

## BOLI Marketplace Update

### Low Interest Rate Environment Driving BOLI Sales

Entering the twelfth year of historically low interest rates, and with the Federal Reserve indicating rates will stay low for at least the next two years, BOLI has been a popular alternative investment for banks searching for returns. Particularly in 2020, with a pandemic taking its toll on the economy and the 10-year treasury is hovering between 65 and 80 basis points, banks are seeking yield and have found it in BOLI. In just the second quarter of 2020, there were at least 75 purchases of BOLI of at least \$1,000,000 of written premium, totaling nearly \$500 million in premium altogether. Contributing to the growth of the marketplace, 8 of those purchases were made by first time BOLI buyers.

Attractive returns combined with tax free growth offered in BOLI policies are behind the large volume of cases. The table below illustrates expected returns from a BOLI policy purchased on a healthy 45-year-old male. The IRR on cash surrender value is equivalent to an interest rate (after taxes) at which an amount equal to the illustrated premiums could have been invested outside the policy to arrive at the cash surrender value of the policy.

Year	Cumulative Cash Value IRR	Cumulative Cash Value IRR – After-Tax Equivalent
1	2.89%	4.07%
5	2.75%	3.87%
10	2.64%	3.72%
15	2.51%	3.54%
20	2.40%	3.38%
25	2.31%	3.25%

While the marketplace is healthy now and offering these yields to banks of all sizes, the large inflows of premium are having an impact on insurance carriers' offerings. New premium has the potential to drive down policy crediting rates on all of an insurance company's policies, so in an effort to protect current policyholder's returns, some companies have closed their BOLI product to new sales. Closing of some companies' product is allowing others to be more selective in accepting premium, making capacity harder to come by for banks looking to invest. Executives at the major BOLI providers are assessing their offerings on a weekly basis, meaning capacity in the marketplace is tight and getting smaller. If your bank is considering purchasing BOLI to bolster returns, you must act quickly before the market closes entirely.

**If you have questions about BOLI or would like to explore an investment, please contact your Mullin Barends Sanford consultant.**

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