# A CLOSER LOOK AT COMMERCIAL BANKS

by L. Carlos Lara

**Authorized IBC Practitioners** understand, but so should their clients, that when Nelson Nash explicitly says that his book, *Becoming Your Own Banker*, is an instructional guide on how to *"get the bankers out of your life,"* he also makes it quite clear that IBC is not about life insurance. To the contrary, what Nash is really saying is that we need to move our money from the current domiciles of bankers to a completely different *place*—a place that is free of bankers. More specifically he means for us to stop doing business with bankers, to get out of commercial banks altogether, and establish our own financing system.

Furthermore, Nash categorically instructs that the new money residence must provide you the complete cash flow freedom necessary to allow your ability to finance the major purchases of life *yourself.* Ironically, it just so happens that all of the necessary components for an uninterrupted cash-flow system of this type are found in the centuries old mutual life insurance sector—where the policy owners are also the owners of the mutual company. Consequently, this is exactly the place where Nash wants us to go. If this idea catches you by surprise, Nash goes even further in twisting your paradigm by insisting that the final resting place for our money should be inside the mutual's original insurance product—*dividend-paying Whole-Life!*

While many financial experts believe this is plain ludicrous, the writers of the ***LMR*** strongly support Nash's directives and ask our readers to seriously consider this strategy in light of today's economic environment, especially now when we are witnessing news headlines reporting that asset classes are beginning to crash on a global scale. Even mainstream economic forecasters everywhere, just within the past two months, are now openly speaking out and bracing themselves for a major U.S. market bust that has all the signs of being more financially destructive than the 2008 financial crisis. In

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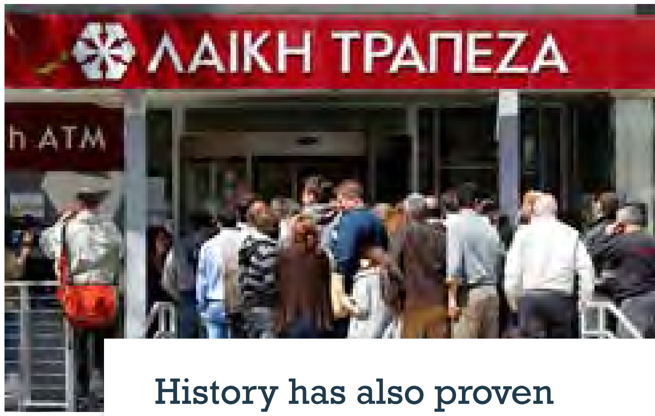
light of this, Nash's suggestion makes perfect sense.

If these warnings stir you enough to want to take some kind of protective action, but are uncertain how best to go about sheltering your assets, I encourage you to conduct your own private research to determine which of all the money intermediaries in our entire financial system has historically weathered the most severe financial crashes. If you should take the time to actually do this, I am certain that you will find the same results I have found. Historically, the safest place has always been the life insurance sector. Once having convinced yourself with this as a beginning step I would encourage you to read Nash's book as well as the book Robert Murphy and I wrote called *How Privatized Banking **Really** Works.*

## Banks Are Prone to Systemic Risk. The Catalyst Is the Bank Run.

History has also proven that commercial banks can become a virtual stranglehold for bank depositors in various ways, but this is especially true in the midst of a serious financial crisis. The reason for this phenomenon is because once the general public becomes aware of the crash, a panic ensues and they immediately rush to the banks in droves to get their cash out. Faced with such an onslaught of depositors storming in all at the same time, banks have no other immediate alternative but to lock the doors in self defense. As you might expect, this action only

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winds up terrifying the public all the more and igniting their resentment. This is exactly what we recently saw happen in Cyprus and even more recently in Greece.

In the early 1930s the same thing occurred here in the United States, and again, it happened in 2008 when approximately 1200 commercial banks got into financial trouble. People who had money in those banks ran to quickly get their cash out. Now what we mean by cash is important, we mean *dollars in the form of currency: green pieces of paper with U.S. presidents on them.* This is what people want when they run on the banks here in the U.S.—they want *dollars!* They don't really want anything else. But unexpectedly the realization hits the depositor that banks don't actually have the required cash on hand when met with this type of forced demand. For this reason the *"bank run"*[1] has always been the commercial bank's greatest weakness. It is unequivocally the bank's Achilles heel. They quite literally do not have the reserves in the vault. This is why they need

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the Federal Reserve as *"a lender of last resort"* in order to conduct their banking business. Even though commercial banks today command the entire inflows and outflows of money belonging to every U.S. citizen and every corporate entity, the practice of *fractional reserve banking*[2] still makes them extremely vulnerable. In other words, bank runs bankrupt banks.

## Fractional Reserve Banking

In general, *fractional reserve banking* is one of most misunderstood of economic topics. Figuratively speaking, only one man in a million truly understands how it works. This important fact makes for an enlightening thinking exercise that I intend to spell out in the following paragraphs.

FIGURE 1

The fact is that most Americans hardly ever transact in paper dollars.

