

BOLI Market Update Q2-2022 - BOLI Purchases Increase in the Face of Economic Uncertainty

Q2-2022 BOLI Activity

Our analysis of Q2-2022 FDIC call report data shows an uptick in both purchases and total premium for [BOLI](#) investment over Q1. There were an estimated 135 BOLI purchases of \$1 million or greater in Q2-2022. These 135 purchases totaled approximately \$1.982 billion of estimated premium written. The estimated total premium purchased in Q2-2022 ranks it as the 3rd highest quarter over the last 5 years. Table 1 below provides a breakdown of the BOLI purchases of \$1 million or greater.

Table 1. Q2-2022 Estimated BOLI Purchases of \$1 Million or Greater

Purchase Type	Estimated # of Purchases	Estimated Total Premium
New Purchase	12	\$75.8 Million
Additional Purchase	123	\$1.906 Billion
Total	135	\$1.982 Billion

High purchase: \$640M | Average purchase: \$15.5M | Median purchase: \$3.0M

According to the FDIC Quarterly Banking Profile, the banking industry reported a moderate decline in quarterly net income from one year ago. Bank net interest margins (NIM) grew slightly but remain low. Amid continued economic uncertainty, the banking industry remains well-capitalized and highly liquid. Given the economic environment and the position of many financial institutions, BOLI has continued to be advantageous as an alternative investment to help offset the cost of employee benefit expenses.

Treasury yields rose over the first quarter with the 10-year Treasury beginning the quarter at 2.39% on 04/01/2022 and ending the quarter at 2.98% on 06/30/2022. Recently, the 10-year treasury has continued to move higher as inflation concerns continue, closing at 3.33% on 9/9/2022. In a response to these rate increases, over the last 90 days many insurance companies have increased the crediting rates on their fixed BOLI product. At these rates, BOLI continues to be an attractive regulatory approved investment alternative. [BOLI](#) offers predictable and steady yields, no mark-to-market risk, tax-deferred earnings and minimum interest rates guarantees.

Table 3. Comparison of Sample Yield on \$10M BOLI Purchase vs. 10-Year Treasury

Year	BOLI		10-Year Treasury	
	Cumulative IRR On Cash Value	Pre-Tax Equiv IRR On Cash Value	Annual Yield	After-Tax Yield
1	4.02%	5.67%	3.33%	2.63%
5	3.66%	5.15%	3.33%	2.63%
10	3.39%	4.78%	3.33%	2.63%
15	3.29%	4.63%	3.33%	2.63%
20	3.21%	4.53%	3.33%	2.63%
25	3.14%	4.43%	3.33%	2.63%

Bank Owned Life Insurance - BOLI

[Bank-Owned Life Insurance \(BOLI\)](#) is life insurance purchased by a bank on its key employees (typically limited to the top 35% most highly compensated employees). BOLI is a stable, low-risk source of financing that can generate gains to offset the rapidly rising cost of providing employee benefits, such as medical, group life, supplemental life, and qualified retirement plan expenses.

BOLI can also be used as a tool to informally fund nonqualified executive benefit plans. Typically, the bank pays the premiums and is the owner and beneficiary of the insurance policies. The death benefit proceeds can be used to defray the costs of overall health and employee benefits for the bank.

If you would like to [learn more](#) about BOLI or have a relationship with a bank that you believe could be a good prospect, please contact Michael Nolan, NolanM@nolanfinancial.com, or Kenton Quick, QuickK@nolanfinancial.com, or by phone at (301) 907-9500.

Sources and Assumptions

1. Q2-2022 FDIC call report data for U.S. banks.
2. BOLI yield based on sample 45-year-old male insured with guaranteed issue underwriting on a \$10M BOLI transaction. Pre-tax equivalent BOLI IRR assumes a 29% combined corporate tax rate (21% federal and 8% state). 10-year Treasury yield as of 09/09/2022. After-tax Treasury yield assumes a 21% federal corporate tax rate.

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