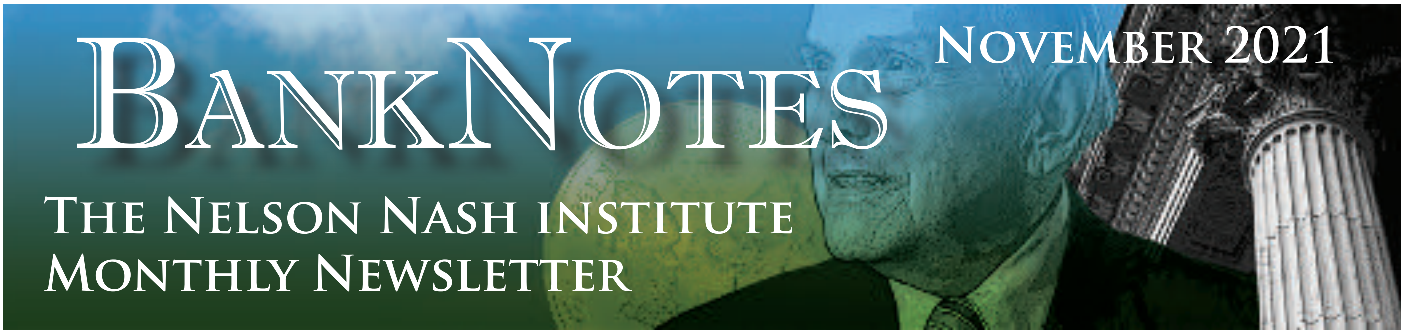


Own Your Debt

by Robert P. Murphy

There are various ways of motivating the philosophy of Nelson Nash that he lays out in his classic book, *Becoming Your Own Banker* (BYOB). In this article I want to focus on the benefits of "owning your debt," a phrase that I first heard from David Stearns. I want to be clear that what I discuss in this article is not the *sole* rationale for implementing Nash's Infinite Banking Concept (IBC), but I hope my discussion resonates with a large segment of American households who are crippled by outside debt.

An introduction to IBC

The central message of Nelson Nash in *BYOB* is that everybody needs to rely (at least implicitly) on financing for life's major purchases. Even if you buy a car with cash, you are forfeiting the opportunity of investing that cash and earning a return on it. So even people who always "pay cash" still experience the same implicit tradeoffs between spending now versus later. Therefore, Nash argues, the real question is whether you are going to obtain your financing from a bank controlled by *outsiders*, versus a bank that *you* control.

Now once you've decided that it makes sense—for a variety of reasons—to rely on financing coming from yourself, Nash then explains that in today's environment, the most convenient and advantageous way to establish your own private "bank" is to take out large, dividend-paying whole life policies. There are ways to calibrate such policies so that they are excellent tools for cash flow management. They are the best place, all things considered, to "warehouse your wealth" (which is the title of a subsequent Nash book).

As time passes and you plow your savings into properly designed whole life insurance policies, their cash values grow. Then, when you need to make a major purchase, you can take out a "policy loan" from the insurance company, with your cash value serving as collateral. The terms on this loan are quite generous: There is an attractive interest rate, no credit check, no questions about the use of the funds, and no payback schedule. The explanation for these attractive features is that the collateral on the loan, from the lender's perspective, is absolutely airtight: the life insurance company *itself* guarantees the asset. In this respect, a policy loan is a safer investment from the insurer's viewpoint than even a U.S. Treasury bond.

IN THIS MONTH'S ISSUE:

Nelson Nash Institute

2957 Old Rocky Ridge Road
Birmingham, Alabama 35243
BankNotes archives:
infinitebanking.org/banknotes

Founder - *R.* Nelson Nash
rnnash31@gmail.com

Editor - David Stearns
david@infinitebanking.org

To be clear, Nelson Nash is not advising everyone to "invest in life insurance." Again, he recommends using these policies as *warehouses* for one's wealth—a *headquarters*, if you will. If a person sees an attractive real estate deal, he is certainly free to take out a policy loan and use the funds to invest in the land. Indeed, that's part of the *rationale* for implementing IBC: You always have ready access to your wealth, allowing you to pounce on investment opportunities as they arise.

Advice from the financial "Experts"

Naturally, Nash's advice is far too straightforward for the gurus to endorse. The conventional wisdom from financial planners is that while it may be important to have life insurance in the form of a cheaper term policy (not a more expensive whole life policy) for its death benefit protection—especially for a young breadwinner with kids to support—nonetheless life insurance makes a terrible saving or investment vehicle. Rather, the conventional financial advice in America today says that an individual should turn to tax-qualified mutual funds to build up a nest egg for retirement. Putting the two ideas together yields the familiar slogan: "Buy term and invest the difference."

