



Infinite Banking
Institute

Nelson Nash, Founder
nelson31@charter.net

David Stearns, Editor
david@infinitebanking.org

Infinite Banking Concepts® LLC
2957 Old Rocky Ridge Road
Birmingham, Alabama 35243



BankNotes newsletter archives are located on our website:
www.infinitebanking.org/banknotes.php

Comparing Whole Life versus Universal

Robert P. Murphy, PhD

In both the *Lara-Murphy Report* and our book, *How Privatized Banking Really Works*, Carlos and I explain the benefits of Nelson Nash's Infinite Banking Concept (IBC), which involves the disciplined use of dividend-paying life insurance policies. Since Nash himself couches the discussion in terms of *whole life* policies, we naturally did the same.

However, there are other categories of permanent life insurance policies that have "cash value" besides whole life, and people often ask us what the difference is. In the present article I'll sketch the comparison between whole life (WL) and universal life (UL) policies.

The Origin of Universal Life

Subscribers to the *Lara-Murphy Report* will remember Carlos' article from the April 2012 issue, in which he laid out the history of the scathing 1979 FTC report on whole life. One of the major complaints was the lack of transparency, with consumer advocates

claiming that policyholders had little understanding of how their contracts worked and what returns they were earning on their money. In short, the claim was that a typical WL policy was a black box, with various and hidden expenses taken out from the gross premium payments, leaving less available to build up as cash value.

To combat this alleged lack of transparency, insurers offered UL policies which were designed to "open up the hood" on permanent life insurance contracts. In any given period, the charges (such as mortality) assessed on a UL policy are explicitly and contractually specified, so that the policyholder can (in theory) understand exactly what happened to his gross premium payment.

In addition to breaking up the components of a standard WL policy into separate categories, the UL policy offered more flexibility—hence the name "universal." Rather than paying a fixed, level premium as with a WL policy, the UL policy allows the owner discretion to contribute whatever amount he wants. When cash flow is tight, the policyholder can contribute less, making up the difference when things are better.

Because of the apparent benefits of greater transparency and flexibility, as well as the ability to benefit more immediately from unusually high interest rates, there was a large shift in the insurance industry away from WL and into UL policies during the early 1980s. In 1979 WL policies accounted for about 85% of new premiums sold, but by 1986 the figure had dropped to about 50%. The drop was almost entirely accounted for by the rise of UL.¹

Equivalent...in Theory

Perhaps ironically, from a theoretical accounting standpoint, WL and UL policies are actually quite similar. Indeed in the May 2012 issue of the *LMR*, in my article on guaranteed interest rates, I showed a table where the (gross) level premium on a WL policy had mortality expenses deducted each year based on the mortality rate and the Net Amount at Risk (NAR). After the mortality expense had been deducted, the

balance of the premium went into the cash value of the policy, where it grew at the guaranteed interest rate.

To repeat, in my article I was discussing *whole life* policies, even though the actual contracts for such policies don't promise the policyholder a detailed breakdown year by year of the mortality charges and other deductions out of the gross premium. Instead, the WL contract merely shows what the level premium payments will be, along with the string of guaranteed cash values and death benefit available at various future dates. But this parsimonious display hides the fact that *behind the scenes* the insurance company is running the same calculations that appear more explicitly in UL contracts, in order to properly price its WL contracts.

Here is another way of seeing the theoretical equivalence between WL and UL: If someone has a UL policy set to the same death benefit, and with the same interest rate and mortality parameters, then by choosing to make the same premium payments as would apply to a comparable WL policy, the behavior of the UL policy would mimic the WL policy. Indeed, this is why some people argue that it is smarter to use UL policies even for privatized banking purposes, since a UL policy can always do *the same* as a WL policy, but it also carries more options.

In other words, the fans of UL are claiming that flexibility is inherently a good thing, and that the worst that can happen is a policyholder will elect *not* to take advantage of this freedom and will instead behave exactly as if he had taken out a WL policy.

Different...in Practice

Despite the claims of its advocates, however, there are fierce critics of UL policies. For one thing, continued tweaking of their structure has resulted in a situation where now the allegedly transparent UL policy is arguably more confusing to the customer than a traditional WL policy.

