

BOLI Market Update Q4-2023:

Bank Owned Life Insurance Purchases Increase Quarter on Quarter

Q4-2023 BOLI Activity

Our analysis of Q4-2023 FDIC call report data shows the total premium purchased remained steady while total estimated purchases of Bank Owned Life Insurance, [BOLI](#), increased quarter on quarter. There were an estimated 73 BOLI purchases of \$1 million or greater in Q4-2023. These 73 purchases totaled approximately \$528.24 million of estimated premium written. Table 1 below provides a breakdown of the BOLI purchases of \$1 million or greater.

Table 1. Q4-2023 Estimated BOLI Purchases of \$1 Million or Greater

Purchase Type	Estimated # of Purchases	Estimated Total Premium
New Purchase	1	\$2.00 Million
Additional Purchase	72	\$526.24 Million
Total	73	\$528.24 Million

High purchase: \$92M | Average purchase: \$7.24M | Median purchase: \$4.00M

Banking Industry Update

According to the FDIC Quarterly Banking Profile, the banking industry has shown resilience after a period of liquidity stress in early 2023. Full-year net income remained high, overall asset quality metrics were favorable, and the industry's liquidity was stable. After increasing slightly in the last quarter, the industry's net interest margin declined modestly in the fourth quarter. The decline occurred as greater interest expense on deposits and non-deposit liabilities more than offset an increase in asset yields. The net interest margin for community banks did not change from the prior quarter.

The U.S. economy sustained growth in 2023 that exceeded expectations; however, the banking industry still faces significant downside risks from the continued effects of inflation, volatility in market interest rates, and geopolitical uncertainty.

BOLI Yield vs. Treasury Yield

Treasury yields declined over most of the fourth quarter with the 10-year Treasury reaching a high of 4.98% on 10/19/2023 and a low of 3.79% on 12/27/2023. More recently, the 10-year treasury has edged higher and closed at 4.19% as of 03/13/2023. The Federal Reserve left its benchmark rate unchanged through January. There is some speculation that the Fed will cut rates later this year, but only if inflation levels are back in-line with their long-term target of 2%.

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	4.42%	6.23%	4.19%	3.31%
5	4.39%	6.19%	4.19%	3.31%
10	4.39%	6.18%	4.19%	3.31%
15	4.37%	6.15%	4.19%	3.31%
20	4.33%	6.10%	4.19%	3.31%
25	4.29%	6.04%	4.19%	3.31%

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. Q4-2023 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 03/13/2024. After-tax Treasury yield assumes a 21% federal corporate tax rate.