Becoming Your Own BANKER

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Understanding the Divisible Surplus of Mutual Life Insurance Companies

By: L. Carlos Lara

Divisible Surplus. What is it? Where does it come from? Why is it so relevant in the structure of a mutual life insurance company? Who determines when and how it is to be divided? Even more importantly, how do the insurer, the government regulator, the agent and the policy owner see, or how should they see, its importance from their particular points of view? These are some of the questions that we will attempt to answer in this article, but I warn you some of the answers may surprise you.

Divisible Surplus, once we understand its true meaning, quickly becomes one of the most, if not, *the* most important element of a mutual life insurance company simply because it represents the company's *profit—its gain from operations*. This profit is the aggregate amount of gains coming from 4 specific areas.

1. Gains from Investment Earnings.
2. Gains from Mortality.
3. Gains from Loading.
4. Gains from Surrenders.

(Please note that gains from mortality, loading and surrenders are actually expense ***savings*** *from each of these three anticipated operating experiences of the company.)*

Since it is *profit* all interested parties of the life insurance company naturally want their fair share of it. You may recall from previous articles in this publication that the policy owners own a mutual life insurance company and this fact makes this profit all that much more significant. Just to be clear, mutual companies do not have stockholders, only policy owners. Policy owners share in company profits through *dividends* paid on their policies. So already we see that the policy owner in a mutual company has a special interest in this *surplus*, but then again so do management and the agents that sell the policies. But, we must not overlook statutory laws in that they too play a key role in determining the surplus's *divisibility*.

It is important to point out at the outset that life insurance companies are organized by state laws and are highly regulated entities. This is a fact that will grow more relevant as we proceed in the examination of our subject. Federal oversight also exists, but is still somewhat limited. By and large insurance remains a state regulated industry.

Before we go any further, we should also say something about insurance vernacular. It's different. For example, we are already thrown off by the use of the term *surplus* for what we have already identified as the insurance company's profit. However, once we see what all is taken into account in order to arrive at it, we realize that the term *surplus* is really more appropriate. For example:

"If an insurer bases its reserves on the assumption that it will earn 5 percent but actually earns 7 percent, that 2 percent difference represents the excess of investment earnings over the return

necessary to maintain reserve liabilities, and it may be returned to the policy owners who were responsible for its existence, if this is considered advisable." [1]

In other words, it is profit, but it is much more than just positive cash flow. It is truly the l*eft over* after all factors and contingencies have been accounted for. It is the *excess* an insurer has accumulated at the end of the year after establishing statutory policy reserves and other liabilities of the company. Due to the heavy influence of statutory accounting procedures, this profit/surplus is more appropriately understood to be *"statutory surplus."* [2]

Understanding Dividends

While we are still establishing some of the more basic fundamentals of life insurance and its special terminology, we should also clarify the term *"dividend."* Once again, *dividend* as used in insurance should not be confused with the same term used to refer to earnings on shares of stock. One typically pays taxes on dividends earned on shares of stock, but that is not the case when mutual companies pay dividends into individual policies. The reason insurance dividends are not subject to taxation is because they are, at least in the early years of the policy, *a return of a portion of the premium*. Both state and federal laws recognize this distinction and we must recognize it as well if we are to fully understand the nature of a policy that participates in this type of dividend distribution. This is important because not all policies participate in this way. Most stock owned insurance companies rarely have participating policies of the kind we are describing here and stock owned companies make up over 90% of all life insurance companies in operation in the United States. Mutal life insurance companies are by far the minority.

Having laid out this preliminary groundwork, we should now insert this important caveat. Mutual life insurance companies are not only expected to have a surplus at the end of each year, but they are also expected to pay a dividend at the end of each year even if they have to draw down on contingency funds to do so, Notice the next time you look at an insurance illustration that all of their dividend scales will project this outcome even though dividends are not guaranteed. One obvious motivator for illustrating this profitable expectancy is *competition* within the industry, but there is an even stronger motivator - *state law!* This is why mutual insurance companies will reserve from their year-end surplus into a contingency fund to contend with this possibility, if it should occur. Let's remember, however, that it's not only for this type of an occurrence that contingency funds are set aside, but also for all other types of contingencies and liabilities of the company that require such surplus consideration. All of these factors must be accounted for and approved by state regulators. There are state laws that prohibit mutual companies from keeping their entire surplus. In the end it must be returned to policy owners.