A much more serious problem is that a policyholder can unwittingly eat away at the UL's cash value by underfunding it. Remember that there is no fixed

premium payment that the policyholder must make. In a given period, if the contribution is less than the mortality and other expenses assessed on the policy, the cash value will go *down*. Nelson Nash writes:

Universal Life was invented in the early 1980s by E.F. Hutton, a stock brokerage firm that, in my opinion, knew nothing about life insurance....

*This happened during a time of high interest rates and it "looked good" in the early years of the policy. When I first saw the policy I ran some illustrations and they kept "falling apart" when the insured attained age 65 to 70. The cost of one-year term became prohibitive at the advanced ages and "ate up the cash fund" from that point forward. Therefore, I never sold one of them when I was in the business—and I surely wouldn't buy one!*¹²

To understand the potential dangers of UL policies, consider: Many people in the early 1980s switched out of WL policies and into ULs, because agents showed them that in the high interest rate environment of the time, one could achieve the same death benefit coverage on a UL policy with a lower premium contribution than was necessary on a WL policy. The problem is that when interest rates declined, some of these policyholders failed to increase their premium payments. Not realizing that these "free lunches" from the policy switch were a temporary phenomenon, these unsuspecting policyholders were eating away at their wealth. There are horror stories of people sending payments on UL policies to the insurers for decades, only to receive a letter informing them of huge amounts owed just to keep the policies from collapsing.

Now it's true, there are comparable dangers with a WL policy. The way to mimic underfunding of a UL policy, would be to pay the level premium (as contractually required) but then to borrow most of it right back. Depending on the relationship between the policy loan interest rate and the dividends paid on the WL policy, the insurer might send a similar notice to the owner, explaining that at least some of the interest on the loans would have to be paid, to keep the WL

policy in force.

Naturally, such irresponsible borrowing isn't what Nelson Nash advocates—he tells his fans to “not steal the peas” and pay back policy loans on a systematic basis. Even so, my point is that one can get into trouble with a WL policy as well as with a UL policy, through excessive borrowing and failing to pay back the policy loans. This is the WL analog of someone who underfunds a UL policy. Yet notice that it takes a much more conscious decision to borrow against a WL policy, rather than the much more understandable mistake of (say) making the same premium payments on a UL policy, even though portfolio returns don't live up to expectations when the UL policy was first taken out.

Policy Loans in WL vs. UL

On the issue of policy loans, there is a formal distinction between the two classes that is actually not as significant in practice. When someone takes out a policy loan with a WL policy, the money does *not* “come out of the policy.” Rather, the insurer lends the money as a distinct transaction, with the cash value of the WL policy merely serving as the collateral on the loan. The WL policy itself continues to operate just as before, with the only difference stemming from the policy loan being lower dividend payments, if the insurer practices direct recognition.

In contrast, taking out money from a UL policy is like making a negative premium contribution. It effectively withdraws the funds out of the available cash value, so that there is a lower total rolling over at the credited interest rate. (Note: Actually this difference is not as serious as one might think. What often happens is that the insurance company will credit a *lower*—but not a *zero*—interest rate to the cash value in a UL policy that is “spoken for” by an outstanding policy loan. In this arrangement, the UL policy loan is very similar to a WL policy loan under direct recognition.)

Although these formal treatments may be different, in practice the impact on the policyholder is largely the same. It's true that borrowing money against a UL policy leaves less available to grow at the baseline

interest rate. However, the upside is that there is no policy loan growing exponentially, either. In other words, even though the WL policy (under non-direct recognition) grows more quickly when a loan is taken against it, the *net* cash value available—determined by subtracting the total amount due on the policy loan—is the right figure to consider, for an apples to apples comparison of the two methods.

Equity Exposure Means More Risk

In addition to a plain vanilla UL policy, there are also variants that seek to capture exposure to stock market gains. An *equity indexed universal life* (EIUL) policy has built-in floors, just like a WL policy, but it also promises to rise (albeit in a muted fashion) with the stock market.

