

Tax Treatment:

- BOLI cash value accumulations and death benefits are tax-free if policies are held to maturity.
- The tax benefits of BOLI are not limited by TEFRA.

Asset Quality:

- Higher rated insurance carriers tend to have higher long-term value.
- Banks can manage credit risk by purchasing BOLI from insurance carriers with high third-party ratings.
- Mutual insurance companies offer company ownership in addition to policy values.

Interest Rate Sensitivity:

- General account BOLI crediting rates tend to have low volatility and lag behind current market rates.
- BOLI provides additional structure to the balance sheet due to its longer duration.

Effect on Capital:

- General Account BOLI is risk-weighted at 100% similar to a AAA credit loan.
- Banks should consider the impact of a BOLI purchase if they have low risk-based capital ratios.

Effect on Liquidity:

- BOLI is designed to be held until maturity to fully recognize the tax benefits.
- Cash flows and additional earnings occur when death benefits are paid.
- Underperforming BOLI may be exchanged tax-free.

To learn more contact:

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