"Although insurers may, in the absence of legislation, use their discretion in determining the amount of surplus to be distributed, some states regulate this matter by statute. New York limits the amount an insurer can retain on its participating business to an amount not to exceed 10 percent of its policy reserves and other policy liabilities." [3]

How much to keep—How much to return

What we start to see is that *surplus* and *divisible surplus* are two distinct elements. In practice here's what makes them different. At the end of the year the directors of a mutual life insurance company decide how much of the *total surplus* (this is previously existing surplus plus additions for the year) should be retained as a contingency fund and how much should be distributed to the policy owners. The amount set aside for distribution is the *divisible surplus*. Once it is accounted for this purpose, the divisible surplus ceases to be surplus and becomes a liability of the company.

How much to keep as a contingency fund and how much to distribute as dividends requires a balance between competitive requirements, sound management and statutory laws. **The existing**

dividend scale, however, is what sets the target amount for the return of premium. If the surplus is insufficient in any given year to meet its current dividend scale, the contingency fund is drawn upon to meet this deficiency. If on the other hand, additions to surplus are well above meeting the required dividend scale, the excess may be distributed as dividends or added back to the contingency fund. Dividend scale revisions we should point out is a process that, in more recent years, is done annually. With the help of computers, what once was an expensive process has become more cost efficient and improved.

The process involved in distributing the divisible surplus is quite extraordinary. In order to fully grasp it we must not forget that we are dealing with an institution unlike any other in an economy. This is, after all, *insurance*, not Wall Street. Unlike other institutions such as *money* and *banking*, insurance is unique. Insurance is an institution that safeguards against financial misfortune. To use it is to practice *risk management.*

"Gambling creates risk where none existed. Insurance transfers an already existing risk and, through the pooling of similar loss exposures of other insured actually reduces risk." [4]

In the case of life insurance the financial risk can be virtually eliminated! This is its unique attribute. Life insurance is the substitution of a small and predictable "loss" (the premium payment) for a large and unpredictable loss (death). The death benefit, therefore, represents a substantial financial asset that carries with it a rate of return, which could be quite substantial depending upon the timing of death. Coupled with its favorable tax treatment, the death benefit is an integral part of the life insurance equation. But if a life insurance policy is to protect the insured for his or her whole life, an adequate *fund* must be accumulated to meet a claim that is certain to occur (though at an uncertain time). This is the process we are examining. We are attempting to place our focus on the process by which divisible surplus is calculated and then how the dividends are ultimately distributed to policy owners. (Note that there are also "living benefits" to be considered in these policies, but they are a separate discussion to this subject.)

It all starts with the premium

It all starts with the *rate* or *premium payment* and it must be *"adequate."* This means that the total amount of payments collected by the insurer plus the investment earnings should be sufficient to cover the current and future benefits promised plus cover related expenses. This must occur on all blocks of policies issued under the same schedules of rates and on the same policy form.

Arriving at premium adequacy begins with the use of historical records. We must not overlook the fact that most mutual life insurance companies are over a hundred years old. This makes their chief raw material their *operating experience*. For this reason we find that premiums for participating policies are based on fairly conservative mortality, interest and expense assumptions. Built into the premium is also an allowance for some level of dividend payments that the companies fully expect to pay. If actual results equal the assumptions, the dividends illustrated will be paid. If the results are more favorable, dividends will be higher than illustrated and, of course, vice versa if the results are not favorable.

"Historically, the dividend allowance included has been fairly conservative, with the result that most insurers selling participating insurance policies in the past paid higher dividends than illustrated."

However, with the new low interest rate environment, paying higher dividends than illustrated has become much more challenging in more recent years, but the process remains conservative.

Though premium pricing is conservative when developed, it is nevertheless scrutinized thoroughly. For example, the insurer, in order to determine if all of the assumptions and benefits promised could be met will test each block of policies. This calculation derives an expected *fund* per $1,000 of insurance held by the company at the end of each policy year in order to arrive at each policy's *"share of assets."* It staggers the imagination to think about this process since an insurance company can have thousands of policies made up of many blocks of insurance. Nowadays computers are certainly essential in completing such a procedure.