Some analysts look at historical returns and conclude that EIULs provide more wealth in retirement years than a traditional WL policy. There are many pitfalls when making such comparisons, but one of the most obvious is that it ignores *risk*. After all, over long stretches the equity markets tend to outperform fixed income assets. Yet this greater expected rate of return compensates for the greater volatility.

In other words, it would be silly for someone to say, “Nobody should ever buy bonds, because stocks or real estate historically earn higher returns.” This is because people often want to keep some of their wealth in very *safe* assets, which *won't* drop 40 percent in a year the way the S&P 500 did during the recent crisis. By the same token, then, one can't dismiss WL policies merely because EIULs exhibited a greater rate of return over some historical period.

Todd Langford has published a scathing critique of EIUL policies.³ One of his subtle points is that when the “side fund” goes down because of a drop in the stock market, the policyholder is hit with a double whammy. Not only does the side fund lose value, but now the pure term insurance component carries a higher mortality expense. This is because the insurance company—in order to cover itself vis-à-vis the face death benefit on the EIUL policy—has to effectively take out a one-year term insurance policy on the insured, with a death benefit equal to the “Net

Amount at Risk," namely the face death benefit on the EIUL policy minus the market value of the side fund at that moment. Thus, when the side fund drops in value, the size of the implicit term insurance policy is bigger, and hence the EIUL policy's value absorbs a larger mortality expense.

Conclusion

Whole life policies are surprisingly complex creatures, where the contractually specified premium and projected cash values are derived from a host of calculations that remain hidden to the policyholder. In order to promote transparency, and facilitate comparisons with other financial products, universal life came on the scene in the early 1980s and quickly captured a large share of the market.

Theoretically, WL and UL policies can achieve similar results with the appropriate actions of the policyholder. However, a person can put a WL policy in a drawer and forget about it; the level premiums were designed to allow the policy to hit its cash value milestones year after year. In contrast, insufficient oversight can lead to a gutted UL policy; the risk of an underperforming portfolio is effectively on the policyholder. It is for this reason that we warn neophytes *not* to use UL policies for privatized banking purposes, since the "safety is off" as it were. From our vantage point, it is much safer to steer people into traditional WL policies, which can always be customized with various riders to satisfy financial objectives on a case by case basis.

¹Black, Kenneth and Harold Skipper. *Life Insurance* (NJ: Prentice Hall, 12th edition, 1994), Figure 4-1 on page 83.

²Nash, Nelson. *Becoming Your Own Banker* (Birmingham, AL: Infinite Banking Concepts, LLC, 2008, Fifth Edition), p. 39.

³Langford, Todd. "The Top 10 Reasons NOT to BUY Equity Indexed Universal Life." www.truthconcepts.com

Have an interesting article or quote related to IBC? We gladly accept article submissions as long as permission to reprint is provided. Send submissions for review and possible inclusion in BankNotes to david@infinitebanking.org.

The Simplicity of Sound Money

by Patrick Barron

Understanding today's convoluted domestic and international fiat monetary system frankly requires a great deal of time and study. One must understand fractional reserve banking, and the way this system affects the money supply. One must understand the multi-step process by which banks create money out of thin air.

One must understand central bank open market operations. Internationally, one must try to understand floating exchange rates, how they are manipulated by central banks, and the resulting impact on national economies. For example, is it best for a country to drive down its exchange rate in relation to other currencies or do the opposite?

These issues are never understood by policymakers, who appear to be among the most illiterate in economic matters, so monetary policy swings to-and-fro according to which economic group has temporary control over the levers of the government, and particularly of central banks.

So Simple Even a Child Can Understand It

In a sound money environment, on the other hand, there is little confusion or controversy. Under sound money—in which money is a commodity (for discussion purposes let us assume it to be gold)—everyone, to some extent, understands monetary theory. Whether it be an individual, a family, a corporation, or a nation, either one has money or one does not. It really is as simple as that. Even children learn the nature of money. A child quickly learns that the things he wants cost money and either he has it or he does not. If he does not, he quickly grasps that there are ways to get it. He can ask his parents for an increase in his allowance. Or, he can earn the money he needs by doing chores around the house or for friends and neighbors. He might be able to borrow the money for large purchases, promising to pay back his parents either from his future allowance or from anticipated future earnings from doing extra chores. His parents can evaluate this loan request simply by

considering the likelihood that his allowance and chore income are sufficient.

