



Nelson Nash, Founder
nelson31@charter.net

David Stearns, Editor
david@infinitebanking.org

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

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The Four Signs of a Collapsing State

by Jeffrey Tucker

"This used to be a hell of a good country, I can't understand what's gone wrong with it." said George Hanson in the movie "Easy Rider."

My old friend Joe Sobran (1946-2010) loved that line and quoted it often.

Sobran, who worked alongside William Buckley at National Review during its heyday, was one of the smartest people I've ever known. After a lifetime of thinking about politics, he eventually decided that there was only one way out of our troubles: the whole of the government has to go.

Sobran was ahead of this time. The latest polls show that 9 in 10 people distrust government to do the right thing. Forget partisanship at this point. The largest political grouping in this country is against government in general. Sure, people are glad to grab benefits as programs allow, believing that they might as well get something back for all the times they have been robbed.

Does public opinion matter? Absolutely.

Government an inherently unstable situation because they are few and we are many. The real question is not why revolutions happen but why isn't there a revolution every day? What is it that keeps these guys in power, aside from the threat of violence? There has to be more to it.

David Hume, in his First Principles of Government, argued that it is public opinion that keeps the racket going. That is a more important thing than violence or guns. It is what people believe about themselves and their government that is the key. Without it, government would collapse. And we see this in history. The precondition for every revolution is the lack of belief in the system that governs them.

The government has strong interest in shoring up public opinion.

According to Hoppe, it does this through the control of four institutions:

- education
- communication
- money
- security

A government that fully monopolizes these four institutions and prevents any alternatives from forming is secure in its rule for decades if not centuries. But when they begin to fall, the rulers begin to lose their grip on power. For this reason, all governments have made the control of these institutions a priority.

Control of education allows the political class to inculcate a sense of civic obligation and duty, set the parameters of approved thought, and keep revolutionary ideas from entering into the culture. If you can get the kids at a young age and train them, all the better. This is why every state the world over has worked to secure its control over education. The goal is not to make everyone smart but rather to make everyone obedient.

Control of communication reinforces this tendency to properly filter the ideas that people hold. This is why censorship is one of the first and long-lasting functions of government. It is not to protect you

and me against hearing or seeing things that would corrupt our hearts and souls. The idea is to maintain a firm grip over what people believe about the political system and to keep outlying ideas underground and at the margins of society.

Money comes next. Historically, this is one of the earliest institutions that the state seeks to monopolize. Only in the 20th century has the excuse been to keep unemployment down or keep the banking and financial systems stable. The real reason is, as Hoppe explains, to provide a funding source for government that doesn't require taxation. Taxes make people mad. Devaluation and inflation flies under cover of night.

Finally, there is the need to monopolize the provision of security, which means controlling courts, police, and justice. The idea here is to be able to tell the population that the government is keeping everyone safe. If government is not there, terrible things will happen: monsters will take over.

Now, using this model, we are in a position to access the stability any regime. Looking back at the anti-socialist revolutions of 1989 and 1990, we can see that all four conditions of control had collapsed, and so therefore the people no longer believed. We saw this too in the Arab spring. We can even look back the American and French revolutions and see the same thing. In each case, the government systems of control fell and private alternatives took their place. The revolution happened.

How does this apply to us today in the U.S?

Consider communication. Twenty years ago, that monopoly was intact. The government ruled the networks, controlled the press, owned the telephones, censored the radio, and there were few alternatives outside word of mouth and the ham radio.

Today? Wow. The communication monopoly is completely smashed. The internet, cellular networks, the explosion of media outlets, and the astonishing growth of all forms of human interaction on a global level mean that this side of state control has been obliterated.

The educational system is cracking in a huge

way. We learn more from digital networks than from government-owned classrooms. The kids still show up but do they believe? Not really. The dream of inculcating generations in dedicated belief in the civic system is just gone.

Homeschooling continues on the march, and the products of this system are occupying important positions of influence in the culture. Online venues are huge. The university-level system is poised for massive correction in the downward direction.

The money system is seriously broken. The Fed prints and prints but it is not inspiring economic recovery or even bringing about the inflation that would be necessary to cover the government's astonishing debt level. A measure of the monopoly's effectiveness is the lockdown of bank lending and the downgrade of U.S. bonds that occurred last year.