But then again, a similar process *in reverse* is used when actually distributing dividends from the divisible surplus at the end of each year. The principle objective in this process is *"equitable distribution."*

"One way of obtaining reasonable equity would be to return to each class of policy owner a share of the divisible surplus proportionate to the contribution of the class to the surplus. This concept is known as the ***Contribution Principle.****"* [6]

It stands to reason that a policy that contributes to the surplus should also have an equitable share returned to it in the way of dividends. In practice, however, this distribution process seems to be easier said than done. Similar to the process of determining a policy's share of assets, the contribution principle is a very complex matter, which involves an analysis of the sources of surplus and develops dividends that vary with the plan of insurance, age of issue and duration of the policy. It is also an area where a company's management philosophy is expressed. For example, some insurers will base their dividend interest rate on an average return of their entire asset portfolio, while others tie their dividend interest rate directly or indirectly to the policy loan rate or loan activity. Since most insurers offer favorable interest rates relative to the market rate when a policy loan is exercised, the lower investment earnings for the company are reflected in the total surplus. Consequently, under a *"direct recognition approach"* a policy owner who borrows from his policy will have his dividend distribution reduced by the company in order to equalize the dividend interest rate distribution for all policy owners. Such provisions result in higher dividends paid under nonborrowing policies, whereas with companies without these provisions (a *"non-recognition approach*), the link between policy loans and surplus are not *directly* related.

Finally, we cannot close this article without emphasizing the creative flexibility that exists in a policy owner's ability to maximize the contribution principle to his advantage through the adjustment of premiums and death benefits, as well as with payments of large single sums of money into a policy's cash values. The resulting dividends, that carry with them such favorable tax advantages, can become quite impressive through the use of these mechanics. Qualified advisors should be sought to point out these creative advantages.

Conclusion

In the end, distributing the divisible surplus, though highly complex, is not an exact science. The final say as to how much of the divisible surplus is to be returned to policy owners ultimately rests with the board of directors of the insurance company after a complete review by management and their actuaries. Aside from the statutory requirements already mentioned they have the final word on the matter. The point is that computations are not simply computerized analyses. Real people make the final decisions about the company's future, as it should be.

With regards to reliability, the conservatism exhibited in the manner in which *funds* are developed to meet the promised benefits and the dividend scales that come from this process can and are reasonably trustworthy. The proof supporting their reliability is available in the oldest method of recognizing actual experience—*paid policy dividends*. Paid policy dividends reflect the insurer's actual past experience and it's a solid one. For over a hundred years most mutual life insurance companies have paid dividends each and every year. It's hard to argue with that kind of record.

Bibliography

1. Life Insurance, 12th Edition, Kenneth Black, Jr. and Harold D. Skipper, Jr., Simon & Schuster Company, Englewood Cliffs, New Jersey 07632, Chapter 21,

Footnote at the bottom of page 605
2. Life Insurance, Chapter 21, Page 604
3. Life Insurance, Chapter 21, Page 607
4. Life Insurance. Chapter 2, Page 20
5. Life Insurance, Chapter 21, Page 608

Nelson's Favorite Quotes

Learning to listen is the most valuable thing you can do. - Roger Love

The greatest discovery you'll ever make, is the potential of your own mind. - José Silva

John Law, the Hero of His Time

by Douglas French

Central banks around the world are ramping up money production to revive their economies. What should investors do? It's easy, according to Jeff Kilburg, founder and CEO of Killir Kapital Management. His advice is to buy. Buy what?

Almost anything.

"Analysts? They can go on vacation at least until after Christmas," Kilburg says. "You can buy anything except the U.S. dollar."

Are Bernanke, Draghi, and Shirakawa going where no central banker has gone before? Is buying massive amounts of government debt with money from nowhere with the goal of stimulating a flagging economy a new idea? Not hardly. It's just a bad idea. And an ancient one, at that.

The current breed of central banker is dry and academic. They are pensive and contemplative when thrust under the bright lights their position puts them under.

Banque Générale's John Law (1671-1729) would be much more suited to central banker rock star status. Law was a dashing, gambling womanizer -- with a murderous past. Skilled at math and full of ideas, the son of a Scottish goldsmith had a plan to cure what ailed any economy.

Law was tall, handsome, well built, and athletic. In addition, according to author and historian John T. Flynn, the Scotsman "was a facile talker and a superb salesman."

A Ben Bernanke with looks and personality. Can you imagine?

Growing up in Scotland in the late 17th century, the country's lack of physical specie (gold and silver coins) made an indelible impression on the young Law. Later, as he traveled the Continent on the run from the English authorities, who had charged him with the murder of Beau Wilson, Law studied banking systems by day.