According to the gurus, "buy term and invest the difference" is a much more sensible strategy. For a given death benefit, the premium on a term policy is lower than for a whole life policy, so that the pure life insurance coverage is cheaper. Then with the savings (because the premium is lower), the household can invest in, say, a 401(k) mutual fund with pre-tax dollars. These holdings then grow at historically higher rates than the cash value in a whole life policy. Thus it seems that "buy term, invest the difference" is a no-brainer: you get the desired death benefit coverage for your family at the lowest possible price, while your retirement investments earn a better rate of return. What kind of an idiot would follow the Nelson Nash strategy in light of this seemingly superior approach?

In other issues of the *LMR* I have tackled this mindset;[1] I won't repeat my arguments here in this article. Instead, I want to describe the trap into which many American households fall, because they follow this typical advice that I have just described. In the next section, I'm doing nothing more than restating what Nelson Nash describes as the typical American's problem early on in *BYOB*, but I'll talk about it from a slightly different angle.

Putting Your Money in Prison

Now in fairness, I should be clear that Dave Ramsey tells his followers to stay out of debt altogether. So in that respect, someone who literally obeys the Ramsey approach is going to be ahead of the average Joe. But more generally, that's not what American households do when they listen to the conventional financial wisdom.

For millions of American households, this is what happens in practice: After they siphon some of their paycheck into stocks and bonds *which they can't touch until retirement,* they then discover that they can't afford their desired lifestyle. So what do they do, when they want to buy a car or a house, send their kid to college, or pay for a wedding? Because the government won't let them access their "savings"—which makes it an odd form of "savings"—these households have to go hat-in-hand to outside creditors.

Depending on how much outside debt a household takes on, the situation can border on the absurd. Currently the average credit card debt per U.S. adult is just shy of $5,000, while the average balance on a card that usually carries a balance was above $8,000. Looking at *households* (not individuals), the national average of credit card debt is $7,000, while focusing on just *households with credit card debt* the average figure jumps to a whopping $15,000. Nearly 30 percent of Americans report having higher credit card balances than they could pay off with their "emergency savings." Finally, the average APR on a credit card with a balance on it was 13.14% as of February 2014.[2]

These statistics are staggering.[3] The conventional wisdom of putting money into a 401(k) is *clearly* not working for any household carrying credit card debt. The Federal Reserve may have a "zero interest rate policy" but the credit card companies certainly don't. If a debt-strapped household can somehow manage to pay off its $15,000 of credit card debt rolling over at

13%, why that's the equivalent of a guaranteed rate of return of 13% on a $15,000 investment. The stock market doesn't offer that kind of sure thing.

Let me spell out the absurdity to make it crystal clear: There are households who have thousands of dollars of credit card debt rolling over at more than 10% APR, while they simultaneously hold more than enough to pay off these balances tied up in tax-qualified mutual funds that feature a mix of equities and bonds. When questioned, the people making these financial decisions might justify the arrangement by saying that they need to "save for the future," and that it would be "irresponsible to tap into my retirement." Yet the blend of growth and safety offered by the mutual fund(s) does not match the *guaranteed* return—in the sense of total wealth—that comes from paying down credit card debt.

This is particularly true in our environment where "safe" bonds have very low yields, while credit card APRs are still quite high for many households. And as an added kicker, keep in mind that many households have *variable-rate* debt, on credit cards and other types of loans (some even with adjustable rate mortgages). If interest rates should rise rapidly—which is entirely possible in our current economic environment—such households will suffer a crushing blow.

Own Your Debt

Thus we see that there are millions of households waiting to be helped with IBC. Note, I'm *not* saying that IBC *only* makes sense for such people—after all, the IRS changed the tax rules in the 1980s because so many rich people were piling into whole life policies. Instead, I'm just focusing on this particular aspect of the case for IBC.

To repeat, the technique I am about to describe is not the only way that people use IBC, but for millions of middle-class households with sizable assets in tax-qualified plans, *and* who are carrying large amounts of credit card debt, the technique makes perfect sense, and is a specific application of IBC.

The technique is to sell off enough of the outside assets—even if that means paying a tax penalty because they are in 401(k) or similar environments—in order to fund a dividend-paying whole life policy large enough to then allow for the rapid payoff of the credit card debt.

The benefits of this move are obvious. On the one hand, it represents a simple swapping off assets and liabilities: On the asset side, the household reduces its holdings of stocks and bonds in the tax-qualified environment, while raising its cash surrender value in the form of a whole life policy (and also the death benefit coverage which has an economic value itself). On the liability side, the household pays off its credit card debt while incurring a comparable loan owed to the life insurance company.