Because of this failure, new forms of private money are flourishing: precious metals, digital currencies, gift cards, cash-based credit cards. Peer-to-peer lending is booming. More challenges to this monopoly appear by the day.

Police, justice, and security? This is an interesting case. Thirty years ago, the police were not militarized, the courts were not clogged to the point of being useless, the jails were not full to capacity, and there was a sense that the system was flawed but essentially workable. That is no longer true.

After 9-11, the state overreached and militarized the entire security system in this country, thereby exposing its essential nature. More and more people are catching on to the reality that the security system is not there to protect us but rather to protect the state itself from us.

Hoppe's checklist provides an extremely revealing look at the stability of the political system today. How far are we from a real or de facto revolution in which private society displaces the corrupt and bankrupt public system? It could be sooner than anyone predicts.

A Theory of Socialism and Capitalism shows us what to look for and how to access the triggers that

make dramatic change possible.

Final note: if these ideas in this article seems outlandish, it is wise to compare them to the ideas in circulation in the U.S. colonies in 1775. A whole general favored the abolition of government. "The instant formal government is abolished, society begins to act," wrote Thomas Paine. "A general association takes place, and common interest produces common security."

We've travelled a long way from these ideals. Thanks to technology and the breakdown of government monopolies, we are travelling down the other direction toward freedom.

Student Loans Going the Way of Housing

by Doug French

Colleges are good at getting people enrolled. They get kids lined up with education loans. The money goes to pay exorbitant prices on textbooks. It pays for meal cards. Tuition is crazy high. Parents go along and shell out until their bank accounts are barren.

What colleges are not good at is getting the kids degrees. And those without those degrees have a hard time getting a good job to pay back a student loan. Instead, they fall into delinquency, starting off life saddled with an unpayable debt.

According to Fair Isaac Corp. (FICO), delinquencies on student loans made in the last two years have reached 15%. The pool of loans made between 2005-2007 is almost as bad, with 12.4% past due. Bloomberg reports that "almost 60% of bank managers surveyed in December expect delinquencies to worsen in six months, FICO said."

The analogy with housing is unavoidable. Do you remember 2007? The peak in the price of housing had come and gone. But the leverage of the major investment banks was peaking at over 30 times at Bear Stearns, Merrill Lynch and Morgan Stanley.

Freddie Mac announced it wouldn't buy risky subprime mortgages and mortgage-related securities.

Subprime lender New Century failed. Bear Stearns liquidated two hedge funds that invested in mortgage-backed securities. The interbank market froze completely. A deal to take Sallie Mae private fell apart.

And in the middle of 2007, subprime delinquencies reached 15%. Catch that number? It's the same as the student loan delinquency rate today.

Of course, when the subprime delinquencies hit 15%, that market was circling the drain, but few people realized it. In contrast, more and more people are realizing that there is a serious problem with student loan debt.

"This situation is simply unsustainable, and we're already suffering the consequences," stated FICO analyst Andrew Jennings. "When wage growth is slow and jobs are not as plentiful as they once were, it is impossible for individuals to continue taking out ever larger student loans without greatly increasing the risk of default."

Curiously, Sallie Mae stock (SLM) rose on the delinquency news. But then again, the company would appear to be very much a going concern. Core earnings for 2012 were more than \$1 billion, benefiting from the lowering of loan loss reserves and operating expenses.

Charge-offs increased to 4.19% of loans in repayment. Not to worry, says Sallie Mae: It expects that to decline in 2013. The company pays a 50 cent annual dividend, so it sure beats money market rates. And SLM says it will make \$2.30 a share this year.

What could go wrong?

"You're starting to see delinquencies pick up, and that trend is going to continue," Compass Point Research & Trading's Michael Tarkan told Bloomberg. "That's the reality that we live with in student loans."

The day after Bloomberg spilled the news from Fair Isaac, TransUnion made public that according to their work, "more than half of student loan accounts are in deferred status, where the repayment of the principal and interest of the loan is temporarily delayed. Deferred loans now represent 43.5% of all

student loan balances."

TransUnion points out that "more than half of college graduates under 25 are unemployed or underemployed -- the highest rate in 11 years." This makes going back to school and racking up debt a reasonable option.

