



State of Michigan
John Engler, Governor

Department of Consumer & Industry Services
Kathleen M. Wilbur, Director

Office of Financial and Insurance Services
Frank M. Fitzgerald, Commissioner

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March 12, 2002

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Dear XXXXX,

I am writing in response to your letter regarding bank-owned life insurance (“BOLI”).

In general, the Michigan Office of Financial and Insurance Services (“OFIS”), subscribes to the guidelines on BOLI issued by the Federal bank regulators, principally OCC Bulletin 2000-23. As with any significant asset purchase, OFIS expects a bank’s Board of Directors to play an active role in the decision to purchase BOLI. This role includes weighing the applicable risks and rewards in context with the overall risk profile of the institution

In response to specific issues raised in your letter:

1. Authority to purchase BOLI

Life insurance products are not eligible (as pure) investments for Michigan-chartered banks, savings banks, or savings and loan associations (hereafter “institutions”). However, BOLI is permitted for Michigan institutions pursuant to the statutes you referenced in your letter¹ as a funding device for benefit plans provided there is a strong correlation between the proceeds of the insurance and the combined costs of the insurance and benefit obligations.

2. BOLI purchase limits per insurer

The legal limit on loans or extensions of credit to one person is used to determine the limit per insurer for BOLI purchased by Michigan institutions.

¹ Footnote not original to letter. Statutes referred to are, for Michigan-chartered banks, MCL 487.14101(1) and MCL 487.14105(a); for Michigan-chartered Saving and Loan Associations, MCL 491.500; and for Michigan-chartered savings banks, MCL 487.3401(1).

3. Concentrations of credit

A Michigan institution will likely be subject to regulatory comment and/or criticism if its total BOLI purchases from all insurers exceeds 100% of Tier 1 capital. Such concentrations warrant Board supervision and closer regulatory scrutiny. Regulatory comment may be made if the total of BOLI purchases from all insurers exceeds 25% of Tier 1 capital.

4. Excessive compensation

There are no specific statutory limits, other than safety and soundness considerations limiting excessive compensation, imposed on Michigan institutions regarding the use of BOLI to finance compensation plans for directors, officers, employees, and retirees.

In response to your specific questions:

Does OFIS consider BOLI purchase limits to be rigid, fixed limits, or flexible guidelines?

The per-insurer limits as established by the institution's legal lending limit are rigid, fixed limits. Limits on purchases from all insurers as established by concentration definitions are flexible guidelines.

Do any such limitations apply only at the time of the BOLI purchase, or over time as BOLI cash surrender value grows and an institution's capital changes?

The limitations apply over time as BOLI cash surrender value grows and an institution's capital changes.

Bank owned life insurance is reviewed and evaluated to determine reasonableness and the overall impact on the bank's safety and soundness during regulatory examinations. In addition to the Board's responsibilities prior to the purchase of BOLI, it is expected that appropriate ongoing monitoring of the risks occur, including reviewing BOLI performance and insurers' financial stability.

Please call me at 517-373-7211 if you have additional questions.

Sincerely,

Joseph E. Petterson
Assistant Director
Bank & Trust Division