

BOLI Market Update Q3-2023: Investment in Bank Owned Life Insurance Remained Conservative

Q3-2023 BOLI Activity

Our analysis of Q3-2023 FDIC call report data shows the total premium and total estimated purchases for [BOLI](#) investment continued at a similar pace as we saw in Q2-2023. There were an estimated 39 BOLI purchases of \$1 million or greater in Q3-2023. These 39 purchases totaled approximately \$579.08 million of estimated premium written. Table 1 below provides a breakdown of the BOLI purchases of \$1 million or greater.

Table 1. Q2-2023 Estimated BOLI Purchases of \$1 Million or Greater

| Purchase Type | Estimated # of Purchases | Estimated Total Premium |
|---------------------|--------------------------|-------------------------|
| New Purchase | 2 | \$6.38 Million |
| Additional Purchase | 37 | \$572.69 Million |
| Total | 39 | \$579.08 Million |

High purchase: \$340M | Average purchase: \$14.85M | Median purchase: \$3.5M

According to the FDIC Quarterly Banking Profile, the banking industry showed continued resiliency in the third quarter. However, despite a modest improvement in the industry’s net interest margin, funding pressures continued to challenge the industry. After declining in the prior two quarters, the industry’s net interest margin increased modestly in the third quarter, however the net interest margin for community banks declined for the third consecutive quarter, driven by lagging earning asset yields. Given the significant downside risks of inflation, rising market interest rates, and geopolitical uncertainty, financial institutions face challenges in credit quality, earnings and liquidity.

Treasury yields rose over most of the third quarter with the 10-year Treasury reaching a high of 4.61% on 09/27/2023 and a low of 3.75% on 07/19/2023. More recently, the 10-year treasury has edged lower and closed at 4.14% as of 12/07/2023. The Federal Reserve left its benchmark rate unchanged through November and they are expected to do the same at the December meeting.

Taking into consideration these continued headwinds, BOLI remains 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 | 4.57% | 6.44% | 4.14% | 3.27% |
| 5 | 4.54% | 6.40% | 4.14% | 3.27% |
| 10 | 4.54% | 6.39% | 4.14% | 3.27% |
| 15 | 4.52% | 6.36% | 4.14% | 3.27% |
| 20 | 4.48% | 6.31% | 4.14% | 3.27% |
| 25 | 4.44% | 5.25% | 4.14% | 3.27% |

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. Q3-2023 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 12/07/2023. After-tax Treasury yield assumes a 21% federal corporate tax rate.