Yet this "mere" swapping of assets and liabilities puts the household on much firmer ground. The assets now grow at a more dependable rate: there are guaranteed returns, and the dividends thrown off by the policy are also more stable than the volatile stock market. Furthermore, the debt (in the form of a policy loan balance) can be paid off on any schedule the household desires; there are no minimum monthly payments due, which if missed will trigger penalty APRs and black marks on a credit report.

Finally, when you consider the APR that the household was originally paying on the credit card balances, this new plan will mean that the total wealth of the household appreciates at a higher rate, all things considered.

Notes of Caution

The actual mechanics of this operation depend on the specific numbers of the individual household. There are also IRS rules concerning how rapidly wealth can be moved into a whole life policy; you don't want to "MEC" the policy. Furthermore, if there are *large* movements of wealth out of a tax-qualified plan, staggering that outflow might make sense to stay in a lower income tax bracket. Because of such subtleties in execution, it's critical to discuss these types of financial plans with a graduate of the IBC Practitioner's Program—see our listing of such individuals at www.InfiniteBanking.org/Finder.

Let me also put in a warning for any financial professionals reading this article: If you are talking with a client, you *cannot* advise him or her to sell off equity holdings if you do not have the proper licenses. FINRA is very picky on such matters. For example, if you are only licensed as a life insurance agent, then your job (should the client desire it) is to set him or her up with a properly designed, dividend-paying whole life policy with the proper PUA and term riders, which will have the correct premiums and cash value targets for the cash flow (in and out) that the client has in mind. The client has to already have decided where the money to fund the policy is coming from; you can't steer the client into selling off stocks in order to buy a life insurance policy from you.

Conclusion

The conventional financial wisdom has placed millions of American households in an untenable position. After taking out income tax and payroll deductions, health insurance premiums, and contributions to tax-qualified retirement accounts, the average employee has little left. Thus to buy a car or just keep up with daily living entices him to turn to credit card companies and other outside lenders.

One way of understanding IBC is that it allows you to "own your debt." Specifically, you build up enough cash value in one or more whole life policies so that you can take out policy loans large enough to knock out what you owe to outside lenders. In this article, we focused on credit card debt because it is the most obvious, but the principle applies more generally.

Besides looking at the specific numbers (APRs on credit card balances, the volatility of the stock market, etc.) the qualitative benefit of "owning your debt" is *the peace of mind it yields*. By collapsing your outside debts—which are often collateralized on your assets such as a car or house—and bringing them within one or more whole life policies, you suddenly buy yourself a whole *lifetime* to plan your financial strategy. You no longer have someone sending you threatening letters, making nagging phone calls, or repossessing your car, if you get laid off or have other financial hardships.

Especially in this awful economy, the psychological benefit of owning your debt should not be underrated.

References

1. Specifically, my September 2012 article was on "Why Dave Ramsey Is Wrong on Whole Life." Also related is my June 2013 article, "Does IBC Mix Two Goals Inefficiently?" in which I showed that it made sense to use a single financial instrument—namely a whole life policy—as both a savings vehicle and to provide death benefit coverage.

2. Credit card statistics taken from http://www.creditcards.com/credit-card-news/credit-card-industry-facts-personal-debt-statistics-1276. php, http://www.nerdwallet.com/blog/credit-card-data/average-credit-card-debt-household/, and http://www.cbsnews.com/news/51-percent-have-enough-cash-to-pay-off-credit-card-debt-study/.

3. By the way, I should clarify that I personally am not wagging my finger at households carrying credit card debt—I too behaved foolishly in my younger days and have not fully extricated myself from my poor decisions.

Central Banks and Socialism Are Forever Linked Together

by Jörg Guido Hülsmann

It is well known that socialism is a shortage economy. It is the economy of inefficiency and corruption, of indifferent workers and of bigwigs, of lacking spare parts, of lacking funds, of failure, of permanent reform needs and of constantly unsuccessful reforms. This concerns in particular total socialism, as it was realized in the Soviet Union or under National Socialism. But it is no less evident in the numerous partial socialisms that are featured in the real existing welfare state, in its numerous state "systems." Budget deficits year in, year out despite high contributions—that is the reality in the state pension system and in the state health system. The state education system is similar: declining student performance and growing illiteracy despite sky-rocketing expenditure. No private entrepreneur could afford to let the costs get out of hand in such a way. Anyone who is in competition has to keep improving. Only those who have a legal monopoly and can make use of taxpayers' money if necessary do not need it.

