Becoming Your Own BANKER

Fifth Edition

Unlock the Infinite Banking Concept

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Infinite Banking Concepts®
Authorized Practitioner

BECOMING YOUR OWN BANKER®

THE INFINITE BANKING CONCEPT®

By

R. Nelson Nash

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INTRODUCTION TO THE FIFTH EDITION

Becoming Your Own Banker - The Infinite Banking Concept is a text for a ten-hour course of instruction about the power of dividend-paying whole life insurance. It is not a sales tool for life insurance agents. It is education that the life insurance industry should have taught during the last 200 years. Unfortunately, the industry has concentrated on the death benefit qualities of the contract and has neglected to adequately describe the financing capabilities that it presents for the policy owners. Ironically, life insurance companies must put premium income to work in various investments in order to pay the death claims.

This book demonstrates that your need for finance, during your lifetime, is much greater than your need for protection. Solve for this need through this instrument and you will end up with more life insurance than the companies will issue on you. Most everyone is familiar with the fact that one can borrow from a whole life policy, but because of how little premiums they pay, there is limited access to money to finance major items needed during a lifetime. Yet, the need for financing for the typical person is extensive. Really, all this book adds to the equation is scale.

The fact that the principles have been there all along and no one taught them to me makes me rather angry! Had I known them, life would have been much simpler and much more profitable. Someone should have recognized them and taught them long ago, but this didn't take place because of the mindset that predominates in the entire financial world.

It is written for the layman, not for financial advisors, but all life agents should be thoroughly knowledgeable of its content and practice. Again, unfortunately, this is not the case. Very few of them have more than a rudimentary understanding of its qualities.

The whole idea is to recapture the interest that one is paying to banks and finance companies for the major items that we need during a lifetime, such as automobiles, major appliances, education, homes, investment opportunities, business equipment, etc.

This book is not about investments of any kind. It is about how one *finances* the things of life, which can certainly include investments. It is not about rates of return. As time goes by interest rates are up and interest rates are down — but the process of banking goes on no matter what is happening. It is a well known fact that banks make more money during times of low interest rates than when rates are high.

A word of caution is in order — later in the book you will be looking at illustrations of life insurance policies that show how the concept works as compared with how most folks go about solving their financial affairs. Most of the illustrations were developed in 2000 and represent dividend scales in effect at that time. Presently, interest earnings are lower and, hence, dividend scales are lower. But in comparison with other methods of financing the things of life, the difference in results remains the same.

It is not a procedure to "get rich quickly." To the contrary, it requires long range planning. I'm educated as a forester, having worked in that field as a consultant for ten years; I tend to think seventy years in the future. I won't be here — and neither will you — but there is no reason not to behave in this manner. "Plan as if you are going to live forever and live as if you are going to die today" appears to me to be a good thought. One can learn how to plan and act intergenerationally. That's one of the primary advantages of having been a forester. I learned to think beyond the lifespan of my current generation.

Becoming Your Own Banker is not a tax-qualified idea of any sort. The Income Tax Law, as we know it today, has only been around since 1913. Life insurance has been around for over 200 years and is not a creature of any tax code. It is nothing more than like-minded people contracting with one another to solve a financial problem.

There is no such thing as "having too much money in the bank." Wealth must reside somewhere. What better place to have it reside than here?

From this residence one can do anything that one can conceive. This is an advantage that most folks ignore in their thought process, and therefore, limits their effectiveness.

Let me make it abundantly clear—I am not talking about a *bank* in the conventional sense of the word. I am demonstrating that one can use dividend-paying whole life insurance to solve one's need for finance throughout one's life.

Hopefully, this book will give you a new perspective on the idea of "retirement." I prefer to use the words, "passive income." That is money coming in that you can count on and you don't do anything to earn it at that time. Study the illustrations carefully and you will see that very high premium, dividend-paying, whole life insurance is the ultimate vehicle to produce such income.

The Infinite Banking Concept is a major paradigm shift for most folks. It will require several thorough readings for a full understanding of its message. The concept is not complicated, it is just different from the way the majority thinks and behaves. In fact, it is the ultimate in simplicity.

There is an extensive reading list in the book and you are encouraged to read them all. Education is an on-going process and there is no such thing as having "arrived" in knowledge.

There have been many people that have had a glimpse of what this book is all about but none, to my knowledge has put together a comprehensive rationale such as you will see here. Read it with an open mind and you will discover a whole new financial world.

"The problem in America isn't so much what people don't know; the problem is what people think they know that just ain't so."