He came "to believe that paper money," write Bill Bonner and Addison Wiggin in Financial Reckoning Day Fallout, because of its portability -- and availability -- would facilitate trade in the country far better than gold and silver, the traditional specie."

Law's idea was to back paper money with land. How any note holders would redeem the paper for land was, of course, unclear.

Bonner and Wiggin devote a lively chapter of Fallout to Law, his money system, and the Mississippi Bubble it engendered.

Louis XIV died in 1715 and the French crown went to his successor Louis XV, who was all of 5 years old. This put John Law's kindred spirit Philip II, the Duc d'Orleans, in control of the royal finances as the king's uncle.

Like today's democratically elected presidents, Louis IV had spent his kingdom into financial ruin fighting wars and building palaces. The Duc d'Orleans, who was now regent of France wanted a solution and he knew just the man for the job.

Although Law started small with his privately owned Banque Générale, within a year, all royal revenues were to be paid in the Banque's notes, and these notes were to be cashed on sight at government offices, making these offices essentially branches of Law's bank.

"For the first time in modern history, paper money was being introduced and officially sanctioned by a government," write Wiggin and Bonner.

While today Bernanke magically expands the Fed's balance sheet and buys government bonds and agency paper, John Law created shares in the Compagnie des Indes that could be purchased only with billets d'etat (government bonds).

Law's reputation continued to rise and by the end of 1718, the state took over Law's bank, which became the Banque Royale. A nomadic gambler just three years before, Law suddenly had immense power, controlling the monopoly on coining money, the collection of tax revenues, as well as tobacco and salt revenues.

With the state now controlling the bank, it was time create more money, and by 1719, the money supply was increased by 16 times. The new money surged into Law's company shares along with real estate and everything else. "The crazy phase began," write Bonner and Wiggin. "Shares traded in the free market on the rue Quincampoix shot to 10 times the issue price, and higher."

With demand for shares soaring, Law and his friend the Duc gunned the money supply again, creating another 2.7 billion new bank notes.

Compagnie des Indes generated no income. It had no assets other than monopoly trading rights over the Mississippi River and France's land claim. But there was nothing being traded. Bernard Cantillon supervised the prospecting party that sailed to Louisiana, finding not the treasure that Law's propaganda claimed, but instead disease and hostile natives.

It is suspected that he tipped his brother Richard off to the emptiness of Law's propaganda about riches in the new world, allowing the Irish banker to cash out early and make a fortune.

The company share price continued to climb until peaking on Jan. 8, 1720, at 10,100 livres. For the first time, France's middle and lower classes got in on the action and the authors describe waiters making 30 million livres and beggars making 70 million.

While the men were making millions, French women were wondering how they could gain Law's attention. "Law is so run after that he has no rest, night or day," wrote the Duchess d'Orleans. "A duchess kissed his hands before everyone, and if a duchess kissed his hands, what parts of him would ordinary ladies kiss?"

Neither Greenspan nor Bernanke ever had it so good.

People in the know started liquidating shares and bank notes, converting the paper into silver and jewelry. Law and the Duc did all they could to stem the tide, declaring that bank notes were more valuable than gold and silver and, as a final straw, forbidding the use and ownership of gold coins valued at more than 500 livres.

Finally, another round of money printing was tried, but the shares and bank notes collapsed. A panic ensured. The Banque Royale had to close its doors, the share price collapsed, and dramatic scenes took place in the rue Quincampoix. In the frantic crowds, a number of people died. It was said, "You can die of hunger with 100 million in paper money in your pocket."

Law was run out of France, "disgraced and in debt to the tune of 6.7 million livres." It would turn out that Law had converted much of his wealth into paintings by the great masters. But when he died, he appeared to be "but a shadow of his former self... reduced to an aging trembler with a pronounced tic."

Ordinary folks were devastated by Law's system. He was the target of ridicule and the word banque was avoided for centuries.

However, the modern central banking world's embrace of quantitative easing and easy money has softened the view of Law. Most articles about Law refer to him as a financial genius. The authors of Financial Reckoning Day Fallout write that J. Shield Nicholson suggests that Law "may have been an excellent financier; just as Napoleon was a great soldier despite Waterloo."

