

Bank-Owned Life Insurance (BOLI) Put BOLI To Work for Your Bank

Almost all banks are affected by the increasing cost of providing benefits to employees. At the same time, banks are continually seeking to deliver attractive benefit programs, while sustaining profitability and growth. To respond to these challenges, nearly half of all U.S. banks utilize Bank-Owned Life Insurance ("BOLI") to finance existing employee benefits as well as fund new benefit plans.¹ BOLI clearly is an important tool banks use to help retain their finest employees and recover benefit costs.

BOLI is a very stable, attractive source of financing that offers net annual after-tax returns that generally are higher than returns from traditional bank investments. More specifically, BOLI is an institutional life insurance arrangement designed for banks to generate greater cash value growth than typical retail insurance policies.

Banks earn income from the growth of the BOLI's cash surrender value and from the insurance proceeds paid to the bank on the death of an insured employee. BOLI policies typically cover the lives of executive officers and other key employees who participate in the bank's benefit plans. BOLI generally is not directly tied to the promised benefits, but is designed to recover the bank's associated aggregate benefit costs.

The annual yield on a BOLI investment generally compares favorably with other investment options available to banks. BOLI is income tax deferred and, if the BOLI contract is held until the death of the insured, the proceeds are exempt from federal income tax. This tax saving increases the bank's net investment yield and is currently reflected on the bank's financial statements.

YOUR BANK SHOULD CONSIDER

BOLI

BOLI offers two strategic advantages. First, it helps a bank diversify its

investment portfolio with an asset that enhances earnings while at the same time balancing liquidity and risk factors. Second, BOLI is an efficient asset/liability management tool. Compared to other assets a bank might acquire, it is a low maintenance asset that involves:

- No collection efforts
- No loan loss provision
- No origination costs
- No servicing by bank personnel

BOLI IS WIDELY ACCEPTED

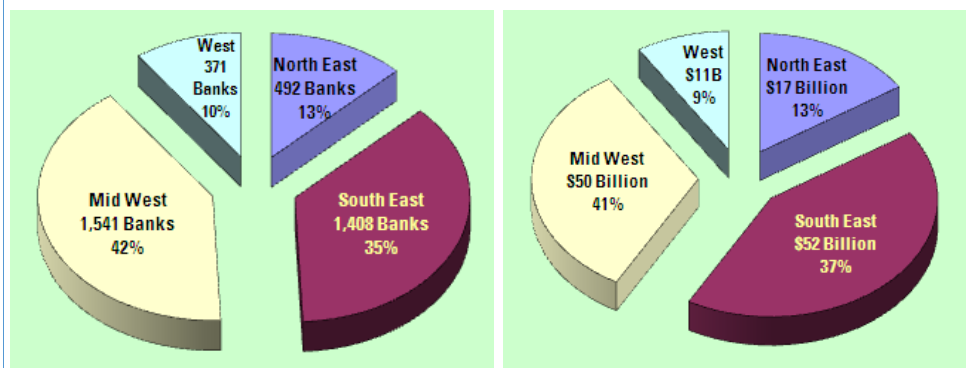
As of June 30, 2010, approximately 48%

of all banks in the United States reported owning BOLI. Banks reported owning \$123.9 billion. Excluding incidental purchases of life insurance at banks (defined as less than 3.5% of Tier 1 Capital), the average BOLI asset represented 15.5% of Tier 1 Capital.²

HOW DOES BOLI WORK?

In a BOLI program, a bank purchases life insurance on the lives of its key executives, officers and employees. The bank pays the premiums, owns the policies, and is the designated beneficiary of the life insurance. BOLI

Sample of BOLI holdings In various regions of the country



Example: In the North East region, 492 Banks report having BOLI, 13% of all banks in the US reporting BOLI; this represents \$17 Billion in BOLI, or 14% of the total amount of BOLI reported in the US.

¹Notes: Total Banks Reporting BOLI = 3,798; total BOLI reported = \$123.9 Billion. Source: FDIC Call Reports as of June 30, 2010. Some amounts of life insurance may not be reported as BOLI on the FDIC Thrift and Call Reports, but may be reflected in Other Assets or in Securities; this is particularly true for the largest 250 US Banks and Thrifts

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can be structured in a number of ways, depending on whether it is designed to be primarily a “cost-recovery” vehicle or to provide the periodic funding wherewithal for executive benefit plans.

BOLI STRATEGIC PARTNERS CAN HELP IN YOUR DECISION

According to the primary regulatory guidance on BOLI, OCC Bulletin 2004-56 (the “Bulletin”), “BOLI can be an effective way for institutions to manage exposures arising from commitments to provide employee compensation and pre- and post-retirement benefits.” However, navigating BOLI’s complex product options can be challenging. It is essential that before purchasing, a bank have a thorough understanding of BOLI.

The bank’s board and senior management have the responsibility for ensuring that the purchase and holding of BOLI are consistent with safe and sound banking practices. Thus, it is critical that management understands BOLI products, the BOLI compliance process, and ongoing administration requirements.

PRE- AND POST-PURCHASE ANALYSIS

The Bulletin states that the safe and sound use of BOLI depends on effective senior management and board oversight. The objective of pre-purchase analysis is to help ensure that the bank understands the risk, rewards and unique characteristics of BOLI. The Bulletin emphasizes that “an effective pre-purchase analysis includes the following management actions:”

1. Determine the need for insurance
2. Quantify the amount of insurance needed
3. Assess vendor qualifications
4. Review the characteristics of the available insurance products

5. Carrier selection
6. Determine the reasonableness of compensation provided to the insured employee if the insurance results in additional compensation
7. Analyze the associated risks and the bank’s ability to monitor and respond to those risks
8. Evaluate alternatives
9. Document decision

The Bulletin recognizes that most banks need the assistance of a qualified vendor to assist in the BOLI purchase. BOLI Strategic Partners, a nationally recognized vendor, has years of experience helping banks analyze proposed BOLI transactions and making sure that the transaction is consistent with the bank’s objectives (due diligence, carrier and product selection, implementation and compliance conformance).

The Bulletin also stresses that, each year, the bank should conduct a post-purchase analysis of its insurance holdings. This review allows the bank to assess whether it is effectively managing its risks and whether the program is achieving its intended objectives. BOLI Strategic Partners provides the bank with the supporting information and works with the bank to make this an easy yet beneficial process.

ABOUT BOLI STRATEGIC PARTNERS

In early 2013, the BOLI business of BOLI Strategic Partners 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 utilizes internal resources of New York Life through the Nautilus Group and Advanced Markets Network and also 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

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