

FMS Boston Chapter

Brief review of BOLI market statistics

Factoring arrangement investment analysis

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Speakers

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Disclosure : “For informational and educational purposes only. Nothing contained herein should be construed as a recommendation to buy, sell, or hold specific sectors or securities.”



I. BOLI Holdings – Massachusetts

Asset Size	Total Banks	Banks with BOLI		Averages for Banks with BOLI				
		#	%	Assets (\$000)	Capital (\$000)*	BOLI Cash Surrender Value (\$000)	% BOLI to Capital	% BOLI to Assets
>\$20 Billion	2	2	100%	177,566,953	12,120,244	2,016,576	16.6%	1.1%
\$10 - \$20 Billion	0	0	0%	0	0	0	0.0%	0.0%
\$5 - \$10 Billion	4	4	100%	6,910,377	602,401	77,710	12.9%	1.1%
\$1 - \$5 Billion	29	27	93%	1,790,796	171,333	25,496	14.9%	1.4%
\$750 Million - \$1 Billion	6	5	83%	835,415	89,398	21,830	24.4%	2.6%
\$500 - \$750 Million	19	16	84%	633,070	75,181	12,270	16.3%	1.9%
\$250 - \$500 Million	46	42	91%	372,526	39,874	7,966	20.0%	2.1%
\$100 - \$250 Million	28	22	79%	173,533	18,307	3,442	18.8%	2.0%
<\$100 Million	20	5	25%	65,449	8,096	1,758	21.7%	2.7%
TOTALS	154	123	80%					

As of 6/30/2014

*Tier 1 Capital plus Loan Loss Allowance, if applicable



I. BOLI Holdings – US

Asset Size	Total Banks	Banks with BOLI		Averages for Banks with BOLI				
		#	%	Assets (\$000)	Capital (\$000)*	BOLI Cash Surrender Value (\$000)	% BOLI to Capital	% BOLI to Assets
>\$20 Billion	68	49	72%	213,929,754	19,829,858	2,209,891	11.1%	1.0%
\$10 - \$20 Billion	41	27	66%	14,561,512	1,496,417	203,005	13.6%	1.4%
\$5 - \$10 Billion	73	54	74%	7,126,898	712,031	99,497	14.0%	1.4%
\$1 - \$5 Billion	492	398	81%	2,031,054	208,783	29,595	14.2%	1.5%
\$750 Million - \$1 Billion	240	183	76%	858,222	90,751	14,749	16.3%	1.7%
\$500 - \$750 Million	436	307	70%	603,993	64,051	10,208	15.9%	1.7%
\$250 - \$500 Million	1,205	847	70%	351,873	37,548	6,083	16.2%	1.7%
\$100 - \$250 Million	2,117	1,211	57%	166,178	18,118	3,016	16.6%	1.8%
<\$100 Million	2,025	736	36%	63,052	7,121	1,246	17.5%	2.0%
TOTALS	6,697	3,812	57%					

As of 6/30/2014

*Tier 1 Capital plus Loan Loss Allowance, if applicable



I. BOLI Portfolio – Massachusetts Banks with BOLI

Asset Size	BOLI Portfolio Allocation			Average Estimated BOLI Yield*
	% BOLI in General Account	% BOLI in Separate Account	% BOLI in Hybrid Account	
>\$20 Billion	26.1%	52.8%	21.1%	3.45%
\$10 - \$20 Billion	0.0%	0.0%	0.0%	0.00%
\$5 - \$10 Billion	79.1%	11.9%	9.0%	3.81%
\$1 - \$5 Billion	79.7%	10.7%	9.6%	2.87%
\$750 Million - \$1 Billion	92.4%	3.4%	4.2%	2.97%
\$500 - \$750 Million	86.4%	5.4%	8.1%	2.83%
\$250 - \$500 Million	87.6%	1.5%	10.9%	3.16%
\$100 - \$250 Million	87.1%	2.3%	10.5%	3.09%
<\$100 Million	65.0%	0.0%	35.0%	2.53%
TOTAL	43.2%	39.3%	17.6%	3.08%

As of 6/30/2014

* Estimated Net Yield on BOLI is calculated by dividing the "Earnings on/increase in value of cash surrender value of life insurance" by the previous year's Cash Surrender Value. If this value wasn't available and/or the yield exceeded a rational range, the average estimated net yield for that year for all banks owning BOLI was used.