How is this any different when applied to adults, companies, or governments? In a sound money environment, they are the same. Individuals earn what they spend on the family and may borrow from the bank to buy a home or a new car. The lender will examine whether the person's income is sufficient to pay back the loan. If the family hits hard times, they may ask for assistance from relatives or a charity. Companies have more means with which to fund their operations. Stockholders provide the company with its initial capital. Thereafter, when normal earnings are insufficient to fund desired expansion, the company can borrow against accounts receivables and inventories, both of which provide varying degrees of security for the lender.

So Simple Even a Politician Can Understand It

A national government's finances, under a sound money system, are little different from either a household's or a company's. It needs to collect in taxes what it spends. If it suffers a budget deficit, it can cut back spending, attempt to raise taxes, or borrow in the open market. In a sound money environment, there is a limit to the amount of debt that even a government can incur, due to the need to pay back the loan from future tax revenue. If the market believes that this may not be forthcoming, the nation's credit rating may suffer and its borrowing costs will rise, perhaps to the point that the nation is completely shut out of the credit market. But this is a good thing! The market instills practical discipline that even a politician can understand! Under sound money, one does not need a special education to understand the monetary system.

Taking the process one step further, anyone can understand international monetary theory in a sound money environment. The national currency is simply shorthand for a quantity of gold. A US dollar may be defined as one thirty-fifth of an ounce of gold, and a British pound defined as roughly one seventh of an ounce of gold. Exchange rates become mathematical ratios that do not vary. So an American purchasing English goods would exchange his dollars for pounds

at a ratio of five dollars per British pound; i.e., one seventh of an ounce of gold (a pound) divided by one thirty-fifth of an ounce of gold (a dollar) equals five dollars to a pound. Through the banking system, the English exporter would demand gold from the issuer of dollars, whether it be from a central bank or private bank, at thirty-five dollars per ounce. When a currency is simply a substitute for gold, either the issuer has gold with which to redeem its currency or it does not.

Money Issuers Subject to Normal Commercial and Criminal Law

When a nation overspends internationally, its gold reserves start to dwindle. Money, which is backed one hundred percent by gold, becomes scarce domestically. Domestic prices fall, triggering a rise in foreign demand for the nation's goods. The process of gold depletion is halted and then reversed. This is the classical "Currency School" of international monetary theory. Commercial banks present checks drawn on one another every day and the same process would exist for gold-backed currencies. If a bank issues more scrip than it can redeem for gold at the promised price, it is guilty of fraud. Its officers and directors can be sued in court for any loss incurred by those who accepted the bank's scrip. Furthermore, the officers and director could be prosecuted for the crime of fraud. In other words, banking would be subject to normal commercial laws and bank officers and directors would be subject to normal criminal laws.

Good Money Drives Out Bad

The free market monetary system would drive bad money issuers out of the market. Plus, bad money issuers would suffer the loss of both their personal finances and, in the case of outright fraud, loss of their personal freedom. This would be a sobering incentive to deter criminals and attract only legitimate money issuers. Money would be a bailment; i.e., property held for the benefit of another, which must be surrendered upon demand for redemption. All around us exist analogous bailment examples of entrusting valuable goods to complete strangers. We leave our cars with valets at parking garages, our clothing at neighborhood cleaners, our overcoats at coat checks,

our luggage to the airlines, valuable merchandise with shippers. In these cases, we fully expect that our property will be returned to us. And it almost always is! If it is not, public trust in the fraudulent outfits evaporates, and they quickly go out of business. Likewise, money issuers would thrive only when the public trusts their integrity, which would be enhanced by regular outside audits by respected firms of the existence of one-hundred-percent reserves to back the money issuer's scrip. How different this would be from our present system in which the Fed will not allow an audit of its gold reserves even when held for the benefit of other central banks! It is clear that in a free market monetary system such a policy would drive Federal Reserve Notes out of the market through lack of demand. Even were the Fed to back its notes with its gold reserves, in a totally free market in which private banks could issue their own gold-backed scrip, the Fed would suffer from its past history of blatant money debasement and secrecy in its operations. The market would prefer the money issued by a well-respected private bank whose operations are transparent and subject to outside audit by respected accounting firms.