Today's Law, Ben Bernanke, was recognized as

Time magazine's 2009 "Person of the Year." The Atlantic magazine recently referred to him on their cover as simply, "THE HERO".

But Bernanke is no hero to everyday people. His money printing has pushed up stock prices, but the average household income has fallen to 1995 levels, while prices continue to march upward: the average cost of gas in '95, $1.13; today, $4.13; a new car in '95, $15,500; today, $30,748; a new home in '95, $113,150; today, $263,200; tuition, room and board at a four-year university in '95: $10,330; today, $21,189.

While the hoi polloi suffer, stock speculators may think central bank policies are gravy. But the gravy train will eventually crash. Just like John Law, modern central bankers will meet their Waterloo.

Make sure you don't meet it with them. Order your copy of Bonner and Wiggin's Financial Reckoning Day Fallout today to avoid the fallout and survive today's global depression while there's still time.

Douglas French
The Laissez Faire Club

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

God Protect Us from Metaphors

by Frederic Bastiat

A fallacy sometimes expands, and runs through the whole texture of a long and elaborate theory. More frequently, it shrinks and contracts, assumes the guise of a principle, and lurks in a word or a phrase.

"May God protect us from the devil and from metaphors!" was the exclamation of Paul-Louis.[1]

And it is difficult to say which of them has done most mischief in this world of ours. The devil, you will say; for he has put the spirit of plunder into all our hearts. True, but he has left free the means of repressing abuses by the resistance of those who suffer from them. It is the fallacy that paralyzes this resistance. The sword that malice puts into the hands of assailants would be powerless, did sophistry not break the buckler that should shield the party assailed. It was with reason, therefore, that Malebranche inscribed on the title-page of his work this sentence: *L'erreur est la cause de la misere des hommes* (Error is the cause of mankind's misery).

Let us see in what way this takes place. Ambitious men are often actuated by sinister and wicked intentions; their design, for example, may be to implant in the public mind the germ of international hatred. This fatal germ may develop itself, light up a general conflagration, arrest civilization, cause torrents of blood to be shed, and bring upon the country the most terrible of all scourges, invasion. At any rate, and apart from this, such sentiments of hatred lower us in the estimation of other nations, and force Frenchmen who retain any sense of justice to blush for their country. These are undoubtedly most serious evils; and to guard the public against the underhand practices of those who would expose the country to such hazard, it is only necessary to see clearly into their designs. How do they manage to conceal them? **By the use of metaphors. They twist, distort, and pervert the meaning of three or four words, and the thing is done.**

The word invasion itself is a good illustration of this. A French ironmaster exclaims: Preserve us from the invasion of English iron. An English landowner exclaims in return: Preserve us from the invasion of French wheat. And then they proceed to interpose barriers between the two countries. These barriers create isolation, isolation gives rise to hatred, hatred to war, war to invasion. What does it signify? Cry the two sophists; is it not better to expose ourselves to a possible invasion than accept an invasion that is certain? And the people believe them, and the barriers are kept up.

And yet what analogy is there between an exchange and an invasion? What possible similarity can be imagined between a ship of war that comes to vomit fire and devastation on our towns, and a merchant ship that comes to offer a free voluntary exchange of commodities for commodities?

The same thing holds of the use made of the word inundation. This word is ordinarily used in a bad sense, for we often see our fields injured, and our harvests carried away by floods. If, however, they leave on our soil something of greater value than what they carry away, like the inundations of the Nile, we should be thankful for them, as the Egyptians are. Before we declaim, then, against the inundations of foreign products — before proceeding to restrain them by irksome and costly obstacles — we should inquire to what class they belong, and whether they ravage or fertilize. What should we think of Mehemet Ali, if, instead of raising at great cost, dams across the Nile, to extend wider its inundations, he were to spend his money in digging a deeper channel to prevent Egypt being soiled by the foreign slime that descends upon her from the Mountains of the Moon? We display exactly the same degree of wisdom and sense, when we desire, at the cost of millions, to defend our country — From what? From the benefits that nature has bestowed on other climates.

Among the metaphors that conceal a pernicious theory, there is none more in use than that presented by the words tribute and tributary.

These words have now become so common that they are used as synonymous with purchase and purchaser, and are employed indiscriminately.

And yet a tribute is as different from a purchase as a theft is from an exchange; and I should like quite as well to hear it said, Cartouche has broken into my strong-box and purchased a thousand pounds, as to hear one of our deputies repeat, We have paid Germany tribute for a thousand horses that she has sold us.