I. Sample BOLI Carriers

	Carrier Rating (S&P)	Carrier Rating (A.M. Best)	Carrier Rating (Comdex)	Product Types Offered	Minimum Guaranteed Crediting Rate
Great West Life	AA	A+	96	General Account Hybrid Separate Account	2.0%
John Hancock	AA-	A+	93	Separate Account	N/A
MassMutual	AA+	A++	98	General Account	1.5%
MetLife	AA-	A+	95	General Account Hybrid Separate Account	1.0%
Midland National	A+	A+	91	General Account Hybrid Separate Account	3.0%
New York Life	AA+	A++	100	General Account Hybrid Separate Accounts	1.0%
Symetra Life	A	A	78	Hybrid Separate Accounts	1.0%
Savings Bank Life (SBLI)	A-	A+	84	General Account	4.0%*

As of 6/30/2014

* Cash values are guaranteed at a 4% dividend rate.



Factoring Arrangements Highlights

- Cash Flowing
- Current Yield of 4.24 to 4.5%
- Weighted Average Life of 4 to 7 years
- S&P Credit Rating of A to AA
- No Prepayment Risk
- No Mark to Market Accounting



What are Factoring Arrangements™?

- After an individual has been awarded a financial settlement as a result of a court suit or lottery prize the form of payment is decided.
- If the individual elects to receive a stream of payments verses a lump sum payment an insurance annuity is generally used.
- By court order the insurance product is funded on the life of the recipient and payments begin.



What are Factoring Arrangements™?

- If the individual decides that they would like to monetize the stream into a lump sum payment they may sell income stream on secondary market with court approval.
- After a court review to decide the appropriateness of changing the income stream to lump sum the individual can sell the income stream on a secondary market.
- Once sold a new court order is given directing income stream to new entity.
- The entity that purchases the income stream (bank/CU) now receives income stream directly from insurance company on life of recipient. Insurance company is directed by court order which cannot be changed in future.



Secondary Market Statistics

- Structured Settlement market exceeds \$130B
- Approximately 10% of these are then sold on the secondary market by people who desire to receive a lump sum payment verses a stream of income.
- Firms such as JG Wentworth, Peachtree Financial and Bulbrook/Drislane service this market. They are the settlement company that finds the people who wish to sell and negotiates the selling price and works with the courts to effectuate the change.



Two ways to purchase on Secondary Market

- Published online Deal Sheet – generally smaller purchase amounts but readily available and you can pick and choose a carrier, duration, yield that fits your needs (generally used in retail)
- Purchases based on set criteria – You determine and set criteria and Bulbrook/Drislane locates and negotiates for purchase. Generally approach for larger purchase amounts.



Why we believe Factoring Arrangements are an attractive investment option for Financial Institutions

- Purchase Very High Credit Quality insurance company back income streams
- Extremely Competitive Yields(4–5%)
- Durations of Medium to Long Term (average life 7–10 years)
- Freedom from Mark -to- Market Accounting Treatment



Accounting for a Factoring Arrangements

- Similar to a loan booked as an Other Assets. Portion of income stream is considered principal, balance is interest. Interest rate is locked in upon purchase.
- Favorable (no mark to market) accounting protects capital.
- Higher yielding, wider spread (200–300)* investments in a low yield, tight spread world.

Ross, Sinclair and Associates, LLC



B FACTORING ARRANGEMENTS™ (UP TO 20 YEAR TERM)

Purchase Price	Carrier	Guaranteed Payment(s) to Buyer	Payments Start Date	Payments	Payment End Date	Percent Payment Increase	Ref. #	Guaranteed Interest Rate
\$150,054 Projected Purchase Price	Prudential Life Insurance Company W. Ferg 1141 Case Awaiting Court Transfer Date Periodic Payments™	\$1,183.95 / mo <hr/> \$204,823 Total Guaranteed Return	5-23-2014	173 <hr/> 173	9-23-2028	—	#2978 6-15-2014	4.75% Medium Term Yield Guaranteed All Years
\$1,254,622 Projected Purchase Price	American General Life Insurance Company E. Card 1001 Case Court Transfer Date 7-30-2013 Payment Servicing (ST) Periodic Payments™	\$8,137.25 payments increase yearly by 3.00% and reach \$11,949.83 by the last year <hr/> \$8,137.25 / mo <hr/> \$1,668,428 Total Guaranteed Return	7-1-2013	168 <hr/> 168	6-1-2027	3.00%	#28683 10-1-2013	4.25% 14-Year Yield Guaranteed All Years