Now there is one partial socialism that stands out from the usual array of failures. Here we see gains instead of losses. Here we often find all the other signs of a successfully run company, from the private legal form to the pinstripe-filled boardroom. We are talking about central banking. The term "central bank" actually refers quite clearly to a centrally planned economy. But when people talk about the Fed, the ECB or other central banks today, hardly anyone thinks that they are talking about an offspring of the socialist spirit. On the contrary, central banks are typically viewed as particularly "capitalist." After all, what would be more capitalist than money? And what would be more closely related to money than a bank?

Upon closer inspection, however, it appears that this connotation may not be entirely correct. In the unbridled market economy, private property and competition prevail. Central banks, on the other hand, are usually state institutions. Even those central banks that are private-law organizations (as in the United States, Japan, and Switzerland) are subject to special laws and their directors are appointed by national governments. In addition, central banks always and everywhere enjoy a legal monopoly. Their banknotes and their deposit money are largely withdrawn from free competition. The market participants are compelled to use the money of the central banks.This money is one of a kind. Indeed, it can basically be produced in unlimited quantities. The production of money by the private commercial banks is limited by their equity capital and also by the cash deposits of their customers. But central banks do not need equity or cash deposits. It is they who create cash. They can generate cash out of nothing and practically for free. Certain legal limits are set for them, but in times of crisis, as in 2008–09 and in 2020–21, these limits can be relaxed quickly and dramatically. If necessary, they can also be abolished entirely.

Central banks therefore have potentially tremendous power. If only let loose, they can control all of the economy and society. There is almost no limit to the number of new loans they can issue. The can provide these loans to some and deny them to others. And by implication they can also control the use of all available resources. After all, labour usually moves where it is best paid. Raw materials and capital goods are typically sold to those who offer the highest prices. If you control the printing press, you can also let the real resources flow exactly where you think it is right. Whether this use of funds is also profitable plays a rather subordinate role for central banks (unlike commercial banks). You do not have to work hard and invest well to cover losses. One push of a button is enough.

Central banks are therefore made for do-gooders. He who runs a central bank does not need to do painstaking educational work in order to bring about any social change. The humanitarian with the printing press can finance all changes he wishes for at the push of a button. He can just pay other people to do what he wants. He does not need any savings or capital for this. He does not need a democratic majority either. As long as he has the printing press under control, he could by and large not give a damn about what other people think or wish.

This momentous fact has not escaped the attention of socialist theorists. The Saint-Simonians in France had already grasped it at the beginning of the nineteenth century. They understood that the economy of a country could be controlled particularly easily and safely with the help of the printing press. A few years later, the demand for the "centralization of credit in the hands of the state through a national bank with state capital and an exclusive monopoly" soon also held center stage in the 1848 Communist Manifesto by Marx and Engels.

Unsurprisingly, the enormous possibilities of creating money from nothing have been used again and again to finance state industrial policy and socialist experiments. In the 1970s, British historian Antony Sutton reported that some of New York's Wall Street banks had financed the radical transformation of traditional European societies. They supported Lenin and Stalin as well as Adolf Hitler with billions of dollars. That would not have been possible without the refinancing from the American central bank.

In our day, too, the historical connection between the central banking system and political utopias is being brought back to life. This time it appears in the form of a "green" and egalitarian transformation of the economy and society. The directors of the ECB [European Central Bank] and the Fed have already officially committed to this.

The new humanitarians with the printing press are undoubtedly a great danger to humanity. They threaten everyone's prosperity by channeling scarce resources into unprofitable (and therefore unsustainable) uses. But they also threaten the free social order as a whole, in that they are preparing to disempower the open competition of all social forces. They want to replace this competition with the rule of a nonelected leadership caste.

However, green central bank policy is not to be condemned primarily because it supposedly pursues ecological goals, but because a central bank comes into its own here. Central banks are by their very nature destructive. Even if they are not led by self-proclaimed ecologists and socialists, they favor the cousin, favoritism and the bigwig economy. The economists of the Austrian school have shown, among other things, that central banks always and everywhere weaken economic growth by undermining the propensity to save; that they are destabilizing the economy by fueling a debt economy; that they incite greed and avarice; and that they create blatant inequalities in income and wealth. Central banks cannot be reformed, they must be abolished.

This article is a translation of an article that has appeared in the German edition of the Epoch Times, in October 2021.

Jörg Guido Hülsmann is senior fellow of the Mises Institute where he holds the 2018 Peterson-Luddy Chair and was director of research for Mises Fellows in residence 1999-2004. He is author of Mises: The Last Knight of Liberalism and The Ethics of Money Production. He teaches in France, at Université d'Angers.