Conclusion

In a sound money environment everyone understands monetary theory. Money is like any other desired commodity, except it is not consumed. It is a medium of indirect exchange, which traders accept in order to exchange for something else at a later time. This is easily understood, whether the trader is a child, a parent, a company, or a nation. One either has money or one does not. The money can be a money substitute, a bailment, with which one can demand the redemption of the real money—gold. Money issuers must keep one-hundred-percent reserves against their money substitutes in order to abide by normal commercial and criminal law. No special agencies or monetary authorities are necessary to make the system work. The system emerges naturally and is regulated via the normal commercial and criminal legal system.

This is the system that government does not want us to have, because it provides no special favors for enhancing state power. Sound money shackles the

government to the will of the people and not vice versa. As Ludwig von Mises stated in *The Theory of Money and Credit*:

It is impossible to grasp the meaning of the idea of sound money if one does not realize that it was devised as an instrument for the protection of civil liberties against despotic inroads on the part of governments. Ideologically it belongs in the same class with political constitutions and bills of rights.

Deposit Taxes: Should We Prepare?

by Doug French

There's no way it could happen in the United States. That's the conventional wisdom on this side of the pond about the ECB's bailout of the banks in Cyprus. That caper looks as if it may take a chunk out of the hides of at least some bank depositors on the tiny Mediterranean island.

So far, the Cyprus parliament can't pull the trigger on a plan to tax insured and uninsured bank deposits to pay a share of the bailout. However, a bank holiday has been declared and Cypriot depositors are nervous, taking all they can from ATMs. The Cypriot banks, loaded with Greek debt, are on the verge of collapse.

William Isaac, a former chairman of the FDIC, calls the idea of taxing insured deposits in the U.S. "unthinkable." He went on to tell *American Banker*, "I can't believe the Europeans were that insensitive to the psychology of depositors throughout the world. They have a government pledge to cover these people, and they've reneged on it."

At the same time, Isaac says governments have a right to give a "haircut" to (aka steal from) uninsured depositors. He adds, "But I would question in light of the worldwide financial instability over the past five years whether this is the right time to make that move, particularly without any notice."

In the good old US of A, the Federal Deposit Insurance Corporation (FDIC) has an unbroken track record of repaying insured deposits, as the American

Banking Association is quick to remind us. "While the crisis in Cyprus is a real concern for depositors in Cypriot banks, it has no implication for depositors in U.S. institutions."

You gotta believe it because, see, the FDIC has \$33 billion in reserves to handle such occasions. Banks pay into the fund each year to make sure there is money to repay depositors. The ABA states, "Simply put, U.S. insured depositors are safe and their deposits are protected by a strong FDIC fund, a financially secure banking system and the full faith and credit of the U.S."

So there.

OK, but while \$33 billion sounds like a lot of money, total domestic bank deposits in the U.S. stand at over \$9.4 trillion. Of that, \$7.4 trillion are insured. That means the FDIC's reserve fund provides 45 basis points (a basis point is 1/100th of 1%) worth of coverage. Only a bank trade group would characterize that coverage as "strong."

And just how financially secure is the banking system?

Over at The New York Times, Floyd Norris makes the point that if the big banks in the U.S. used the same accounting rules as Europe, U.S. banks would be much bigger. But more to the point, it would be apparent that JP Morgan (for instance) is an even bigger financial edifice teetering on the head of a pin.

JPM has \$2.4 trillion in stated assets, but it also has derivatives with an additional market value of \$1.5 trillion not listed on their balance sheet. So instead of being leveraged at 11.6-to-1 and being well capitalized, JPM is employing leverage at just short of 19-to-1 and is a dicier proposition.

Nothing can go wrong when leveraged at 19-to-1.

That's OK. JPMorgan head man Jamie Dimon is supposed to be the smartest guy in the room. Not according to Jim Rickards, however, who told Maria Bartiromo and Bill Griffeth on CNBC that Dimon makes money only because of government subsidies and doesn't understand the risks of derivatives.