Documentation included in Factoring Arrangement Closing Book

- Insurance carrier financials
- Amortization schedule
- Insurance contract
- Copy of court order and stipulation
- Change of payee acknowledgement letter
- Sale and assignment agreement
- Property settlement agreement
- Title search, credit report

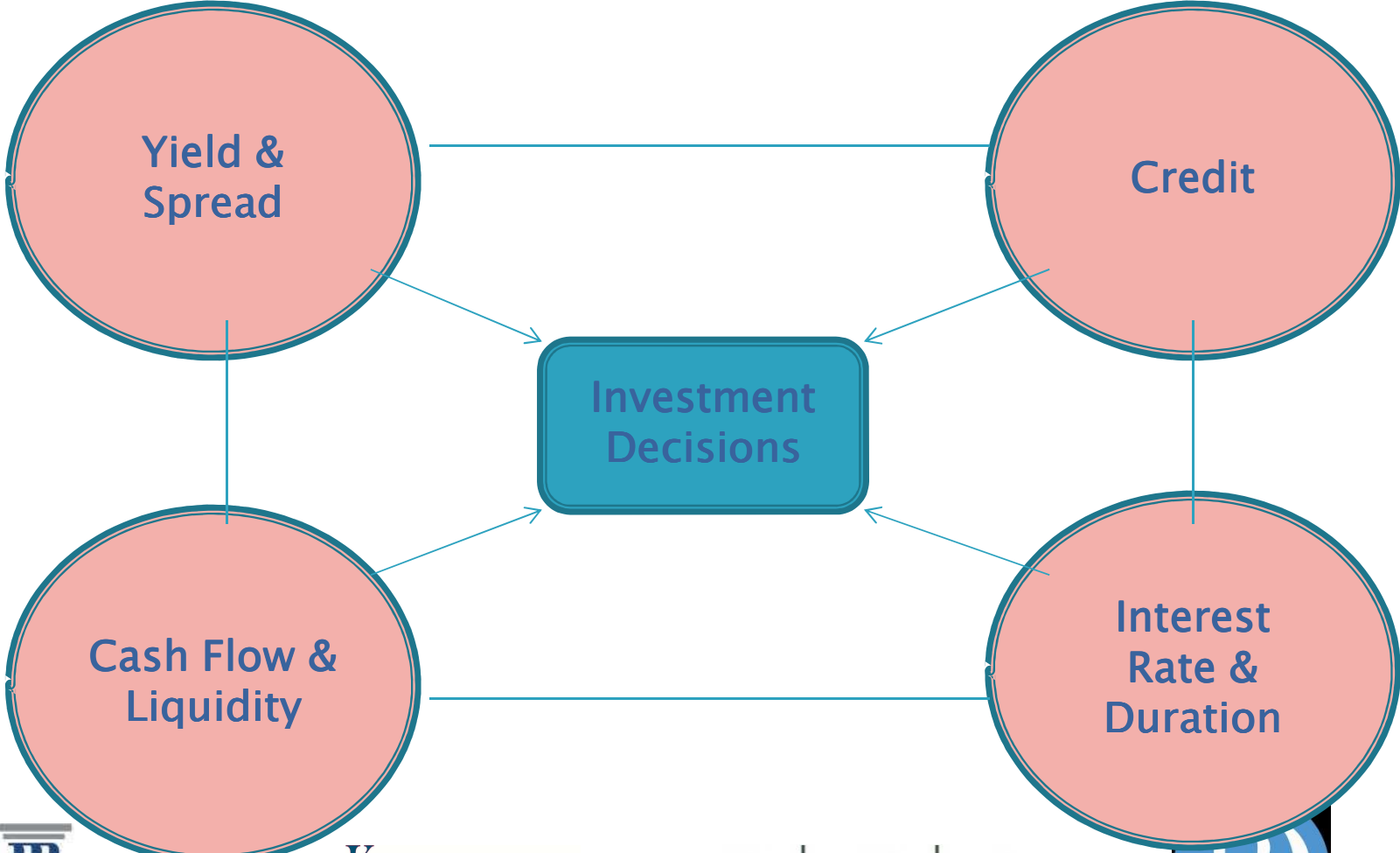


Function of the Investment Portfolio

- Conservatively invest funds that can't (or won't) immediately be lent out
- Add yield vs. the cost of waiting in cash
- Strategically capitalize on attractive opportunities
- Moderate risks across the entire balance sheet & business plan



