



NYLEX News

News and Events in the Executive Benefit Program Marketplace

BOLIS[®] Indicates that BOLI Levels Were Nearly Flat in 2008

TO OUR CLIENTS AND FRIENDS

THIS ISSUE OF NYLEX NEWS DISCUSSES THE BOLI MARKETPLACE AND RESULTS FOR 2008, BASED ON OUR BOLIS[®] REPORT. AN OUTLOOK FOR THE 2009 BOLI MARKET IS ALSO INCLUDED.

PLEASE SEND COMMENTS ABOUT THIS EDITION OF NYLEX NEWS, AS WELL AS SUGGESTIONS FOR FUTURE ISSUES, TO OUR STAMFORD, CT OFFICE.

The market for Bank-Owned Life Insurance (BOLI) in the United States is both large and complex, approaching \$125 billion in value. To assist banks in analyzing the BOLI market, NYLEX Benefits developed BOLIS[®].¹ A unique and proprietary analytical tool, BOLIS[®] helps banks assess whether a BOLI purchase would be suitable based upon banking regulators' guidelines.

An examination of the BOLI market for calendar years 2007 and 2008 displays some notable trends.

In 2007, the value of BOLI assets increased \$13.2 billion from \$106.8 billion to \$120.0 billion. We estimate that approximately \$4.4 billion of this increase was attributable to interest crediting and \$8.8 billion, or 8.25%, was from new sales.²

In 2008, BOLI assets increased from \$120.0 billion to \$122.3 billion. Although there was an estimated \$4.9 billion increase attributable to interest crediting, \$2.6 billion, or 2.2%, of BOLI asset values declined².

The 2008 decline in BOLI assets was largely confined to the fourth quarter, based on the BOLIS[®] analysis. A number of factors contributed to this decline. The vast majority of BOLI is held by the top 50 U.S. banks (approximately 72% of all BOLI, or \$87.6 billion as of the end of 2008.) The 250 largest banks held \$102.8 billion, or approximately 84% of all BOLI on 12/31/2008. Many of these banks have been at the center of the problems facing the U.S. economy. It appears that few new BOLI purchases were made by these large banks. Based on news reports, it is likely that these banks were focused on problem loans and cash conservation.

Additionally, some of these large banks apparently had BOLI assets that significantly declined in value. This resulted in Wachovia and Fifth Third Bank, for example, writing down sizable portions of their BOLI holdings when the stable value wrap protection the banks relied on to smooth losses did not cover the significant declines in the value of underlying investments.³

NYLEX Benefits is not aware of any prior quarter when BOLI assets decreased since BOLIS[®] reporting began in 2001.⁴

BOLI sales projections for 2009 are difficult to predict, given the uncertain state of the U.S. economy. It is not unreasonable to believe that 2009 may be comparable to 2008, with limited new purchases by the top 250 banks, and more write downs of riskier BOLI portfolios. The larger banks also appear to be going through a consolidation process and associated management issues may preclude new BOLI purchases, at least for the near term.

Mid-size banks (defined as banks with a minimum of \$250 million in assets) may also limit their BOLI purchases in 2009, for reasons similar to those affecting the 250 largest banks.

BOLI purchases at the community bank level (defined as banks with up to \$250 million in assets) could continue at a modest level in 2009. BOLI remains an attractive option for these banks, as they continue to seek high quality assets.

Nearly 70% of the top 250 banks have BOLI on their books. Of the mid-size banks, 66% reported BOLI assets. Less than 40% of smaller community banks, however, report BOLI. As a practical matter, incremental purchases by community banks are more likely than purchases by larger banks, if for no other reason than that smaller banks have more capacity for BOLI purchases, on a percentage basis.

Contact NYLEX Benefits for more information on BOLIS[®] and how BOLI and this unique and proprietary statistical analysis of the US banking system can help your organization.

Endnotes:

1. This analysis is based on BOLIS[®] (Bank-Owned Life Insurance Statistical Analysis & Review), a proprietary data inquiry and review system created exclusively by NYLEX Benefits in 2001. Analyses are provided for the sole use of clients of NYLEX Benefits and agents and brokers with whom NYLEX Benefits does business. This material may not be further distributed without the advance written consent of NYLEX Benefits.

BOLIS[®] provides a quarterly analysis, derived from Thrift and Call Reports summarized in the Federal Deposit Insurance Corporation (FDIC) Statistics for Depository Institutions (SDI) database. Any errors or inaccuracies in the SDI database may affect BOLIS[®] results or conclusions drawn herein.

2. While the SDI database identifies BOLI assets held by banks, it does not identify the periodic growth in BOLI assets based on interest crediting. For purposes of this NYLEX News, a hypothetical annual growth rate in BOLI assets of 4.10% is assumed.

3. These issues were discussed by the two banks in various press releases and publicly available financial reports.

4. As recommended by NYLEX Benefits, as of the first quarter of 2006, the FDIC has required that banks disclose all BOLI holdings in the Thrift and Call Reports. Prior to 2006 we believe that BOLI assets were significantly underreported, particularly by the top 250 U.S. banks, based on comparisons of bank annual reports and bank Thrift and Call Reports. As a result of this reporting change, the amount of BOLI reported in first quarter 2006 increased nearly \$17 billion (using the FDIC's own figures), evidence that as much as 21% of all BOLI holdings had been underreported in the past. Of the top 50 banks, seven additional banks reported BOLI, possibly representing almost \$13 billion of previously underreported BOLI. Even with the marked increase in reported BOLI in 2006, additional amounts may remain underreported today.

About **NYLEX**Benefits

NYL Executive Benefits LLC (“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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