"With the economy either in recession or slowly coming out of it during the study period, we had expected that student loan balances might increase as consumers frustrated with the job market went back to school to work toward a different career path," said Ezra Becker of TransUnion. "However, the rate of growth we observed was truly eye-opening," he added.

What kind of lender would be lending money to permanent students with bad prospects? The government, of course. "Between 2007-2012, federal loan balances jumped 97%, while private loan balances only rose 4%," writes TransUnion.

There is a wide difference in delinquency rates between student loans backed by the government and private student loans. "From 2007-2012, federal student loan delinquencies rose 27%, while private loan delinquency rates actually dropped 2% in that same time frame," claims TransUnion. "The 90-plus-day delinquency rate for federal loans was 12.31% as of March 2012, compared to 5.33% for private loans."

The idea of students actually graduating from college is starting to get some attention. The New York Times reports:

"This is the first time in the history of modern higher education in which all the communities have come together -- community colleges, research institutions, public universities, and small liberal arts colleges -- and reached agreement that completion needs to be our most important priority," said E. Gordon Gee, the president of Ohio State University and chairman of the National Commission on Higher Education Attainment."

The Times points out that 80% of students think they'll graduate. Well, statistics show only half that number actually get the job done. So a report coming

out this week calls for colleges to:

"find ways to give students credit for previous learning, through exams like the College Board's College-Level Examination program, portfolio assessments, or other college equivalency evaluations. It also calls for more services and flexibility for nontraditional students, suggesting innovations like midnight classes, easier credit transfers, and more efficient course delivery, including online classes."

Another idea gaining attention: a \$10,000 degree, a so-called 10K-B.A. The extremely smart head of the American Enterprise Institute writes that this is what he obtained. "It is true that I am no Harvard man," he writes. "But I can say with full confidence that my 10K-B.A. is what made higher education possible for me, and it changed the course of my life."

While traditional colleges wrestle with the quandary of passing out degrees, you might wonder if Sallie Mae's dividend is safe. Everything looks peachy over there. But one should remember Sallie's sister, Fannie, that paid \$1.18 in dividends in 2006 and \$1.50 in 2007. The stock traded just below \$66 a share in August 2007.

Today, it fetches less than 28 cents, and dividends are a distant memory. Get ready: We could be on the precipice of a wild ride in the student loan market. How it will play out in real life will be as surprising as the wreckage of the housing crash.

Nelson's Favorite Quotes

"I have never understood why it is "greed" to want to keep the money you've earned, but not greed to want to take somebody else's money." - Thomas Sowell

Spend time showing why the prevailing outlook favoring the savior state is wrong. The solution is to prepare an educational program for a breakdown in the establishment's cherished worldview. We must be able to show why this worldview produced the disaster. - Gary North

"Sometimes adversity is what you need to face in order to become successful." - Zig Ziglar

The following article was written in 1966 by my mentor. That was just a couple of years before I actually met him in person. The Foundation for Economic Education was only ten years old at that time. Consider the previous two articles and the changes that have taken place since that time – the downward spiral that has evidently occurred. To reverse this trend it is imperative that the message Leonard shared below be fully understood by “a few good men.”

- R. Nelson Nash

Intelligent Curiosity

By Leonard E. Read

The desire for a better environment will always be an aspiration of persons who are maturing as human beings. Maturing persons are those growing in awareness, perception, and consciousness. In a word, they are in a lifelong search for Truth; they are, as we say, “possessed” of what Aristotle termed intelligent curiosity. This exclusively individual trait, if sufficiently cultivated, is, in my view, the only kind of cultural environment from which an improved society can flower.

One of the best descriptions of intelligent curiosity I have seen or heard or read is a painting, the “School of Athens,” done by Raphael before 1509 A.D. It is in the Vatican. But in better condition today than the original is a remarkable replica painted by Waller. Depicting about sixty characters – Aristotle, Plato, Socrates, Ptolemy, Euclid, to name a few – the artist has captured that passionate spirit of inquiry which distinguished these people. When seen, studied, and apprehended, the impression remains to haunt and elevate the mind of the beholder.