Risks In the Investment Portfolio



FA Risks vs. Traditional Investments

- Yield & Spread
 - +200–300 vs +25–150* Agy/MBS/Muni/Corp
 - 4–5% accretive to Interest Income & NIM
- Credit
 - High quality insurance companies
 - PRU bonds @ +50/5yr, +90/10yr, +125/30yr*

*Source– Bloomberg



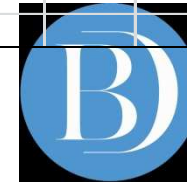
FA Risks vs. Traditional Investments

- Interest Rate & Duration
 - Durations of 3.4 (7yr), 4.7 (10yr), 6.8 (15yr)
 - No mark to market accounting
- Cash Flow & Liquidity
 - Level pay amortizing with no prepay risk
 - “Practical illiquidity” of normal bond portfolio



Community Bank Investment Alternatives

Asset Class	RETURN			RATE RISK		CREDIT RISK		PRICE RISK	LIQUIDITY RISK			
	Pre-tax/tax-equiv. yield	After tax yield	Spread to UST	Duration	Rates +300 Duration	Credit Rating	Risk Wtg.	Mark to Market	Principal Cash Flow Before Maturity	Issuer Prepay Option	Interest Cash Flow	Secondary Market Liquidity
Int. on Excess Reserves	0.25%	0.17%	24	0	0	AAA	0%	No	None	None	Daily	Highest
3yr US Treasury	0.98%	0.64%	0	2.93	2.93	AAA	0%	AFS-OCI, HTM-No	None	None	Semi-Ann	Highest
5yr US Treasury	1.67%	1.10%	0	4.72	4.72	AAA	0%	AFS-OCI, HTM-No	None	None	Semi-Ann	Highest
10yr US Treasury	2.39%	1.58%	0	8.66	8.66	AAA	0%	AFS-OCI, HTM-No	None	None	Semi-Ann	Highest
5yr Agency bullet	1.80%	1.19%	13	4.59	4.59	AAA	20%	AFS-OCI, HTM-No	None	None	Semi-Ann	Very High
5yr Agency callable	2.00%	1.32%	33	2.75	4.73	AAA	20%	AFS-OCI, HTM-No	Call Date	Yes	Semi-Ann	High
15yr MBS	2.28%	1.50%	50	4.95	5.56	AAA	20%	AFS-OCI, HTM-No	Monthly Amortizing	Yes	Monthly	Very High
30yr MBS	3.11%	2.05%	85	6.93	8.4	AAA	20%	AFS-OCI, HTM-No	Monthly Amortizing	Yes	Monthly	Very High
5yr AA- BQ muni	1.88%	1.24%	21	4.75	4.75	AA-	20%	AFS-OCI, HTM-No	None	None	Semi-Ann	High
5yr A- BQ muni	2.42%	1.60%	76	4.64	4.64	A-	20%	AFS-OCI, HTM-No	None	None	Semi-Ann	OK
5yr BBB- BQ muni	3.15%	2.08%	148	4.51	4.51	BBB-	20%	AFS-OCI, HTM-No	None	None	Semi-Ann	Weak
10yr AA- BQ muni	4.00%	2.64%	161	8.46	8.46	AA-	20%	AFS-OCI, HTM-No	None	None	Semi-Ann	High
10yr A- BQ muni	4.55%	3.00%	215	8.37	8.37	A-	20%	AFS-OCI, HTM-No	None	None	Semi-Ann	OK
10yr BBB- BQ muni	5.68%	3.75%	329	8.25	8.25	BBB-	20%	AFS-OCI, HTM-No	None	None	Semi-Ann	Weak
5yr AA corporate	1.99%	1.31%	32	4.47	4.47	AA	100%	AFS-OCI, HTM-No	None	None	Semi-Ann	High
5yr A corporate	2.12%	1.40%	45	4.37	4.37	A	100%	AFS-OCI, HTM-No	None	None	Semi-Ann	Good
5yr BBB corporate	2.48%	1.64%	81	4.23	4.23	BBB	100%	AFS-OCI, HTM-No	None	None	Semi-Ann	OK
10yr AA corporate	3.05%	2.01%	66	9.01	9.01	AA	100%	AFS-OCI, HTM-No	None	None	Semi-Ann	High
10yr A corporate	3.21%	2.12%	82	8.75	8.75	A	100%	AFS-OCI, HTM-No	None	None	Semi-Ann	Good
10yr BBB corporate	3.81%	2.52%	142	8.52	8.52	BBB	100%	AFS-OCI, HTM-No	None	None	Semi-Ann	OK
10y residential loan	3.00%	1.98%	157	3.73	4.31	varies	100%	No	Monthly Amortizing	Yes	Monthly	Good
15y residential loan	3.38%	2.23%	164	4.88	5.5	varies	100%	No	Monthly Amortizing	Yes	Monthly	Good
7y Factoring Arrangement	4.00%	2.64%	266	3.44	3.44	A-AA+	100%	No	Monthly Amortizing	None	Monthly	Informal
10y Factoring Arrangement	4.25%	2.81%	251	4.74	4.74	A-AA+	100%	No	Monthly Amortizing	None	Monthly	Informal
15y Factoring Arrangement	4.50%	2.97%	239	6.82	6.82	A-AA+	100%	No	Monthly Amortizing	None	Monthly	Informal
BOLI	5.87%	3.88%	380	7	7	AAA	100%	No	None	None	None	Surrender Cost
Pricing and yields as of 8/25/2014												
Assumed tax rate of 34%. Secondary Market Liquidity classifications are subjective												
											Source: Bloomberg	



