

Monday, March 3, 2014

## **Bank owned life insurance to Tier 1 Program**

The purpose of the Program is to provide investors with a net present value death benefit hedge against possible loss of value for community bank stock. This plan is similar to what large corporate investors do when they purchase key person whole life policies for management of the companies they invest in, except the insurance policies already exist on the community banks balance sheet.

### Transaction(s)

After due diligence and initial analysis there are 2 steps to the transaction; Buy Policies, then Purchase Stock.

- **Sell policies** from Bank for 100% of book value (CSV)
  - o Transfer ownership to investor
  - o Transfer Beneficiary to investor
  - o Insured remains the same
- **Sell stock** in Bank or Bank Holding Company
  - o Preferred Stock recommended
    - Reasonable coupon rate 4.5%
    - non cumulative
    - non voting
    - convertible to common at 1:1 ratio
  - o Common Stock can also be supported by the plan

At the end the Bank has:

- Cash instead of CSV on its books, balance sheet neutral but increases liquidity
- Sold additional stock, increasing Tier 1 Capital

At the end the Investor has:

- Ownership of whole life insurance policies
- Is beneficiary on these policies in which the NPV of the death benefit hedges the investment
- Ownership of Preferred or Common stock

Simple Bank balance pro forma balance sheet:  
assuming 100% of new capital is pushed to the bank

	Before Transaction	After Transaction
<b>Cash</b>	\$15,000,000	\$26,000,000
<b>Loans</b>	\$150,000,000	\$150,000,000
<b>Bank Owned Life Ins. CSV</b>	\$5,000,000	\$0
<b>Other assets</b>	\$5,000,000	\$5,000,000
<b>Total Assets</b>	\$175,000,000	\$181,000,000
<b>Deposits</b>	\$160,000,000	\$160,000,000
<b>Other liabilities</b>	\$5,000,000	\$5,000,000
<b>Total Liabilities</b>	\$165,000,000	\$165,000,000
<b>Capital</b>	\$10,000,000	\$10,000,000
<b>New Capital</b>	\$0	\$6,000,000
<b>Total Equity Capital</b>	\$10,000,000	\$16,000,000
<b>Total Liabilities &amp; Capital</b>	\$175,000,000	\$181,000,000

The transaction described herein is similar to many in the community bank space. The two steps described are:

Sell an asset (BOLI) for book value

The BOLI can be replaced or the cash can be used for lending or other revenue producing projects

Sell Stock (at the bank or holding company)

The type of stock / capital raised is not incumbent on making the Program work, so any stock / equity that is acceptable to the bank and regulators is acceptable

We believe that the program is unique and meets the needs of banks (increase capital) investors (provide a safer way to invest in community banks) and regulators (improve the banks balance sheet without damage to asset values).