The author of Currency Wars shocked the CNBC anchors saying, "Having Jamie Dimon as CEO is like having a welder in charge of a hospital. You don't want someone working on your heart with a blowtorch."

You might wonder why JP Morgan and their peers don't have to count the derivatives. Well, as Norris explains:

"Under American accounting rules, banks that deal in derivatives can net out most of their exposure by offsetting the assets against the liabilities. They do this based not on the nature of the asset or liability, but on the identity of the institution on the other side of the trade -- the counterparty, in market lingo.

"The logic of this has to do with what would happen in a bankruptcy. What are called 'netting agreements' allow only the net value to be claimed in case of a failure. So the bank shows the sum of those net positions with each party."

Of course, no one knows for sure the strengths and weaknesses of their counterparties in a pinch. The three simple letters that remind us are A-I-G. The notional amount of derivatives in federally regulated institutions at the end of last year was \$224 trillion, nearly 10 times greater than the derivatives exposure at banks in the dark ages of 1997, which was \$25.4 trillion at year-end.

The accountants were going to blow up this whole netting exercise thing a few years ago. The bankers got them to back off. Most derivatives positions are disclosed in the financial footnotes, but repo and reverse repo positions are not. According to Norris:

"The sort-of invisible derivative assets and liabilities are only part of the reason that it is so hard to really get a handle on just how risky any given bank is. Regulators look at banks' 'Tier 1 capital ratios,' in which they divide capital by 'risk-weighted assets.' They get high numbers."

A 300-page report prepared for the Senate concerning JP Morgan's \$6.2 billion loss contends the bank hid the loss from regulators and investors. Of course, if you're the smartest guy in the room like Mr. Dimon, you can make the numbers up as you go and

tell investors it's all a "tempest in a teapot." Just what were those London Whale trades? The subcommittee report described the portfolio as a "make-believe voodoo magic composite hedge."

Bank earnings in 2012 were the second highest ever. But the largest contribution to earnings came from reduced provisions for loan losses, plus increased trading revenue and asset sales. Another downturn and this all reverses itself in a hurry.

Finally, the last line of defense for U.S. depositors is the full faith and credit of the U.S. government. Uncle Sam is an entity with over \$16 trillion in direct obligations and is currently running an annual deficit of somewhere around \$1 trillion, give or take.

Social Security and other promises stretch the total obligations to numbers beyond comprehension.

On the plus side, for now, dollars can be created ad infinitum from nowhere.

That's the real problem. The Cypriots can't print their own money and are depending upon the kindness of strangers.

Americans should take a lesson from the Cypriots, just in case one of these days the product of Uncle Sam's printing press is not so welcomed and the notion of "unthinkable" is tested.

Anatomy of the Bank Run

Mises Daily: Monday, March 25, 2013

by Murray N. Rothbard

[This article is featured in chapter 79 of *Making Economic Sense* by Murray Rothbard and originally appeared in the September, 1985 edition of *The Free Market*]

It was a scene familiar to any nostalgia buff: all-night lines waiting for the banks (first in Ohio, then in Maryland) to open; pompous but mendacious assurances by the bankers that all is well and that the people should go home; a stubborn insistence by depositors to get their money out; and the consequent closing of the banks by government, while at the same time the banks were permitted to stay in existence and

collect the debts due them by their borrowers.

In other words, instead of government protecting private property and enforcing voluntary contracts, it deliberately violated the property of the depositors by barring them from retrieving their own money from the banks.

All this was, of course, a replay of the early 1930s: the last era of massive runs on banks. On the surface the weakness was the fact that the failed banks were insured by private or state deposit insurance agencies, whereas the banks that easily withstood the storm were insured by the federal government (FDIC for commercial banks; FSLIC for savings and loan banks).

But why? What is the magic elixir possessed by the federal government that neither private firms nor states can muster? The defenders of the private insurance agencies noted that they were technically in better financial shape than FSLIC or FDIC, since they had greater reserves per deposit dollar insured. How is it that private firms, so far superior to government in all other operations, should be so defective in this one area? Is there something unique about money that requires federal control?