- Will Rogers

CONTENTS

PART I - BECOMING YOUR OWN BANKER®

Someone made the comment that "If some authoritative power distributed all the money in the world equally among all the people in the world, within ten years time 97% of all the money would be under the control of 3% of the people." I suppose that there is no way ever to measure the validity of such a statement, but I have the feeling that most people would agree that it is probably close to the truth. Even if the proportions were somewhat moderated—say 75% of the money would be under the control of 25% of the people—why do you think that this phenomenon happens?

Perhaps some of the answer lies in the fact that most folks know next to nothing about the process of banking and its importance to their lives and their well being. Banking is *the* most important business in the world! Without it, all business comes to a screeching halt. Whenever a business transaction takes place, money must flow from one party to another in a relatively short time or, otherwise, nothing takes place. That flow of money must come from a supply source, a reservoir. That is the essence of what the banking business is all about; someo*ne* or some *organization* has control of a pool of money that can (and must) flow, at a cost, to meet some need.

There is only one pool of money in the world. The fact that this pool is managed by any number of institutions: banks, insurance companies, corporations, and individuals in various countries with various currency denominations is incidental. To argue otherwise would be the equivalent of someone looking at the globe and observing that the Amazon River in South America flows into the Atlantic Ocean and commenting that "this has nothing to do with the Indian Ocean on the other side of the globe."

Nonsense! It is all part of a system. Observe that about 75% of the Earth's surface is covered by water. The sun heats it up and some of it evaporates into the atmosphere causing wind currents. The currents take the water vapor around the earth and it precipitates out in the form of rain, sleet and snow—and somewhere along the way some of it *flows through you and me.* Without it we die! That makes it of vital importance. Pray tell, where does it end up? Right! Back in the oceans!

The banking business is somewhat like that. Money flows from the pool through our hands to meet our needs—but somewhere in the process it all ends up back into the banking system. It is all a matter of "how much of the banking function do you control as it relates to your needs." This book is all about how to create your own banking system so that *you* can control 100% of *your needs. Becoming your own banker*! Give it your close attention and it can make a radical improvement in your financial future.

For I know the plans I have for you" declares the LORD. "plans to prosper you and not to harm you, plans to give you hope and a future.

- Jeremiah 29:11

HOW THE INFINITE BANKING CONCEPT® GOT STARTED

First, a bit about my background. I was educated as a forester, graduating from the University of Georgia in 1952. A large portion of the root thought of this concept is coming from the study of forest finance—the fact that you are dealing with compound interest over a long period of time with no taxation on the build-up. The reverse fact is that you must make an investment and *you won't see any result* for *that same long period!* In the forestry world you must think many years into the future. I worked as a forestry consultant for about 10 years.

Some of it is coming from the life insurance business. I made a good living in life insurance sales for over 30 years. Knowing how dividend-paying life insurance works is an essential ingredient to it all. Most people have a minimal understanding of the subject, *including* the home office personnel at life insurance companies! That is strange, but very true.

Lastly, it was strongly influenced by my experience in the real estate business. Timber is a form of real estate as well as the land on which it grows, so I have been around real estate for all my working life and I developed a strong interest in the subject, studying many books on it. If you read these books, the central message is not about real estate at all—it is about the magic of *leverage!* Essentially, they all say, "Buy some real estate, borrow the money to pay for it, (because you are *always* dealing with borrowed money—you either borrow money and pay interest, or you use your own money and give up interest that you could have earned) pay interest for a while, then sell the property. All you have given up is the interest you have paid out. That leverage is *wonderful!"*

That is all true—as long as things are going the way the "financial geniuses" describe it. But they *never* tell you what happens when the *lever goes the other way!* Frankly, I made some money in the late '70s doing it the way the "geniuses" explained it (someone remarked that "financial genius is a *rising market"*). There were several successful ventures in a row and it looked like there was no end to this bonanza. I could do no wrong! The ventures got bigger and bigger and I got more and more involved, buying a large number of acres of rural property. And then I got into real estate development. With the profits from one small parcel, my wife and I went to Europe in 1977 and spent a month! Would you believe it—I have *never* seen that property yet? And I did it all according to "the book by the financial geniuses"—leverage—other people's money. Just have your Realtor find such a deal and attend to all the particulars for you—and then sell it for you! Marvelous!

