



# Bank-Owned Life Insurance

*Premier Executive Benefits Plan Services*

## MAKING BOLI WORK FOR YOUR BANK

Almost all banks are affected by the increasing cost of providing benefits to employees. At the same time, banks are continually seeking to deliver attractive benefit programs, while sustaining profitability and growth. To respond to these challenges, almost half of all U.S. banks utilize Bank-Owned Life Insurance (BOLI) to finance existing employee benefits as well as fund new benefit plans. BOLI clearly is an important tool banks use to help retain their finest employees and recover benefit costs.

## BOLI

BOLI is a very stable, low-risk source of financing that offers net annual after-tax returns that generally are higher than returns from traditional bank investments. More specifically, BOLI generally is an institutional life insurance arrangement designed for banks to generate greater cash value growth than typical retail insurance policies.

Banks earn income from the growth of the BOLI's cash surrender value and from the insurance proceeds paid to the bank on the death of an insured employee. BOLI policies typically cover the lives of executive officers and other employees who participate in the bank's benefit plans. BOLI generally is not

directly tied to the promised benefits, but is designed to recover the bank's associated aggregate benefit costs.

The annual yield on a BOLI investment generally compares favorably with other investment options available to banks. In addition, BOLI is income tax deferred and, if the BOLI contract is held until maturity, income is exempt from federal income tax. This tax savings increases the bank's net investment yield and is currently reflected on the bank's financial statements.

## YOUR BANK SHOULD CONSIDER BOLI

BOLI offers two strategic advantages. First, it helps a bank diversify its investment portfolio with an asset that enhances earnings while at the same time balancing liquidity and risk factors. Second, BOLI is an efficient asset/liability management tool. It is a low maintenance asset that involves:

- No collection efforts;
- No loan loss provision;
- No origination costs; and
- No servicing by bank personnel.

## BOLI IS WIDELY ACCEPTED

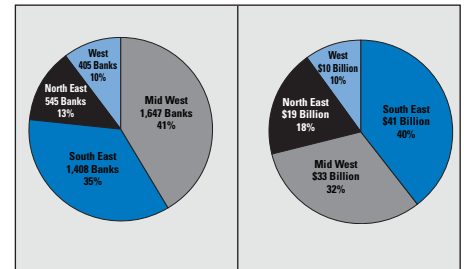
As of September 30, 2006, approximately 46% of all banks in the United States reported owning BOLI. Banks reported owning \$102.4 billion, an

increase of \$3.4 billion since June 2006. Excluding incidental purchases of life insurance at banks (defined as less than 3.5% of Tier 1 Capital), the average BOLI asset represented 17.2% of Tier 1 Capital.\*

NYLEX Benefits developed BOLIStar™ a proprietary system which analyzes BOLI holdings by banks throughout the

### NYLEX BENEFITS BOLIStar™ Bank-Owned Life Insurance Statistical Analysis & Review

Number of Banks with BOLI      Amount of BOLI in Banks



**Example:** In the North East region, 545 banks report having BOLI, 13% of all banks in the US reporting BOLI; this represents \$16 billion in BOLI, or 18% of the total amount of BOLI reported in the US.

**Notes:** Total Banks Reporting BOLI = 4,048; total BOLI reported = \$102.4 billion  
**Source:** FDIC Data Base as of September 30, 2006  
Some amounts of life insurance may not be reported as BOLI on the Thrift Financial Reports and Call Reports, but may be reflected in Other Assets or in Securities; this is particularly true for the largest 250 US Banks and Thrifts.

\* Information based on BOLIStar™ analysis as of September 30, 2006. This analysis is based on a proprietary data inquiry and review system developed exclusively by NYL Executive Benefits LLC and provided for the sole use of clients of NYLEX Benefits and agents and brokers with whom NYLEX Benefits does business.

United States.

## HOW DOES BOLI WORK?

In a BOLI program, a bank purchases life insurance on the lives of its executives, key officers and employees. The bank pays the premiums, owns the policies, and is the designated beneficiary of the life insurance. BOLI can be structured in a number of ways, depending on whether it is designed to be primarily a “cost-recovery” vehicle or to provide the periodic funding wherewithal for executive benefit plans.

## NYLEX BENEFITS CAN HELP IN YOUR DECISION

OCC Bulletin 2004-56 (the “Bulletin”) asserts that “BOLI can be an effective way for institutions to manage exposures arising from commitments to provide employee compensation and pre- and post-retirement benefits.” However, navigating BOLI’s complex product options can be challenging. It is essential that before purchasing, a bank have a thorough understanding of BOLI.

The bank’s board and senior management have the responsibility for ensuring that the purchase and holding of BOLI are consistent with safe and sound banking practices. Thus, it is critical that management understands BOLI products, the BOLI compliance process, and ongoing administration requirements.

## PRE- AND POST-PURCHASE ANALYSIS

The Bulletin states that the safe and sound use of BOLI depends on effective senior management and board oversight. The objective of pre-purchase analysis is to help ensure that the bank understands the risk, rewards and unique characteristics of BOLI.

At a minimum, the Bulletin requires that the following nine actions be taken:

1. Determine the need for insurance
2. Quantify the amount of insurance needed
3. Vendor selection
4. Review the characteristics of the available insurance products
5. Carrier selection
6. Determine the reasonableness of compensation provided to the insured employee if the insurance results in additional compensation
7. Analyze the associated risks and the bank’s ability to monitor and respond to those risks
8. Evaluate alternatives
9. Document decision

The Bulletin recognizes that most banks need the assistance of a qualified vendor to assist in the BOLI purchase. NYLEX Benefits, a nationally recognized vendor by the major insurance carriers, has years of experience helping banks analyze proposed BOLI transactions and making sure transactions are consistent with the bank’s objectives — due diligence, carrier and product selection, implementation and compliance conformance, all receive equal attention.

The Bulletin also requires that each year the bank conduct a post-purchase analysis of its insurance holdings. This review allows the bank to assess whether it is effectively managing its risks and whether the program is achieving its intended objectives. NYLEX Benefits provides the bank with the supporting information to make this an easy yet beneficial process.

## ABOUT NYLEX BENEFITS

NYL Executive Benefits LLC (NYLEX Benefits) is an independently managed subsidiary and the executive benefits consulting arm of the New York Life Insurance Company, a Fortune 100 company. New York Life is the largest mutual life insurance company in the United States, with an enviable 161 year history, and as of 12/31/05 had more than \$10.5 billion in surplus and \$225 billion of assets under management.

NYLEX Benefits provides supplemental executive benefit programs to a wide range of commercial clients. We focus on developing cost effective executive benefit solutions that are designed to attract, reward and retain key employees. Our services are designed to assist clients at all stages in the adoption and operation of executive benefit programs, and include:

- Initial assessment
- Plan design
- Funding
- Plan implementation
- Ongoing administration

NYLEX Benefits’ professional staff includes the following professional disciplines, all dedicated to supporting our client’s programs, processes, systems and services:

- Accountants
- Actuaries
- Attorneys
- Benefit specialists
- Insurance specialists

We take great care to assure that client programs are practical and cost effective and that they are designed to achieve our clients’ strategic and operational goals.

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