 2004-56 to recover the cost of:

- Qualified Retirement Plan Benefits: BOLI may be used to recover the cost of existing qualified plan costs to the bank; thus enhancing shareholder value. BOLI may also be used to enhance your qualified retirement plan:
 - Increase bank match for employee retention.
 - Add Profit sharing contributions to your existing plan.

- Medical Benefits: BOLI may be used to recover the cost of existing medical plan expenses; thus enhancing shareholder value. BOLI may be used to enhance your medical plan:
 - Have you had to transfer growing medical plan costs to your employees?
 - Have you raised deductibles to keep costs down?
 - Would you like to be more competitive by:
 - Increasing medical benefits?
 - Adding disability income plans?

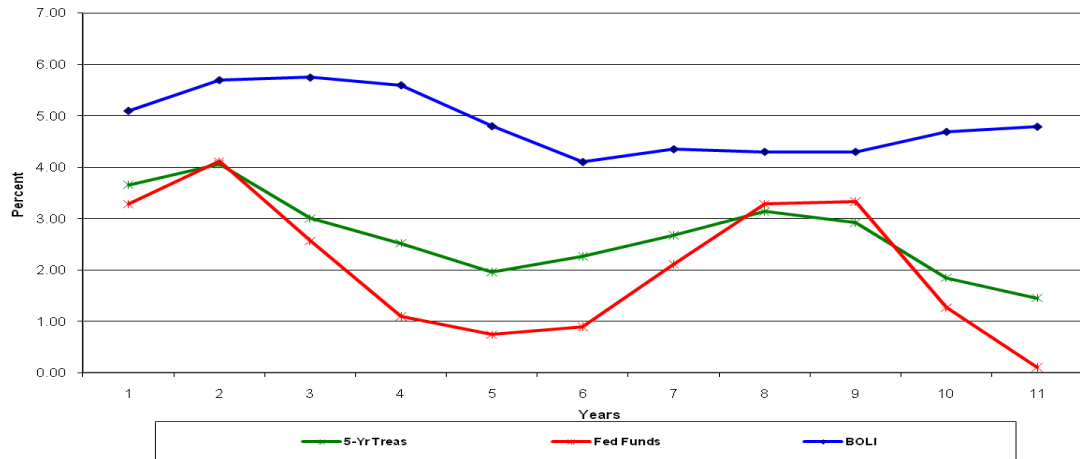
- Nonqualified Benefits: BOLI may be used to recover the cost of nonqualified plans to enhance executive compensation and offset IRS limitations:
 - Supplemental Executive Retirement Programs (SERPs)
 - Salary Continuation Plans
 - Deferred Compensation Programs
 - 401(k) Wrap Plans
 - Director Fee Deferral Plans
 - Performance Based-Bonus Plans
 - Phantom Stock/Stock Appreciation Rights
 - Incentive Bonus Plans

- Split Dollar Life Insurance Plans

- Survivor Income Benefit Plans

Historical BOLI Rates

After-Tax Historical Rates and BOLI



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
5-Yr Treasury	3.66%	4.06%	3.00%	2.52%	1.96%	2.26%	2.67%	3.14%	2.92%	1.85%	1.45%
Federal Funds	3.28%	4.12%	2.57%	1.10%	0.74%	0.89%	2.11%	3.28%	3.33%	1.27%	0.11%
BOLI	5.10%	5.70%	5.70%	5.55%	4.75%	4.05%	4.30%	4.25%	4.25%	4.64%	4.74%
*Source for 5-Year Treasuries and Federal Funds is the St. Louis Federal Reserve Economic Database											
*All after-tax data is based on a federal tax rate of 34%. No state tax rate has been applied.											
*BOLI is a tax advantaged asset and the yield, which may vary between carriers, is net of loads and mortality, and is based on a non-tobacco user 50 year-old male with normal health. Source for BOLI data is a major life insurance carrier.											

Bank Utilization of BOLI

Utilization of BOLI in U.S Banks

Asset Size	# Banks	% with BOLI
\$3-100M	2,921	31.1%
\$100-250M	2,513	48.4%
\$250-500M	1,256	59.9%
\$500-1,000M	716	69.4%
Over \$1B	695	71.5%
	<u>8,101</u>	<u>47.8%</u>

Source: FDIC 9/30/09