It is my belief that this intelligent curiosity, on a scale found in the historic record only now and then, makes credible Edith Hamilton's observation:

This full stature of greatness came to pass at a time when the mighty civilizations of the ancient world had perished and the shadow of “effortless barbarism” was dark upon the earth. In that black

and fierce world a little centre of white-hot spiritual energy was at work. A new civilization had arisen in Athens, unlike all that had gone before.

People are forever groping, as if in the dark, for some panacea that will insure a good society. Yet Raphael, looking backward 2,000 years, put his finger on the only key there is: intelligent curiosity! He perceived what so many of us miss, perhaps because he himself was an important figure in the Italian Renaissance, another “little centre of white-hot spiritual energy.” Conceivably, it takes an oversoul to recognize his kind, a Raphael to know a Socrates, an individual steeped in intelligent curiosity to discover that single and elusive path to a good society: intelligent curiosity.

A Society of remarkable quality – for all its defects – got under way in this land of ours. The explanation? The phenomenon of our politico-economic ascendancy, the cause of which has had our best minds guessing for the past century -- such achievements as dignity of the individual; man's right to life, liberty, and to the fruits of his own labor; the freest market the world has ever known; a government substantially limited to securing these rights, involving a common justice, and keeping the peace; an unprecedented burst of creative energy – these blessings suddenly tumble together, make sense, become intelligible in terms of this one spiritual assumption, the pursuit of truth – that is intelligent curiosity!

For a confirmation of this point, merely reflect on your own reading of early American lives, Madison, Jay, and Hamilton were but three of the well-knowns among hundreds upon hundreds who, above all else, were passionately in search of what is right. If they weren't literally heeding the Biblical injunction, “Seek ye first the Kingdom of God and his righteousness,” they were at least paraphrasing it: “Seek ye first Truth, and rightly report and stand for what is perceived.” What about the promise “and all these things shall be added unto you?” Never more than in America has mankind had such an affirmation of the rightness of this spiritual assumption.

Is there anything mysterious about the assumption that the pursuit of truth is the genesis of a good

society? Yes, of course. If the pencil your child uses had the intelligence to write its own story, it would repeat, "Only God can make a tree." It would then add, "Since only God can make a tree, I insist that only God can make me." Then, could the pencil carry these assertions to their logical conclusion, it would pronounce, "Only God can make a good society."

If you can accept the mysteries of life as the facts given, then a good society as the flower of intelligent curiosity falls within human comprehension; the little wisdoms, the tiny enlightenments that result from the individualistic pursuit of truth spontaneously and mysteriously configure as do molecules to form protoplasm, or a tree, or whatever. They coalesce as do infinitesimal human creativities to make a pencil, or a jet plane, or any other product – provided they are free to flow!

Do you mean, some will ask, that you would risk such a precious possession as human freedom, without which a good society is impossible, to men pursuing truth in their own random ways? Why, some men might mistakenly conclude that state socialism is consonant with truth. My own answer is that I shall trust freedom and expect a good society from no other arrangement or form of human activity. We should ever bear in mind two facts: (1) Individual freedom comes into consciousness as a prime human value only in the presence of light; the "dark ages" aptly characterizes its absence. And (2) light or enlightenment is generated only when the spirit of inquiry is turned on. Anyone who expects the emergence of the blessings of freedom without exposure to intense inquiry and light has, to say the least misread history.

Intelligent Curiosity must not be misconstrued. It is never to be associated with the kind of idle curiosity that kills cats and, most particularly, not with the kind financed by funds forcibly taken from others. This latter accounts for sputniks, moon shots, mis-education --- freedom gives way to authoritarianism, light dims into darkness, the environment change for the worse.

Intelligent curiosity is as individualistic as thought. It is as sensitive as intuition and requires meticulous

husbandry; any prolonged inattention and it is gone forever, never to be recovered by the individual. Like any faculty, it atrophies if unused. Its hallmark is the incessantly probing mind, examining into what's right and just. Its companion is integrity, for intelligent curiosity cannot and does not live with inaccurate reporting of what one's conscience dictates as right. Freedom and a good society are the fruits of intelligent curiosity and can never be had without it.

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.