Thirty First a monthly series of Nelson Nash's personally written Becoming Your Own Banker © *lessons. We will continue these lessons until we have gone through the entire book.*

Part IV, Lesson 1 Equipment Financing

Content: Page 51, *Becoming Your Own Banker* Fifth Edition

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 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 EXHIBIT 1 which is 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 ($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.

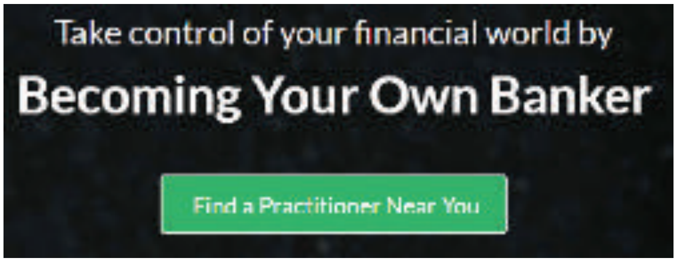
But, remembering what we studied earlier in this course – the interest rate is not what is at issue here – it is the volume of interest compared with the amount of the payment each month. To find that out, all we have Use It or Lose It to do is divide the total interest (line 7 - $19,496) by the total 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.

We will look at ways to improve his situation in the next lesson.

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 in the next lesson.



The following financial professionals joined or renewed their membership to our ***Authorized Infinite Banking Concepts Practitioners*** team this month:

- Bruce Wehner, St. Louis, Missouri
- Ryan Griggs, Rockwall, Texas
- Jim Kindred, Saint George, Utah
- Patrick Johnson, McMinnville, Oregon
- Jake Neathery, Fort Worth, Texas
- David Cheatham, St Charles, Illinois
- Haydan Padalino, Cambridge, Ontario
- Brett Kulman, Southampton, New York
- Roman Pushkar, Steinbach, Manitoba
- Kenneth Lester, Smyrna, Georgia
- Liz Lamond, Vancouver, British Columbia
- Joel McGriff, Birmingham, Alabama
- Cole Snell, Toronto, Ontario
- Jose Salloum, Montreal, Quebec
- Mark Haruguchi, Vancouver, Washington
- Tom Laune, Columbia, Tennessee
- James Pollard, La Salle, Manitoba
- Ronald Campbell, Glen Burnie, Maryland
- LaToya Chamblee, Middletown, Delaware

You can view the entire practitioner listing on our website using the Practitioner Finder.

IBC Practitioner's have completed the *IBC Practitioner's Program* and have passed the program exam to ensure that they possess a solid foundation in the theory and implementation of IBC, as well as an understanding of Austrian economics and its unique insights into our monetary and banking institutions.

The *IBC Practitioner* has a broad base of knowledge to ensure a minimal level of competency in all of the areas a financial professional needs, in order to adequately discuss IBC with his or her clients.

Before you look for a practitioner, we suggest listening to the following two episodes of ***The Lara Murphy Show.***

How-To Guide for Starting IBC, Part 1
How to begin your study of Infinite Banking, including finding an Authorized Practitioner.

How-To Guide for Starting IBC, Part 2
How to prepare for your first meeting with an Infinite Banking Authorized Practitioner.

THE FOUNDATIONS OF IBC

This online **video series** for the general public provides a comprehensive introduction to the *Infinite Banking Concept.*

The first four modules are free, you can view them here:
infinitebanking.org/foundations
The remaining eight modules are subscription-based, costing $49.95 for all eight.

Or contact an ***Authorized IBC Practitioner*** *and ask for a coupon code that will enable you to watch all twelve modules FREE.*

Module 1: Introduction to the Nelson Nash Institute

Module 2: What the Infinite Banking Concept Is

Module 3, Part 1: How IBC Works

Module 3, Part 2: Policy Loans & The Nature of Collateral

Module 3, Part 3: How to Read a Policy Illustration

Module 4: Why Nelson Calls It The Infinite Banking Concept

Module 5: The Life Insurance Industry

Module 6: Why Not Buy Term and Invest the Difference?

Module 7: Using IBC to Pass Wealth to Future Generations

Module 8: The MEC Rule and Policy Design

Module 9: Does IBC Work for Older People?

Module 10, Part 1: IBC for the Business Owner

Module 10, Part 2: IBC for the Business Owner

Module 11, Part 1: Using Your IBC Policy: Premiums, Dividends, and Policy Loans

Module 11, Part 2: Using Your IBC Policy: Premiums, Dividends, and Policy Loans

Module 12: IBC as a Way of Life

Contact an ***Authorized IBC Practitioner*** *and ask for a coupon code that will enable you to watch all twelve modules FREE.*