The answer to this puzzle lies in the anguished statements of the savings and loan banks in Ohio and in Maryland, after the first of their number went under because of spectacularly unsound loans. "What a pity," they in effect complained, "that the failure of this one unsound bank should drag the sound banks down with them!"

But in what sense is a bank "sound" when one whisper of doom, one faltering of public confidence, should quickly bring the bank down? In what other industry does a mere rumor or hint of doubt swiftly bring down a mighty and seemingly solid firm? What is there about banking that public confidence should play such a decisive and overwhelmingly important role?

The answer lies in the nature of our banking system, in the fact that both commercial banks and thrift banks (mutual-savings and savings-and-loan) have

been systematically engaging in fractional-reserve banking: that is, they have far less cash on hand than there are demand claims to cash outstanding. For commercial banks, the reserve fraction is now about 10 percent; for the thrifts it is far less.

This means that the depositor who thinks he has \$10,000 in a bank is misled; in a proportionate sense, there is only, say, \$1,000 or less there. And yet, both the checking depositor and the savings depositor think that they can withdraw their money at any time on demand. Obviously, such a system, which is considered fraud when practiced by other businesses, rests on a confidence trick: that is, it can only work so long as the bulk of depositors do not catch on to the scare and try to get their money out. The confidence is essential, and also misguided. That is why once the public catches on, and bank runs begin, they are irresistible and cannot be stopped.

We now see why private enterprise works so badly in the deposit insurance business. For private enterprise only works in a business that is legitimate and useful, where needs are being fulfilled. It is impossible to "insure" a firm, even less so an industry, that is inherently insolvent. Fractional reserve banks, being inherently insolvent, are uninsurable.

What, then, is the magic potion of the federal government? Why does everyone trust the FDIC and FSLIC even though their reserve ratios are lower than private agencies, and though they too have only a very small fraction of total insured deposits in cash to stem any bank run? The answer is really quite simple: because everyone realizes, and realizes correctly, that only the federal government--and not the states or private firms--can print legal tender dollars. Everyone knows that, in case of a bank run, the U.S. Treasury would simply order the Fed to print enough cash to bail out any depositors who want it. The Fed has the unlimited power to print dollars, and it is this unlimited power to inflate that stands behind the current fractional reserve banking system.

Yes, the FDIC and FSLIC "work," but only because the unlimited monopoly power to print money can "work" to bail out any firm or person on earth. For it

was precisely bank runs, as severe as they were that, before 1933, kept the banking system under check, and prevented any substantial amount of inflation.

But now bank runs--at least for the overwhelming majority of banks under federal deposit insurance--are over, and we have been paying and will continue to pay the horrendous price of saving the banks: chronic and unlimited inflation.

Putting an end to inflation requires not only the abolition of the Fed but also the abolition of the FDIC and FSLIC. At long last, banks would be treated like any firm in any other industry. In short, if they can't meet their contractual obligations they will be required to go under and liquidate. It would be instructive to see how many banks would survive if the massive governmental props were finally taken away.

Murray N. Rothbard (1926–1995) was dean of the Austrian School. He was an economist, economic historian, and libertarian political philosopher

Nelson's Newly Added Book

Recommendations

<http://infinitebanking.org/reading-list/>

Busting the Retirement Lies: Understanding Prosperity Economics to Thrive in Your Senior Years
From Prosperity Economics Movement & Kim Butler

Restoring The American Dream by Robert Ringer

Video Recommendation:

Banking With Life Available in our website store



Becoming Your Own **BANKER**

Number Thirty-Five in a monthly series of Nelson's lessons, right out of Becoming Your Own Banker®. We will continue until we have gone through the entire book.

PART IV, Lesson 35: Equipment Financing continuation

Content: Page 62, *Becoming Your Own Banker: The Infinite Banking Concept®* Fifth Edition, Sixth Printing

In this lesson we come to the most exciting illustration in the book, so far. The young logger says, "This is getting to be fascinating! Is it possible to finance more of my equipment without having to buy more life insurance?" Now, really! How blind can he be? The smartest thing he could possibly do is to buy more life insurance to expand the capability of his system to accommodate all his equipment financing plus any other thing that he might need in his business.

