

BOLI Market Update Q4-2022: BOLI Activity Remains Steady Through Rate Fluctuations

Q4-2022 BOLI Activity

Our analysis of Q4-2022 FDIC call report data shows a slight taper in both purchases and total premium for [BOLI](#) investment compared to Q3. There were an estimated 82 BOLI purchases of \$1 million or greater in Q4-2022. These 82 purchases totaled approximately \$486.4 million of estimated premium written. Table 1 below provides a breakdown of the BOLI purchases of \$1 million or greater.

Table 1. Q4-2022 Estimated BOLI Purchases of \$1 Million or Greater

Purchase Type	Estimated # of Purchases	Estimated Total Premium
New Purchase	13	\$74.62 Million
Additional Purchase	69	\$411.77 Million
Total	82	\$486.40 Million

High purchase: \$68M | Average purchase: \$5.9M | Median purchase: \$3.1M

According to the FDIC Quarterly Banking Profile, the banking industry reported continued positive results amid persistent economic uncertainty. Net interest income grew, loan growth continued, and asset quality measures remained favorable despite modest deterioration. 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 fluctuated over the fourth quarter with the 10-year Treasury reaching a high of 4.25% on 10/24/2022 and a low of 3.42% on 12/07/2022. More recently, the 10-year treasury had hovered around 4.00%, to start March but has since dropped to 3.48% as of 03/22/2023. Financial markets continue to grapple with broader economic forces as well as the recent events surrounding the collapse of Silicon Valley Bank and Signature Bank. While the last few weeks have been challenging, financial institutions and regulators are working together to create a more stable and sustainable financial environment.

With these factors in mind, 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	4.37%	6.16%	3.48%	2.75%
5	4.34%	6.12%	3.48%	2.75%
10	4.34%	6.11%	3.48%	2.75%
15	4.32%	6.08%	3.48%	2.75%
20	4.28%	6.03%	3.48%	2.75%
25	4.24%	5.97%	3.48%	2.75%

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. Q4-2022 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 03/22/2023. After-tax Treasury yield assumes a 21% federal corporate tax rate.