

The “ABC’S” of BOLI: It’s More Than a Funding Mechanism

By Lon C. Haines

Bank Owned Life Insurance (BOLI) programs offer community banks a way to support officer and director compensation plans. But BOLI is much more than a funding vehicle for non-qualified benefit plans.

Traditionally, community bank BOLI providers have focused on how the life insurance aspects of BOLI can support officer and director compensation plans, to the exclusion of how the asset itself can improve a bank’s profitability and performance and help manage risk.



While benefits are important to a BOLI design, only focusing on this aspect has clouded the many advantages of the BOLI asset.

According to Bulletin 2000-23, released by the Office of the Comptroller of the Currency: “Life insurance is a financial instrument which serves many necessary and useful business purposes.” Along these lines, it is a mistake to regard BOLI as only being able to contribute to one strategic goal.

Banks are able to purchase life insurance worth up to 25 percent of capital, and senior management should examine BOLI’s

potential as they would any other asset. This includes considering its potential impact on the bank’s investment portfolio, recognizing its effect on the risk management (ALCO) function and considering any other pertinent issues.

At Meyer-Chatfield, we focus on the “ABC’S” of BOLI design—Assets, Benefits Compliance and Service. This includes understanding the asset, understanding the benefits, being fully compliant in the implementation, and offering superior service after the transaction is complete.

Understanding how the BOLI product is designed allows bankers to view BOLI as they would any other asset—and to see how it can be used effectively in strategic planning.

In addition, understanding the respective carrier’s investment strategy—how it supports the product and how the BOLI transaction can effectively transfer risk from the bank’s balance sheet to the carrier’s balance sheet—allows a banker the most effective use of a particular BOLI asset.

BOLI is a variable yield asset, which means that it can assist banks with the management of interest rate risk. And by

transferring price risk to a third party, BOLI can help banks manage the economic value of portfolio equity, or, in other words, optionality risk.

BOLI carriers are rated AA, AA+, and AAA, with some providing products with multiple layers of credit protection, allowing credit to be managed long-term. These features can help banks manage credit risk. With rates at historic lows, many banks are exploring the investment options available in BOLI policies.

BOLI products have evolved, permitting 0 percent, 20 percent and 100 percent capital risk weighting, with year-to-year flexibility. These weightings help banks manage capital adequacy tests. Meyer-Chatfield can help bankers to better understand the BOLI options, and how best to extract from that the features that will support superior bank performance.

All BOLI products have a life insurance component, which allows BOLI to fit into compensation planning. When considering a non-qualified deferred compensation plan, the regulations are clear. A three-tiered process must be completed and documented for the regulators.

Banks are able to **purchase** life **insurance** worth up to **25** percent of capital, and **senior** management **should** examine **BOLI’s** potential as **they would** any other **asset**.

The first step is to look at the financing vehicle—the BOLI contracts in and of themselves. The second step, although not required to purchase BOLI, is to establish a non-qualified deferred compensation package. The final step involves ensuring that the benefit does not create an unreasonable amount of compensation. Meyer-Chatfield's compensation experts have decades of experience in designing and administering these plans.

Bankers must follow these and other regulatory guidelines when implementing a BOLI plan. The regulators are familiar with BOLI and are accepting of it when the guidelines are followed. Meyer-Chatfield works with bankers to ensure that the programs we put in place meet all regulatory guidelines.

Meyer-Chatfield also assists its bank customers in developing the required compliance documentation. The manner in which we complete carrier due diligence and documentation is unique in the industry.

When compensation work is part of the BOLI process, rationality is documented utilizing up to six comparability databases. The end result is that no client has ever had a regulatory problem with a Meyer-Chatfield plan.

BOLI products provide product compensation to the provider. Meyer-Chatfield is the only provider to use this stream of income to perpetually fund an affiliated, but independent, record-keeping company. Meyer Chatfield Administrative Services, LLC (MCAS) is a premiere record keeper for BOLI programs. MCAS has a 100 percent client retention rate and is the successor record keeper for nearly 20 additional programs. **5**

ACB Business Partners aligns with best-in-class companies to provide member-advantaged business solutions designed to enhance your bank's competitiveness and to improve your bottom line. The ACB/Meyer-Chatfield partnership delivers optimally structured BOLI strategies to ACB members with significant

member-advantages, including pricing enhancement and dedicated education resources. Meyer-Chatfield specializes in the BOLI transaction and has a long history of helping community banks realize the full potential of this asset as a part of the bank's overall portfolio.

For more information about the ACB/Meyer-Chatfield partnership,

contact Helen Sullivan, ACB Business Partners' senior vice president, at (202) 857-3157 or hsullivan@acbanners.org. ACB Business Partners offers a complete menu of business solutions in mortgage, technology and payments, and financial and capital markets. Visit www.AmericasCommunityBankers.com/Partners to learn more.

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