Austrian Business Cycle Theory: You Can't Stop an Idea Whose Time Has Come

Robert P. Murphy, PhD
November 2012

A few weeks ago several Austrian economists (including me) received an email from an excited proponent of the School informing us that the Chartered Financial Analyst (CFA) exam now contained material on Austrian business cycle theory. I'll reproduce Peter Klein's blog post summarizing the good news:

A friend informs me that the mainstream and prestigious CFA Institute now features Austrian economics in the study materials for the Level 1 CFA Exam. The section "Theories of the Business Cycle" includes several pages on Mises and Hayek (as well as Schumpeter), and they're pretty good. "As a result of manipulating interest rates, the economy exhibits fluctuations that would not have happened otherwise. Therefore, Austrian economists advocate limited government intervention in the economy, lest the government cause a boom-and-bust cycle. The best thing to do in the recession phase is to allow the necessary market adjustment to take place as quickly as possible." About 100,000 people take this exam each year, and now they are all being exposed to

Austrian teaching.

A quick search of the CFA Institute website turns up several Austrian-friendly items, including a chapter from the 2011 book *Boombustology* that opens with a quote from Mises¹.

This welcome event is just another milestone in the growing popularity of the Mises-Hayek theory of the trade cycle. I am not that old, and I remember being elated when I met Richard Ebeling (economics professor at Hillsdale College) as a high school student looking at various colleges. I was elated because Ebeling at that point was the only other living person I knew who had read Mises' *Human Action*!

In a similar vein, when I first began going to the Mises Institute in Auburn, Alabama for their summer programs, it felt like we were members of a secret society. Many of us were overjoyed to be in a room full of people who had even heard of Mises and Murray Rothbard.

Yet over the years, the attendance at Mises events kept growing, and the students started looking more and more "normal." The ratio of males to females even moved toward 50/50, something that would have been inconceivable in the early years.

Of course, the real popularity of Austrian economics, and Austrian business cycle theory in particular, took off with the collapse of the housing bubble. All of a sudden, it seemed that everybody in the financial sector wanted to know what the Austrians had to say. I can testify from firsthand experience that my phone (and email inbox) was very busy in late 2008 and through 2009, as the Keynesian and Chicago School paradigms pushed the government into running trillion-dollar deficits while Ben Bernanke was inflating more than all previous Fed chairs combined.

In those turbulent times, regular Joes were naturally attracted to the Austrians, because they were the only economists who were speaking common sense. Of the major schools of thought, only the Austrians were consistently proclaiming that if the problem was a housing bubble, then the solution was to let home prices *fall*—not to slash interest rates to zero, and

enact all sorts of other programs, to boost spending on real estate. The Austrians were virtually the only ones (with a few notable exceptions) who stressed that the federal government as well as the average household needed to slash spending and save more, as a way to counteract the consumption binge of the bubble years.

Ludwig von Mises' Theory of the Trade Cycle

In his classic 1912 German-language work, which has been translated as *The Theory of Money and Credit*, Mises laid out what he called "the circulation credit theory of the trade cycle." Far from blaming what we now call "the business cycle" on capitalism per se, Mises blamed it on credit expansion by the commercial banks.

Specifically, because they operate on a *fractional reserve* basis, commercial banks actually create money when they extend loans to borrowers. (Carlos and I walk through the mechanics of this—down to step-by-step transformations of a bank's balance sheet—in our book, *How Privatized Banking Really Works*.) This creation of new money that is not connected with someone's deposit means that the banking system is effectively trying to lend out more money than households have genuinely saved. Consequently the rate of interest drops below the "natural" rate, which would correspond to the amount of actual savings.

In the Austrian view, the market rate of interest performs a vital service. It guides entrepreneurs as they allocate scarce resources among different projects, which have varying durations and amount of physical output. In general, consumers would rather get more output than less, but they would also rather get it sooner than later. The interest rate helps entrepreneurs make investment decisions in light of these tradeoffs. A very high interest effectively signals that the consumers are relatively "impatient," and so projects are penalized heavily if they tie up funds for a long period. On the other hand, a low interest rate can make a long-term project appear profitable, because its future revenues are discounted at a lower rate.

Mises argued that the commercial banks, through inflation, pushed interest rates below the correct, natural level and thereby *misled* the entrepreneurs into

starting long-term projects for which the economy lacked adequate capital goods to complete. Thus the boom period was physically *unsustainable*. The artificially low interest rates would give the temporary illusion of prosperity, but only at the cost of a future bust.

