

BOLI Market Update Q3-2022

BOLI Continues to be Popular Alternative Investment

Q3-2022 BOLI Activity

Our analysis of Q3-2022 FDIC call report data shows a slight taper in both purchases and total premium for [BOLI](#) investment over Q2. There were an estimated 95 BOLI purchases of \$1 million or greater in Q3-2022. These 95 purchases totaled approximately \$1.76 billion of estimated premium written. The estimated total premium purchased in Q3-2022 ranks it as the 4th highest quarter over the last 5 years. Table 1 below provides a breakdown of the BOLI purchases of \$1 million or greater.

Table 1. Q3-2022 Estimated BOLI Purchases of \$1 Million or Greater

Purchase Type	Estimated # of Purchases	Estimated Total Premium
New Purchase	11	\$53.08 Million
Additional Purchase	84	\$1.711 Billion
Total	95	\$1.765 Billion

High purchase: \$1.2B | Average purchase: \$18.6M | Median purchase: \$2.5M

According to the FDIC Quarterly Banking Profile, the banking industry reported an increase in quarterly net income from last quarter and one year ago. Bank net interest margins (NIM) grew slightly for the second straight quarter but remain low. Given the continued effects of inflation, rising market interest rates, and continued economic uncertainty, BOLI has remained an advantageous 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 2.88% on 7/1/2022 and ending the quarter at 3.83% on 9/30/2022. More recently, the 10-year treasury has reached levels as high as 4.25% but has since fallen to close at 3.53% on 12/1/2022. 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	4.52%	6.37%	3.53%	2.79%
5	3.95%	5.57%	3.53%	2.79%
10	3.54%	4.99%	3.53%	2.79%
15	3.39%	4.77%	3.53%	2.79%
20	3.29%	4.63%	3.53%	2.79%
25	3.20%	4.51%	3.53%	2.79%

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 (888) 886-9128.

Sources and Assumptions

1. Q3-2022 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 12/1/2022. After-tax Treasury yield assumes a 21% federal corporate tax rate.