There was no logical reason not to *expand.* And so I did. The interest rate (prime) at that time was 8%, but you must pay 1.5% over "prime" (now referred to as *base rate*), because the Bankers are *not* lending you money because you have real estate—they are doing it because *they think you can make payments*! Why else would they require personal endorsement on the loan? And you must renew the notes every 90 days—at the current interest rate. I got accustomed to paying 9.5% and that was just normal. And then, along came 1981 and 1982. The prime rate rose and "peaked" at 21.5%!! Add 1.5% on top of that and you see my situation—23% interest on $500,000!! That amounts to $67,500 of interest per year *that I was not expecting to pay*!

When this happens to you, what do you do? Go ask the "financial geniuses" who recommended that you do this, "What do I do, now?" If you can find them, they may mumble something about "selling the real estate." But, where do you find a *fool* that will buy it under those circumstances! Of course, everything will sell if you get the price low enough, but losing five times what you paid for it is hardly a good way out.

But, so far, you have heard only a part of my story. The beginning of my "awakening" was in November 1980 when our first grandchild was born. Interest rates had begun to zoom upward. That was Bunker Hunt's heyday—you remember him? Bunker and his brother were going to "corner" the silver market—and as a result silver prices increased higher than anything, relatively speaking. Gold went up to $800 per oz. And so, "drug junkies" started supporting their drug habit by stealing silver from homes. While my wife was visiting our new granddaughter some 60 miles away for several days, the thieves broke into our home at 3:00 p.m. and "cleaned us out." Have you ever been burglarized? You won't believe what they can do to a house in just a few minutes. Luckily, I got to clean up the mess. If my wife had seen it I don't believe she would ever feel comfortable in that house again.

Two months later my 52 year-old brother dropped dead from a heart attack while playing racquetball with a son. Poor selection of ancestors—our father died at age 64 from the same problem.

Five months later our second granddaughter was born out in Hawaii. Five weeks later her parents discovered that *the baby had cancer!* I didn't even know that babies could get cancer. She went on chemotherapy when she was six weeks old. Six months later she went through surgery to remove the tumor on her right adrenal gland. The cancer was a *neuroblastoma*, a very rare kind that attacks children. The lesions had involved her liver and she had to go back on chemotherapy for several more treatments. My story has a good part—she is now 25 years old and is cured!! We have seen a *miracle*!

And now for the bad financial news—it was that summer that interest rates went to 23 percent—and there I stood owing $500,000 under those circumstances. When a number of bad things like this occur in fairly rapid succession it can increase the quality of your prayer life dramatically! The basic idea revealed in the Infinite Banking Concept was born over a period of many, many months at 3:00 to 4:00 a.m. in the *kneeling position* praying, "Lord, please, show me a way out of this financial nightmare that I have created for myself." The answer came back about like a baseball bat across the eyes. "You are standing in the midst of everything it takes to get out—but you don't see it because you look at things like everyone else. You can get to money, during these awful times, at 5% to 8% from three different life insurance companies through policies *that you own*. The only thing that limits how much you can get to is the same thing they tell you at the bank when you ask them how big of a check you can write—*how much have you put in?"*

If I had not been accustomed to paying very large premiums it is doubtful that I would have seen the message. Hardship often helps us to see things to which we are normally blind. It was evident to me that I needed to increase my life insurance premiums dramatically to create a pool of cash values from which to borrow to pay off the bankers that I owed. But, I owed $500,000! How could I do both? Honest introspection revealed that I *could revise my spending pattern.* This was a starting place. When I started teaching others to design their financial dealings along these lines my income tripled. Practically everyone thought I was crazy—it was opposite to what all the "experts" said. But an objective look at the facts of how life insurance worked, plus reason and logic—and continued sessions of intense prayer for guidance has proved that the system works!!

Maybe you have found yourself in such a financial prison—or maybe you want to develop a system that will keep you *out!* Maybe yours is smaller or greater. Whatever, the principles are the same and they will serve you well. It requires understanding—and it requires discipline to implement the idea, but it can change your life dramatically—even beyond your fondest dreams!