It is the same principle as starting out a grocery store chain. A local grocer started one store about 45 years ago. It worked, and so they built another one in a different part of the city. That one worked, too, so they built another – and another – and another, etc. Twenty years later they had hundreds of stores all over the country.

And, consider the banking business – has he not seen branch offices of banks? Why do banks do this? Obviously, it is because it increases the profitability of the business. Otherwise, they wouldn't do it.

Why can't people see this when it comes to life insurance – other than the mental block that appears when the subject is brought up? Nevertheless, the agent tells him, "Yes, you can start out by financing three trucks for two cycles, but you are going to have to wait until the cash value gets more substantial to finance any more than that."

Turning to page 62 you will see that everything on this

illustration *almost* the same as Illustration 4 through the 12th year. He has been financing 3 trucks and has completed 2 cycles of doing so. Now, the cash value is \$365,675. At this point he can finance all four trucks and one logging tractor. Remember, the tractor costs twice as much as a truck.

So, at the beginning of the 13th year he is borrowing \$315,600 from his policy and making loan repayments back to the policy of \$9,000 per month. He repeats this process every four years down through line 36 (his age 65).

Look at his cash value at his retirement time, now -- \$3,518,411. Compare this with the same point in the illustration on page 55 (\$1,517,320) and you will see that he has made over \$2,000,000 by simply doing business at his bank. His cash flow for equipment financing has been the same in all these scenarios.

Look at his retirement income -- \$225,000 per year for life – it doesn't matter how long he lives. Again, assuming death at age 85, he has recovered all that he has paid into the policy, plus \$3,328,816 in income – and he still delivered \$5,528,516 to his beneficiary!! That's a total of \$8,857,332 of benefits and he doesn't have a dime invested. He recovered all costs at the end of the fourth year of income.

This is a startling improvement over the example on page 55 where the insurance company managed it all. The "gophers" at the insurance company had nothing to do with this improvement. It was all because of how the policy owner directed his cash flow to his policy instead of to the "gate-keepers & toll-takers" at the "Great Wall of China." He has simply recovered the \$2,000,000 that they were making off of him when he depended on them for financing. They had the gold – and so they made the rules! After he capitalized a banking system for four years at the rate of \$40,000 per year through whole-life insurance, now he had the gold and could make his own rules. The name of the game is creating gold! It is all pretty simple, but the results stagger the imagination! It is a matter of understanding the play in the financial world and deciding which character you want to be in it.

There is one more item to cover before we conclude

this lesson. Look at the Net Annual Outlay column, line 36, and you will see that his payment that year is only \$79,384. To be "honest banker" with himself he should have paid \$108,000. The reason the payment is not up to par is because the policy will not hold it. The policy is a Life Paid-Up at 65 and there is no way to put additional money into it.

Take a deep breath and digest this lesson thoroughly because we will be looking at ways to improve upon this situation in the next lesson. Our logger friend may feel pretty good at this point, but he still hasn't come close to maximizing his potential!

Nelson's Live Seminars & Events for April 2013

<http://infinitebanking.org/seminars/>

Our comprehensive *Becoming Your Own Banker*® seminar is organized into a five-part, ten-hour consumer-oriented study of *The Infinite Banking Concept*® and uses our book *Becoming Your Own Banker*® as the guide. Typically, Nelson covers the concept's fundamentals in a two-hour introductory block the first day. He then covers the "how to" over an eight-hour block the final day. These seminars are sponsored therefore attendance is dictated by the seminar sponsor. If you are interested in attending one of these events, please call or email the contact person listed with the seminar information.

Nelson Live in Montrose, CO, 13 Apr

Contact Matt Nocas
mnocas@icmo.net
970-275-5475

Nelson Live in Hillsboro, TX, 19-20 Apr

Contact Nancy Jackson
nancy@bcbstexas.com
254-582-3565

Nelson Live in Boerne, TX, 25-26 Apr

Contact Janet Sims
janet_sims@financialprocessgroup.com
830-331-9805

Nelson's Favorite Quotes

"Borrow money from pessimists - they don't expect it back." - Steven Wright

"Without big banks, socialism would be impossible."
- Vladimir Lenin

"Most people would rather live with a problem they cannot solve than accept a solution they do not understand" - Anonymous