

February 10, 2000 [Revised January 12, 2016]

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Re: Corporate-Owned Life Insurance

Dear Mr. []:

You have requested guidance on the authority of Illinois-chartered savings associations and Illinois-chartered savings bank to purchase life insurance, i.e., corporate-owned life insurance (COLI). COLI includes all life insurance that an institution purchases and owns or has a beneficial interest in. Generally, depository institutions have purchased life insurance for several purposes including key-person insurance, life insurance on borrowers, life insurance purchased in connection with employee compensation and benefit plans, and life insurance taken as security for a loan.

#### General Authority for COLI

The Savings Bank Act authorizes an Illinois-chartered savings bank to purchase or invest in COLI. 205 ILCS 205/1001 et seq. Specifically, COLI purchases in connection with employee, officer and director compensation and benefit plans are permitted under section 1008(a)(6) which grants a savings bank the power "to adopt and operate reasonable insurance, bonus, profit sharing and retirement plans for officers, employees and directors." Id. at 1008(a)(6). The Act also allows other uses (such as those listed above) of COLI because those uses are "reasonably incident, convenient and useful" to the powers of a savings bank. Id. at 1006(e). For example, life insurance on a borrower is "reasonably incident, convenient and useful" to a savings bank's lending authority. Finally, the Acts grants a savings bank parity with a Illinois savings and loan association and with a federal association. Thus, a savings bank may purchase COLI for the same purposes that either type of association may. Id. at 1008(a)(25) and 6002(11).

~~With respect to a savings association chartered under the Illinois Savings and Loan Act of 1985, the general authority is equivalent to that of Illinois savings banks. 205 ILCS 105/1-1 et seq. Section 1-6(g) authorizes the use of COLI in connection with employee, officer and director compensation and benefits. Id. at 1-6(g). Likewise, other uses of COLI are permitted pursuant to incidental authority, id. at 1-8, or parity authority. Id. at 1-6(e) and 5-2(k). [The Illinois Savings and Loan Act of 1985 is repealed.]~~

## Investment Limitations

Any investment or purchase of a savings institution presents risks and may have an impact on an institution's safety and soundness. The Thrift Division views the risks associated with COLI as comparable to those associated with unsecured commercial lending or investment in corporate debt securities. Therefore, in determining the guidelines for COLI investment, the Division is guided by the Savings Bank Act's ~~and the Savings and Loan Act's~~ investment limitations for commercial lending and securities investment. Accordingly, for Illinois savings institutions, the general investment (i.e., policy cash surrender value) limitations for COLI are as follows: 15% of an institution's total capital for all investments in COLI issued by any one company; and 15% of an institution's total assets for all investments in COLI. Furthermore, COLI only may be purchased from companies that are rated in one of the two highest categories of at least one nationally recognized rating service. See, for lending and investment limitations, Savings Bank Act at sections 6002(8), 6003(18) and 6013, 205 ILCS 205/6002(8), 6002(18) and 6013, respectively; ~~Savings and Loan Act at sections 5-2(h) and 5-3(h), 205 ILCS 105/5-2(h) and 5-3(h), respectively.~~

Investments beyond these limits would violate the applicable Act. Also, an institution should be aware that even investments significantly below these limits may raise supervisory concerns.

Regardless of the size of the investment, the savings institution must properly underwrite and review all investments in COLI. Notably, for a savings bank, the requirements found at section 6001 and 6011 of the Savings Bank Act as well as Subpart E of the Savings Bank Rules apply. 205 ILCS 205/6001 and 6011, and 38 Ill.Adm.Code 1075.500 et seq., respectively. ~~Likewise, for a savings association, the requirements at sections 5-2 and 5-12 as well as Subpart F of the Savings and Loan Rules apply. 205 ILCS 105/5-2 and 5-12; and 38 Ill.Adm.Code 1000.610 et seq., respectively.~~ Furthermore, the Division notes with approval the precautions and guidelines stated in Office of the Comptroller of the Currency and Office of Thrift Supervision issuances pertaining to COLI. Savings institutions should refer to OCC Bulletin 96-51 (September 20, 1996) and OTS Regulatory Bulletin RB 32-16 (December 30, 1999). See also, FDIC FIL 127-2004 (December 7, 2004), Interagency Statement on the Purchase of and Risk Management of Life Insurance.

If you have any further questions, please contact Roger Copley at (312) 793-1456 or the undersigned at (312) 793-1454.

Very truly yours,

Robert A. Stearn  
Senior Counsel