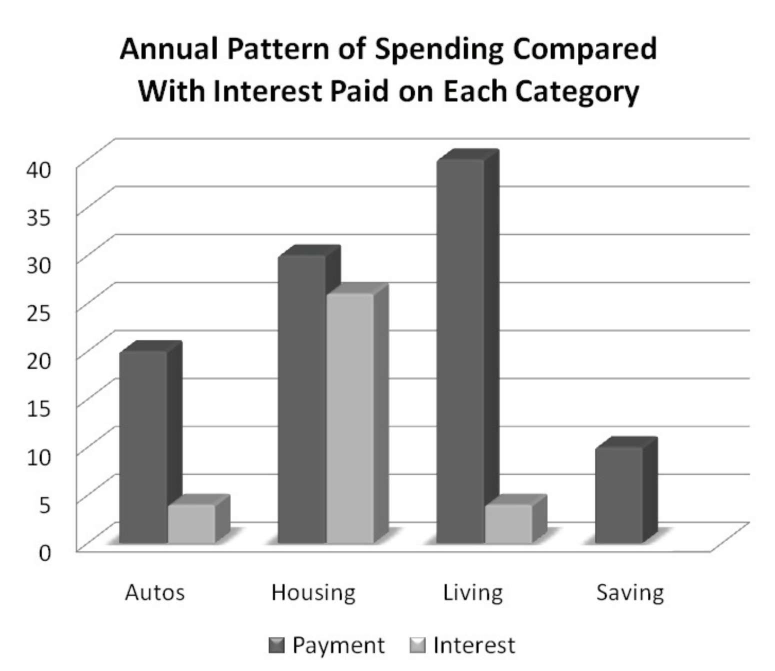
My people are destroyed from lack of knowledge. Because you have rejected knowledge, I also reject you as my priests; because you have ignored the law of your God, I also will ignore your children.

- Hosea 4:6

THE PROBLEM

When Jesus saw him lying there and learned that he had been in this condition for a long time, he asked him, "Do you want to get well?"
— John 5:6

Several years ago I did a good bit of study on the spending habits of American families. Since that time I have kept an eye on the figures and the proportion of income allocated to each category. This seems to be the current situation, which doesn't seem to change all that much. I build scenarios around the "All-American family" because I don't want people to think you have to be rich to create a banking system that can handle all your needs for finance. This young man is 29 years old and is making $28,500 per year after taxes. What does he do with the after-tax income?



Twenty percent is spent on transportation, thirty percent is spent on housing, forty-five percent is spent on "living" (clothes, groceries, contributions to religious and charitable causes, boat payments, casualty insurance on cars, vacations, etc. Many of these items are financed by charge cards or bank notes. The balance is *financed* by paying cash for them—and thus, giving up interest that could be earned, otherwise). He is saving less than five percent of disposable income. But, to be as generous as possible, let's assume that he is saving *ten percent* and spending only forty percent on living expenses. This is giving him every benefit of the doubt on the matter of savings. Just remember, the real situation is at least twice as bad as what will be depicted!

The problem is that all these items are *financed* by other banking organizations. An automobile financing package for this hypothetical person is $10,550 for 48 months with an interest rate of at least 8.5% with payments of $260.05 per month. But, if you will check with the sales manager of an automobile agency you will find that 95% of the cars that are traded in *are not paid for!* This means, at the end of 30 months, if the car is traded, 21% of every payment dollar is *interest.* Even if he goes the full four years, the portion of every payment made is still 20%! This means that the interest portion of every dollar spent is perpetual. It never seems to dawn that the *volume of interest* is the real issue, not the *annual percentage rate.* For a real thrill, go to see the sales manager of the high priced cars and ask him what percentage of the cars that leave their car lot are *leased.* The answer will probably be 75%, or more! This is worse than financing a car purchase.

When you go to the Doctor's office to get a shot of some kind, the criteria is not the *rate* at which the medicine is injected into you—it is the *volume!* Too little, and it won't do any good—too much and it can kill you!

Now, let's move to the housing situation. This young man can qualify for a 30 year fixed-rate mortgage in the amount of about $93,000 at a fixed interest rate of 7% APR with payments of $618.75 and closing costs of some $2,500. The problem is that within 5 years he will move to another city, across town, or refinance the mortgage. Something happens to a mortgage within 5 years. Including the closing costs and interest paid out during these 60 months he had paid $39,625, but only $5,458 has gone to reduce the loan. This means that $34,167 has gone to interest and closing costs. Divide the amount paid out into the interest and closing costs and you find that *86% of every dollar paid out goes to the cost of financing!* If he sells the house in less than 5 years, it is worse. This proportion never gets any better because he takes on a new mortgage and starts all over again. He thinks that he is "buying" a house, but all he is really doing is making the wheels of the banking business and the real estate business –in that order—turn.

In the next segment of his spending pattern—the living expenses—you will find that the interest on his boat payments, credit card interest, plus the cost of casualty insurance on the automobiles, etc. will rival in volume the interest he is paying on the two automobiles. (Later on in this book you will learn how to self-insure for comprehensive and collision insurance on automobiles).

