

TABLE OF CONTENTS

INTERAGENCY STATEMENT ON THE PURCHASE AND RISK MANAGEMENT OF LIFE INSURANCE

Purpose	1
Background	1
Legal Authority	2
Accounting Considerations	4
Supervisory Guidance	4
Senior Management and Board Oversight	5
Policies and Procedures	5
Pre-Purchase Analysis	6
I. Identify the Need for Insurance and Determine the Economic Benefits and Appropriate Insurance Type	6
II. Quantify the Amount of Insurance Appropriate for the Institution's Objectives	7
III. Assess Vendor Qualifications	7
IV. Review the Characteristics of the Available Insurance Products	8
V. Select Carrier	8
VI. Determine the Reasonableness of Compensation Provided to the Insured Employee if the Insurance Results in Additional Compensation	9
VII. Analyze the Associated Risks and the Ability to Monitor and Respond to those Risks	10
VIII. Evaluate Alternatives	10
IX. Document Decision	10
Risk Management of BOLI	10
Liquidity Risk	11
Transaction/Operational Risk	12
Tax and Insurable Interest Implications	13
Reputation Risk	14
Credit Risk	15

Interest Rate Risk	16
Compliance/Legal Risk	16
Price Risk	17
Risk-Based Capital Treatment	19
Criteria for a Look-Through Approach	19
Look-Through Approaches	19
Summary	21
Appendix	22
Common Types of Life Insurance	22
Temporary (Term) Insurance	22
Permanent Insurance	22
Purposes for Which Institutions Commonly Purchase Life Insurance	23
Key Person	23
Financing or Cost Recovery for Benefit Plans	23
Split-Dollar Life Insurance Arrangements	24
Life Insurance on Borrowers	25
Life Insurance as Security for Loans	26
Glossary	27