

Bank Owned Life Insurance (BOLI) Marketplace Update – 4th Quarter 2020 Fed Signals Rates Will Stay Low – Purchases Accelerate in Q4

Into the twelfth year of historically low interest rates, and with the Federal Reserve announcing rates will not move until 2023, several headwinds continue to put a damper on bank earnings. While rates remain too low to generate meaningful return on capital, rising mortgage rates have reduced the otherwise high mortgage demand of the past nine months which has buoyed bank results. Treasuries and cash equivalents remain a drag on bank results and finding new and efficient ways to deploy capital must remain at the forefront of the minds of bank leadership.

Throughout 2020, banks found refuge in BOLI as a method of generating return, but the fourth quarter saw unprecedented 90% quarter over quarter growth in purchases. **In the fourth quarter of 2020 alone, there were approximately 185 purchases of \$1,000,000 or more of BOLI totaling over \$1.2 billion in premium.** Contributing to the growth of the marketplace, 16 of those purchases were made by first time BOLI buyers. In all, nearly **65% of all banks nationwide** own some level of BOLI.

Attractive returns combined with tax free growth offered in BOLI policies are behind the large volume of cases. The table below illustrates current expected returns from a BOLI policy purchased on a 45-year-old male.

| Year | Cash Value IRRs | Cash Value IRRs – After-Tax Equivalent* |
|------|-----------------|---|
| 1 | 2.69% | 3.81% |
| 5 | 2.74% | 3.88% |
| 10 | 2.83% | 4.00% |
| 15 | 2.83% | 4.00% |
| 20 | 2.78% | 3.93% |
| 25 | 2.71% | 3.83% |

Assumptions: \$10 million guaranteed issue BOLI purchase, 29% corporate tax rate
Source: 4Q2020 FDIC Bank Call Reports

If you have any questions about BOLI or would like to explore how BOLI could fit into your portfolio, please contact your Mullin Barends Sanford Associate.

Erik Speed
(818) 292-7206

Erik.Speed@mbsfin.com

Jacob Bosacki
(920) 819-4365

Jacob.Bosacki@mbsfin.com

Nicko Burnett
(714) 473-8181

Nicko.Burnett@mbsfin.com

Blake Barends
(714) 928-1006

Blake.Barends@mbsfin.com

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