Now, add up all the interest he is paying out and you find that 34.5 cents of every disposable dollar paid out is *interest*. For the average All-American male this proportion *never changes.* Let's assume that he is trying to save 10% of his disposable income, *which is twice the average savings rate in America*. That means that we have a 3.45 to 1 ratio of interest paid out as compared to savings. If you will get this young man together with his peers at a coffee break or some such gathering and have one of them suggest that they discuss financial matters, I can predict what they will talk about—getting a *high rate of return* on the portion they are saving! Meanwhile, every participant in the conversation is doing the above! What a tragedy! But that is how they have learned to conduct their financial affairs.

All of this reminds me of a phenomenon in the airplane world. I have been flying, as a pilot, since 1947, and I learned early on that you could not fly an airplane through a vacuum. It must go through an *environment*! We have all seen the weather maps with the "HIGHs" and the "LOWs." In the Northern Hemisphere the HIGHs turn clockwise. A large one can cover 75% or more of the U. S. So picture this situation: You are in Birmingham, AL with an airplane that can fly 100 miles per hour and your destination is Chicago. The only problem is that you have a *headwind* of 345 miles per hour! Regardless of what your airspeed indicator says, your airplane is moving toward Miami at 245 miles per hour! If you want to go to Chicago, that's a very good time to get your airplane on the ground—quickly!

Have some patience and the air mass will move on—they *always do.* When the HIGH gets directly over the top of you there is no headwind. You are now covering the ground at 100 m.p.h.. And now, the "arrival syndrome" comes into play. You conclude that "you just can't do any better than this. This is the ultimate situation." Nonsense! Have more patience and the air mass will continue to move on. Now you have a *tailwind of 345 m.p.h.!* Plus your airplane is moving at a speed of 100 m.p.h.. Your *ground speed* is 445 m.p.h.! That is *impressive,* isn't it? But, you see, it is much more impressive than most people think. *Everything you do in the financial world is compared with what everyone else is doing!* Ninety-five percent of the American public is doing the equivalent of flying with a 345 m.p.h. headwind. If you have a 345 m.p.h. tailwind, the difference between you and them is *twice the wind!* That is a difference of 690 m.p.h.!

Most people in this situation concentrate all their attention to trying to make the airplane go 105 m.p.h.! They would do well to spend their energy instead on controlling the environment in which they fly. You can't do that in the airplane world—but *you can* in the financial world. You can do it by controlling the "banking equation" as it relates to you. That's what this book is about—creating a perpetual "tailwind" to everything you do in the financial world. (There are many "financial gurus" out there who are praising the matter of "getting out of debt" but they never address this fact). This is the unique message of *The Infinite Banking Concept.*

Somehow or another, it never dawns on most financial gurus that you *can* control the financial environment in which you operate. Perhaps it is caused by lack of imagination, but whatever the cause, learning to control it is *the most profitable* thing that you can do over a lifetime.

BIOGRAPHICAL INFORMATION

The Infinite Banking Concept was conceived by R. Nelson Nash in the early 1980's as a result of his personal experience in several business activities.

• He received his BS degree in Forestry from the University of Georgia in 1952 and worked as a forestry consultant for 10 years in North Carolina.

• He spent over 30 years as an agent for two major mutual life insurance companies.

• He has been active in real estate investments for over 45 years.

• He has spent over 40 years in the study of Economics (The Austrian School).

• He formed a "think tank" of people who have become advocates of The Infinite Banking Concept. At present there are more than 250 members and they are from all over the United States.

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Fifth Edition

By R. Nelson Nash

"This book has impressed me most favorably. I found it highly informative and stimulating. I have always held the author in high esteem, but this volume far surpasses my most optimistic expectations. I recommend it be read by every owner of life insurance."

Coy Eklund
Retired Chairman and CEO
Equitable Life Assurance Society of the United States

"Essential reading for anyone who cares about financial future. In the times of economic uncertainty, stock and bond markets volatility and unpredictable macroeconomic policies, R. Nelson Nash's book provides us with an excellent blueprint for taking charge of our personal well-being."

Yuri Maltsev, Ph.D.
Professor of Economics Carthage College, Wisconsin
Before coming to the US in 1989, Dr. Maltsev was a member of a senior team of Soviet economsts that worked on President Gorbachev's reforms package and a Chief Consultant of the USSR Bank for Foreign Trade.

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