

BOLI Market Update Q1-2024:

Bank Owned Life Insurance Activity Remains Steady

Q1-2024 BOLI Activity

Our analysis of Q1-2024 FDIC call report data shows total estimated purchases of Bank Owned Life Insurance, [BOLI](#), remained steady quarter on quarter while the total premium purchased decreased. There were an estimated 68 BOLI purchases of \$1 million or greater in Q1-2024. These 68 purchases totaled approximately \$325.43 million of estimated premium written. Table 1 below provides a breakdown of the BOLI purchases of \$1 million or greater.

Table 1. Q1-2024 Estimated BOLI Purchases of \$1 Million or Greater

Purchase Type	Estimated # of Purchases	Estimated Total Premium
New Purchase	3	\$17.66 Million
Additional Purchase	65	\$307.77 Million
Total	68	\$325.43 Million

High purchase: \$39.00M | Average purchase: \$4.79M | Median purchase: \$2.05M

Banking Industry Update

According to the FDIC Quarterly Banking Profile, the banking industry continued to show resilience in the first quarter. Net income rebounded from the non-recurring expenses that affected earnings last quarter, asset quality metrics remained generally favorable, and the industry's liquidity was stable. However, the industry's net interest margin declined as competition continued to pressure rates paid on deposits and asset yields declined.

The U.S. economy as a whole continues to grow at a solid pace; however, the banking industry still faces significant downside risks from the continued effects of inflation, volatility in market interest rates, and geopolitical uncertainty. These issues could cause credit quality, earnings, and liquidity challenges for the industry. In addition, deterioration in certain loan portfolios, particularly office properties and credit card loans, continues to warrant monitoring.

BOLI Yield vs. Treasury Yield

Treasury yields rose slightly over the first quarter with the 10-year Treasury reaching a high of 4.34% on 03/18/2024 and a low of 3.87% on 02/01/2024. More recently, the 10-year treasury has edged higher and closed at 4.47% as of 06/10/2024. The Federal Reserve left its benchmark rate unchanged through May. There continues to be speculation that the Fed may cut rates later this year.

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 2. 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	4.67%	6.58%	4.47%	3.53%
5	4.64%	6.54%	4.47%	3.53%
10	4.64%	6.53%	4.47%	3.53%
15	4.62%	6.50%	4.47%	3.53%
20	4.58%	6.45%	4.47%	3.53%
25	4.54%	6.39%	4.47%	3.53%

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. Q1-2024 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 06/10/2024. After-tax Treasury yield assumes a 21% federal corporate tax rate.