

January 26, 2005

Re: Bank-Owned Life Insurance

Dear:

This is in response to your letter to the Department of Banking (the "Department") in which you request the Department's position regarding the regulation of bank-owned life insurance ("BOLI")<sup>1</sup> purchased by Pennsylvania state-chartered banking institutions. Specifically, you inquire as to whether the Department has adopted state-specific guidelines for BOLI regulation beyond those set forth in the Interagency Statement on the Purchase and Risk Management of Life Insurance (the "Interagency Statement") issued by the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation ("FDIC"), Office of the Comptroller of the Currency, and Office of Thrift Supervision. *See* FDIC FIL127-2004 (Dec. 7, 2004).

As a general matter, the Department has determined that Pennsylvania state-chartered banks and savings banks may purchase and hold BOLI as an incidental power pursuant to Sections 315(i) and 502(h) of the Banking Code of 1965, respectively, 7 P.S. §§ 315(i), 502(h),<sup>2</sup> subject to the various conditions and requirements set forth in the Interagency Statement.

At this time, the Department has not placed any additional conditions, standards or requirements on the ability of Pennsylvania state-chartered banking institutions to purchase and hold BOLI.

However, while not contemplated at the present time, the Department reserves the right at any time to place any conditions, standards or requirements on a Pennsylvania state-chartered banking institution purchasing or holding an interest in BOLI which it deems appropriate or necessary to ensure the safety and soundness of the institution.

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1 For purposes of this letter, BOLI includes all life insurance that a bank purchases and owns or in which the bank has a beneficial interest. BOLI may include, but is not limited to, life insurance purchased in connection with employee compensation and benefit plans, key person insurance, insurance to recover the cost of providing pre- and post-retirement employee benefits, insurance on borrowers, and insurance taken as security for loans. *See* FDIC FIL127-2004 (Dec. 7, 2004).

2 Under the Savings Association Code of 1967, Pennsylvania state-chartered savings associations may purchase and hold BOLI to the same extent as Federal savings associations. *See* 7 P.S. § 6020-101(a)(22).

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The Department's analysis is based upon the facts as stated in this letter. Any change in the facts could result in an amendment or reversal of the Department's position. This letter has been authorized by the appropriate Department personnel and constitutes a duly authorized statement of the Department's position regarding the issues discussed herein. This letter may not be relied upon or construed as constituting legal advice.

Please do not hesitate to contact me if you have any further questions regarding this matter.

Sincerely,

Carter D. Frantz  
Deputy Chief Counsel

cc: The Honorable A. William Schenck III  
Secretary of Banking

Ronald P. Wysochansky  
Deputy Secretary of Banking

Timothy J. Blase  
Director, Bureau of Supervision and Enforcement

Craig E. Herrold  
Director, Bureau of Examinations