For what distinguishes the act of Cartouche from a purchase is that he has not put into my strong-box, and with my consent, a value equivalent to what he has taken out of it.

And what distinguishes our remittance of £20,000 that we have made to Germany from a tribute paid to her is this, that she has not received the money gratuitously, but has given us in exchange a thousand horses, which we have judged to be worth the £20,000.

Is it worthwhile exposing seriously such an abuse of language? Yes; for these terms are used seriously both in newspapers and in books.

Do not let it be supposed that these are instances of a mere *lapsus linguae* on the part of certain ignorant writers! For one writer who abstains from so using them, I will point you out ten who admit them, and among the rest, the D'Argouts, the Dupins, the Villeles — peers, deputies, ministers of state — men, in short, whose words are laws, and whose fallacies, even the most transparent, serve as a basis for the government of the country.

A celebrated modern philosopher has added to the categories of Aristotle the fallacy that consists in employing a phrase that includes a *petitio principii*. He gives many examples of it; and he should have added the word tributary to his list. The business, in fact, is to discover whether purchases made from foreigners are useful or hurtful. They are hurtful, you say. And why? Because they render us tributaries to the foreigner. This is just to use a word that implies the very thing to be proved.

It may be asked how this abuse of words first came to be introduced into the rhetoric of the monopolists?

Money leaves the country to satisfy the rapacity of a victorious enemy. Money also leaves the country to pay for commodities. An analogy is established between the two cases by taking into account only the points in which they resemble each other, and keeping out of view the points in which they differ.

Yet this circumstance — that is to say, the non-reimbursement in the first case, and the reimbursement voluntarily agreed upon in the second — establishes between them such a difference that it is really impossible to class them in the same category. To hand over a hundred pounds by force to a man who has caught you by the throat, or to hand them over voluntarily to a man who furnishes you with what you want, are things as different as light and darkness. You might as well assert that it is a matter of indifference whether you throw your bread into the river or eat it, for in both cases the bread is destroyed. The vice of this reasoning, like that applied to the word tribute, consists in asserting an entire similitude between two cases, looking only at their points of resemblance, and keeping out of sight the points in which they differ.

Frédéric Bastiat was the great French proto-Austrolibertarian whose polemics and analytics run circles around every statist cliché. His primary desire as a writer was to reach people in the most practical way with the message of the moral and material urgency of freedom. See Frederic Bastiat's article archives.

Notes:1 Paul-Louis Courier.

Number Thirty 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 30: Equipment Financing

Content: Page 51-62, *Becoming Your Own Banker: The Infinite Banking Concept®* Fifth Edition, Sixth Printing

Up to this point in the course we have been working to establish the principles of the Infinite Banking Concept, and then looking at an example of how they work for personal use. Now, let's look at a business use of the concept and examine the truly infinite possibilities when you put your imagination to work.

Turn to Page 55 and study Figure 2. On the left side of the "Great Wall of China" is the flow chart of what's happening in a life insurance contract. On the right side of the "Great Wall" is the information that we will be studying in the next several lessons.

The business we will be studying is that of a logging contractor in the Southeast U. S. To run his business he needs four Peterbilt trucks, two logging tractors and one tree-shear. All of this equipment is financed through a finance company that gets its money to lend from insurance companies. These companies simply buy large blocks of money from them and retail that money to businesses that are on the right side of the "Great Wall." I refer to the finance company as a "Gate-keeper & Toll-taker."

His total monthly payment for all this equipment is $16,000 per month.

The cheapest equipment item that he has is trucks. The logging tractors cost twice as much as the trucks – and the tree-shear is even more expensive than that.

Now, turn to page 56 where you will find a copy of a finance contract for one of his Peterbilt trucks. Notice that this was bought in 1984 for a price of $65,790 and that it was new.

In line 2, note that he paid $13,190 down and financed $52,600 (line3).

Skip down to line 10 and you will see that he must pay the finance company $1502.00 per month for 48 months to retire the debt.

Item 6 reiterates the amount that he financed ($52,600). Line 7 is the amount of interest he must pay over the period of time ($19,496). And line 8 is the sum of the two ($72,096).