Investment Alternatives, cont'd

Asset Class	RETURN			RATE RISK		CREDIT RISK		PRICE RISK	LIQUIDITY RISK			
	Pre-tax/tax-equiv. yield	After tax yield	Spread to UST	Duration	Rates +300 Duration	Credit Rating	Risk Wtg.	Mark to Market	Principal Cash Flow Before Maturity	Issuer Prepay Option	Interest Cash Flow	Secondary Market Liquidity
15yr MBS	2.28%	1.50%	50	4.95	5.56	AAA	20%	AFS-OCI, HTM-No	Monthly Amortizing	Yes	Monthly	Very High
15y residential loan	3.38%	2.23%	164	4.88	5.5	varies	100%	No	Monthly Amortizing	Yes	Monthly	Good
15y Factoring Arrangement	4.50%	2.97%	239	6.82	6.82	A-AA+	100%	No	Monthly Amortizing	None	Monthly	Informal

Source- Investment Alternatives slide/Bloomberg



Investment Example

Existing Reinvestment	Allocation	Yield	Duration	Up300 Dur	Spread	Risk Wtg
5yr Agency callable	50%	2.00%	2.75	4.73	33	20%
15yr MBS	50%	2.28%	4.95	5.56	50	20%
<i>Total</i>	<i>100%</i>	<i>2.14%</i>	<i>3.85</i>	<i>5.15</i>	<i>42</i>	<i>20%</i>
New Reinvestment	Allocation	Yield	Duration	Up300 Dur	Spread	Risk Wtg
10y Factoring Arrangement	67%	4.25%	4.74	4.74	251	100.00%
Int. on Excess Reserves	33%	0.25%	0.00	0.00	24	0.00%
<i>Total</i>	<i>100%</i>	<i>2.92%</i>	<i>3.16</i>	<i>3.16</i>	<i>175</i>	<i>66.67%</i>
Summary	Existing	New				
Gov't bonds	100%	0	Less Gov't bonds			
Cash	0	33%	More Cash			
Gov't + Cash	100%	33%	Less Gov't bonds + Cash			
Credit exposure	0%	67%	More Credit exposure			
Yield	2.14%	2.92%	Sharply increase yield			
Spread	42	175	Sharply increase spread			
Duration	3.85	3.16	Reduce duration (current)			
Up 300 Duration	5.15	3.16	Reduce duration (rate shock)			
Amortizing assets	50%	67%	Increase cash flow/amortizing assets			
No MTM Assets	0%	100%	Increase assets with no MTM			
Risk Weighting	20%	66.67%	Higher risk weighting			

Source- Investment Alternatives slide/Bloomberg



Factoring Arrangements Highlights:

- Cash Flowing
 - Current Yield of 4.24 to 4.5%
 - Weighted Average Life of 4 to 7 years
 - S&P Credit Rating of A to AA
 - No Prepayment Risk
 - No Mark to Market Accounting
- Mr/Ms CFO, if we could provide you with a cash flowing asset, with an approximate yield of 4.50%, an S&P rating of A to AA, a weighted average life of 4 to 8 years, no mark to market accounting and no pre payment risk, would you be interested?