The Housing Bubble and Bust

Mises' theory of the business cycle has been around for a full century this year. And yet, it wasn't until the collapse of the housing bubble and the ensuing financial panic in 2008 that regular investors began paying attention. On the one hand, this is understandable: The average Joe had no reason to doubt the "experts" at Harvard, CNBC, the Fed, and Wall Street when things were going well. But when the conventional wisdom led to catastrophe—and moreover, catastrophe that precious few of the gurus saw coming—all of a sudden people were willing to listen to those who had historically been excluded from the conversation.

The fact is, it's not surprising that the other mainstream schools of thought had trouble seeing the brewing crisis. If one believed in the standard monetarist view of history, then Alan Greenspan had done a fine job as Fed chairman. There was certainly nothing in the conventional measures of CPI during the early and mid-2000s that would indicate a massive monetary-induced bubble in housing and the stock market. (In contrast, monetary policy was clearly too "loose" during the 1970s.)

Yet Mises and Hayek argued that the Chicago School emphasis on consumer price stability was a dangerous distraction. During the 1920s too, most economists were caught flat-footed by the sudden collapse in asset prices. Irving Fisher, the intellectual grandfather of many of the ideas of today's monetarists (fans of Milton Friedman), infamously claimed on October 15, 1929 that the Dow Jones stock index had achieved a "permanently high plateau." A mere nine days later on "Black Thursday," the market dropped 11 percent!²

My focus on Irving Fisher isn't to make fun of someone who made a horrendous "call" on the stock

market. Rather, the point is to underscore the important of Austrian business cycle theory. Fisher had every reason to believe that the U.S. economy was built on strong fundamentals in late 1929, because the Fed had been conducting its affair largely the way Fisher would have wanted. In particular, consumer prices were extremely stable from 1922 onward. So from a Fisherite perspective, the central bank was doing everything necessary to promote stability.

Yet Mises and Hayek knew better. They specifically warned in writings of the day—*before* the Crash occurred—that Fisher's stabilization ideas could sow the seeds for disaster. In an economy with rising productivity and output, a fixed money stock would actually imply *falling* prices over time. Thus, in this context Fisher's call for stable prices would imply a constant influx of monetary inflation. If that inflation entered the system through the credit markets, then it would cause the market rate of interest to fall below the natural rate, setting up an unsustainable boom. That is in fact precisely what happened during the 1920s.

Conclusion

The Austrian School economists are not the only ones to worry about overly aggressive monetary policy. However, other economists typically worry about inflation in terms of rising consumer prices. It is the unique contribution of the Austrians to show that inflation has another perverse effect, namely it distorts interest rates and causes the dreaded boom-bust cycle.

It is important for financial professionals to understand at least the basics of Austrian business cycle theory. The CFA Institute has recognized this fact, as reflected in their decision to include the material in their exam.

Likewise, the Infinite Banking Institute in Birmingham, Alabama is launching a certification program for IBC Practitioners in early 2013. Carlos and I, along with Nelson Nash and David Stearns, are designing the program, giving it a heavy emphasis on Austrian economics. In our view, Austrian economics is *correct* economics, and especially in our times any

financial professional needs to know the Austrian view in order to properly advise clients.

The topics of fractional reserve banking, gold vs. paper money, and business cycle theory can be quite intimidating, but they are also crucial for every financially responsible adult to understand. Carlos and I wrote our book with the layperson in mind, knowing that these ideas were too important to leave to the economics textbooks. For those readers who are not familiar with the Austrian School, and especially if you are a financial professional who helps clients with their money, I strongly encourage you to read our book. The beginning is downright scary, where we lay out the problem, but we also provide a solution for both the country and the individual household.

¹Peter Klein, "Austrian Business Cycle Theory on the CFA Exam," Bastiat Circle blog post, November 12, 2012, at: <http://bastiat.mises.org/2012/11/austrian-business-cycle-theory-on-the-cfa-exam/>.

²See: http://en.wikipedia.org/wiki/Wall_Street_Crash_of_1929#Timeline



*Number Thirty-Four 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 34: Equipment Financing continuation

Content: Page 61, *Becoming Your Own Banker: The Infinite Banking Concept*® Fifth Edition, Sixth Printing

Please turn to page 61 in your copy of the book. In this instance the young logger says to the life insurance agent, "This is getting better! Is it possible to finance three trucks through this system?"