The finance company made nearly $20,000 in interest over the time period. Do you think the Peterbilt Company made that much money from producing this truck? Do you think the truck dealership made that much money selling the truck? Do you think the salesperson at the dealership made that much money on it? Do you think all three of them made $20,000 from this sale? Absolutely not!! The "character in the play" that made the most money was the finance company. Business magazines have shown that Ford Motor Credit makes more money for the company than any other division. Do you see "The Golden Rule"– those who have the gold make the rules – at work here?

Search the page diligently and you will find that the Annual Percentage Rate for this loan is not to be found. This is a commercial loan and it is not required to be listed. I think the rationale goes something like this: "If a businessman can't figure interest rates, he has no business being in business!" A financial calculator will show that it is a bit over 15% APR.

But, remembering what we studied earlier in this course – the interest rate is not what is at issue here – it is the volume of interest compared with the amount of the payment each month. To find that out, all we have to do is divide the total interest (line 7 - $19,496) by the total payments (line 8 - $72,096). The answer is 27% -- every time he makes $1.00 in payments, 27 cents is interest!!

All this is predicated on paying the entire schedule for 48 months. If he trades the truck in at the end of 36 months the amount of interest per payment is worse. And if he should trade it in 24 months the ratio really becomes nasty!!

Furthermore, consider what happens at the end of the 48 month repayment schedule – his truck has 400,000 miles on the odometer and he is back at the Peterbilt dealership negotiating a trade-in package with them. This time they allow him $18,000 (line 2) for his old truck – but the price of the new one has gone up, too!! The net effect is that he keeps financing about $52,600 every time he replaces a truck. This is a perpetual cycle for him and for every other person in such a business.

His accountant tells him, "Look how you are accumulating equity in your equipment!" That's true, but he should have all of his equity in the banking business that finances his equipment. We will look at that possibility, and at ways to improve his situation in the next lesson.

Nelson's Newly Added Book Recommendations
http://infinitebanking.org/reading-list/

A Writ for Martyrs by Eustace Mullins

Escape from the Box: The Wonder of Human Potential by Col Edward L. Hubbard

Man's Search for Meaning by Viktor Frankl

Outwitting the Devil: The Secret to Freedom and Success by Napoleon Hill

It's time to register for the Infinite Banking Concepts® Think Tank Symposium

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- All meals during Symposium
- Complete Symposium DVD Set (Produced and shipped after the event.)

Early Bird Special: $400 when you register and pay before December 1st.

Regular Pricing:

- $500 when you register and pay between December 1st - December 31st.
- $600 when you register and pay between January 1st - January 31st.

- Couples* can attend for only $100 more with regular paying attendee. *two persons married, engaged, or otherwise romantically paired

Please click through to the event homepage below to get all the details including the agenda, speakers and times.

You can register for the think tank and book your sleeping room at the host hotel, the Sheraton Downtown Birmingham, online and securely pay with credit card or PayPal.

Go to Symposium homepage

Register Now!

Sheraton Downtown Birmingham Link

Nelson will conduct his *Becoming Your Own Banker© Seminar* on Tuesday night and all day Wednesday (5-6 February preceding the symposium).

If you have not attended a live Nelson Nash Seminar, it is a prerequisite for Think Tank Attendance! Any live Nelson-led seminar conducted across the country meets this requirement.

For those that wish to attend the Think Tank, but have not attended the prerequisite seminar, we have scheduled one immediately preceding the Think Tank. Or, check our seminar schedule online at www.infinitebanking.org and coordinate to attend any one of the scheduled seminars.

5-6 Feb BYOB Seminar Link

NOTES:

1. For those attending the seminar only, please do not register for the symposium.
2. Those attending both the seminar and the symposium must register separately for both events!
3. Special couples pricing is based on the definition of a *couple as two persons married, engaged, or otherwise romantically paired*.

Thank you for your attention and response, I look forward to seeing you in Birmingham, in February!

Nelson's Live Seminars & Events for November 2012
http://infinitebanking.org/seminars/

Nelson Live in Pocatello, ID, 2-3 Nov
contact Dan Rust
dan@yourfamilybank.com
435-770-6322

Nelson Live in Minneapolis, MN, 8 Nov
contact Justin Bauer
612-919-6009
youfirstjustin@gmail.com
or contact Robert Zuniga
651-343-9940
rz@overcomingroadblocks.com

Nelson Live in Phoenix, AZ, 9-10 Nov
contact LeAnn Holt
785-842-8333
leannh@sunflower.com

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.