"Yes," replies the agent, "It is theoretically possible to do so – but you must stagger the purchases throughout

the first year to be able to do it."

Looking at illustration 4 on this page you can see how it is done.

As in the last two examples, beginning at the end of the first four years he makes the policy loans and then repeats the process every four years to replace the worn out vehicles, this time in the amount of \$157,800 and makes repayments of \$54,000 per year back to the policy. He is playing "honest banker" with himself.

Now, check out the results as we did in the last two situations. At age 65 his cash value is \$2,928,933. That's an improvement of \$469,355 over the last example. This is capable of increasing his retirement another \$25,000 per year to \$175,000. Every time he adds another truck to the financing process, you will notice, he makes nearly a half million dollars of tax-deferred accumulations and adds \$25,000 to his retirement income stream.

Assuming death at age 85, add up all that income he has received and it comes to \$2,675,959 plus all the money he has put into the policy – and he still delivers \$5,085,958 to his beneficiary. That is a total of \$7,761,917 in benefits. And remember, he doesn't have a thing invested in the policy after drawing out the first five years of retirement income.

There are several other things that we need to take into consideration. Suppose that he elects to draw out \$250,000 per year in retirement income at age 66. There is nothing to prevent him from doing so. He owns the policy and it is his decision. But, if he does this it will diminish the results on the right side of the page, namely the cash value and death benefit columns. It is his option to make such decisions.

Here's a matter we haven't talked about. Take a look at the dividend on page 61 at his age 65. It is highlighted in the Total Dividend column.

It was \$140,279 that year. Now, turn back to page 54 – the illustration where the life insurance company managed it all – and find the dividend that same year. It is \$71,942. The dividend is twice as much in the example where he financed three trucks through

the system. Do you realize that the life insurance company's dividend scale did not change! Again, this increased dividend performance was the result of how the policy owner behaved, not because of something the company did.

Another item is the creation of these illustrations that help you to see what is going on. They are not easily constructed. You must "get into the brain" of the software designer and think like he does and then convert that information to your own needs. Candidly speaking, you cannot create comparable illustrations with a number of insurance companies because of this fact. The software engineer at that company just doesn't think this way. That doesn't mean that the results you are studying here cannot be done with that company.

For instance, back in Part I of this course I told you of a policy that I bought in 1959 whose current dividend is now eight times the annual premium. There were no computers in 1959. There was no such thing as an illustration. Yet, everything I am teaching in this course was possible. All it really takes is the basic knowledge of what is going on in the process of creating a life insurance policy, knowledge of how a mutual insurance company works, and some imagination. The fact that all this could have been done during the last 200 years and no one told me about it ticks me off! Life would have been so much better had I known this. Why didn't the life insurance companies teach me?

Lastly, the "interest" that the logger is paying in this series of illustrations is not really interest. It is additional premium (capital) that the policy is capable of receiving which equals the interest that he was paying the finance company. That is the reason that it is adding to the cost basis of the policy and that he can recoup at retirement time without taxation. Until he recovers the cost basis of the policy, that income is not taxed.

Yes, there is interest involved with the policy loans here, but it is being paid with additional dividend withdrawals and it does not show up on these illustrations.

In the next lesson we are going to learn a lot, so prepare for it! I'll see you then.

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

Animal Farm by George Orwell

Debtor Nation: The History of America in Red Ink
by Louis Hyman

Great Myths of the Great Depression by Lawrence
W. Reed

**Nelson's Live Seminars & Events
for March / 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 Edmonton, Alberta, Canada, 8-9 Mar
contact McGuire Financial Group
glen.zacher@mcguirefinancial.ca
1-877-364-8204

Nelson Live in Logan, UT, 15-16 Mar
Contact Dan Rust
dan@yourfamilybank.com
435-753-5249

Nelson Live in Ft Worth, TX, 21-22 Mar

Contact James Neathery

jcneat@gmail.com

817-790-0405

Nelson Live in Boulder, CO, 3-4 Apr

Contact Kate Gardner

kate@kgardnerfinancial.com

720-406-0543

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