First of all, let's begin by focusing on ***Figure 1*** and understanding that the printed U.S. dollar is the property of the Federal Reserve Bank; its name appears on the face of it. It is also this nation's paper currency—the so-called underpinning of our entire U.S. money system. Since it is our only official legal tender for all debts public and private, this means that every form of payment, whether it is by credit card, money order, or on-line banking as examples, must ultimately clear back to these Federal Reserve Notes (dollars). For example, if you owe Macy's Department Store $1,000, Macy's has it on their books that this is what you owe them—*one thousand dollars.* This is what Macy's is expecting in payment from you and what you expect to pay them. Yet notice that you (probably) never actually pay them in dollars. You will either write them a check or you will do an online banking payment from your bank account to theirs. As far as you and Macy's are concerned you have transacted in dollars, but you didn't actually physically deliver them. The fact is that most Americans hardly ever transact in paper dollars. Most of us simply conclude that this is a very efficient way to transact business, but just stop and think about how puzzling all this is. Now hold that thought as we continue our skull session.

Next, take a close look at ***Figure 2.*** The graph shows that when it comes to actual Federal Reserve Notes there are only a total of $1.3 trillion U.S. paper dollars in the entire world. The pie chart to the right of the graph shows that 76% of these dollars are in one hundred dollar ($100) bills. Now locate on the graph the $500 billion dollar mark and this will show you approximately how much is actually in the United States in the form of paper currency.

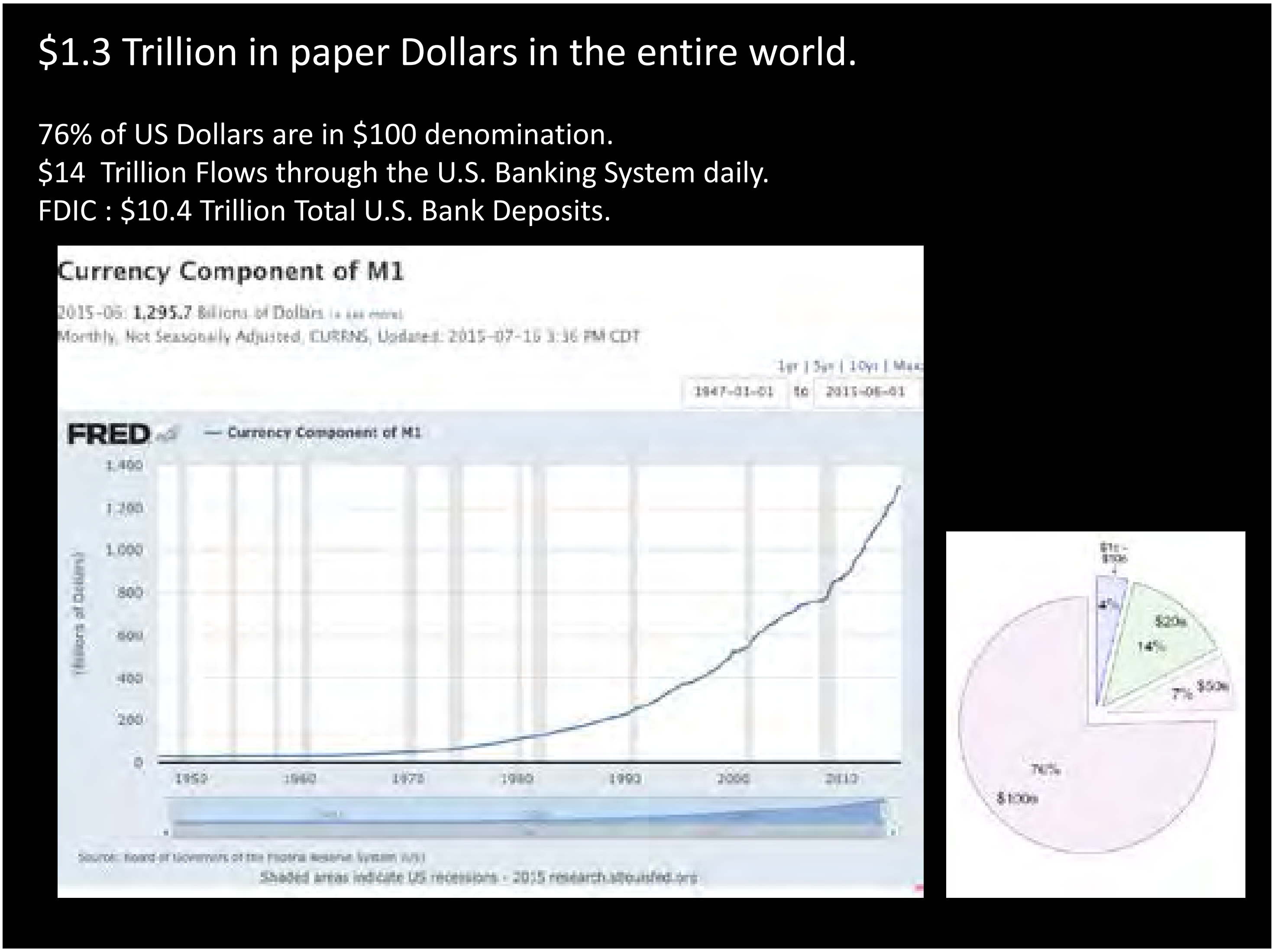
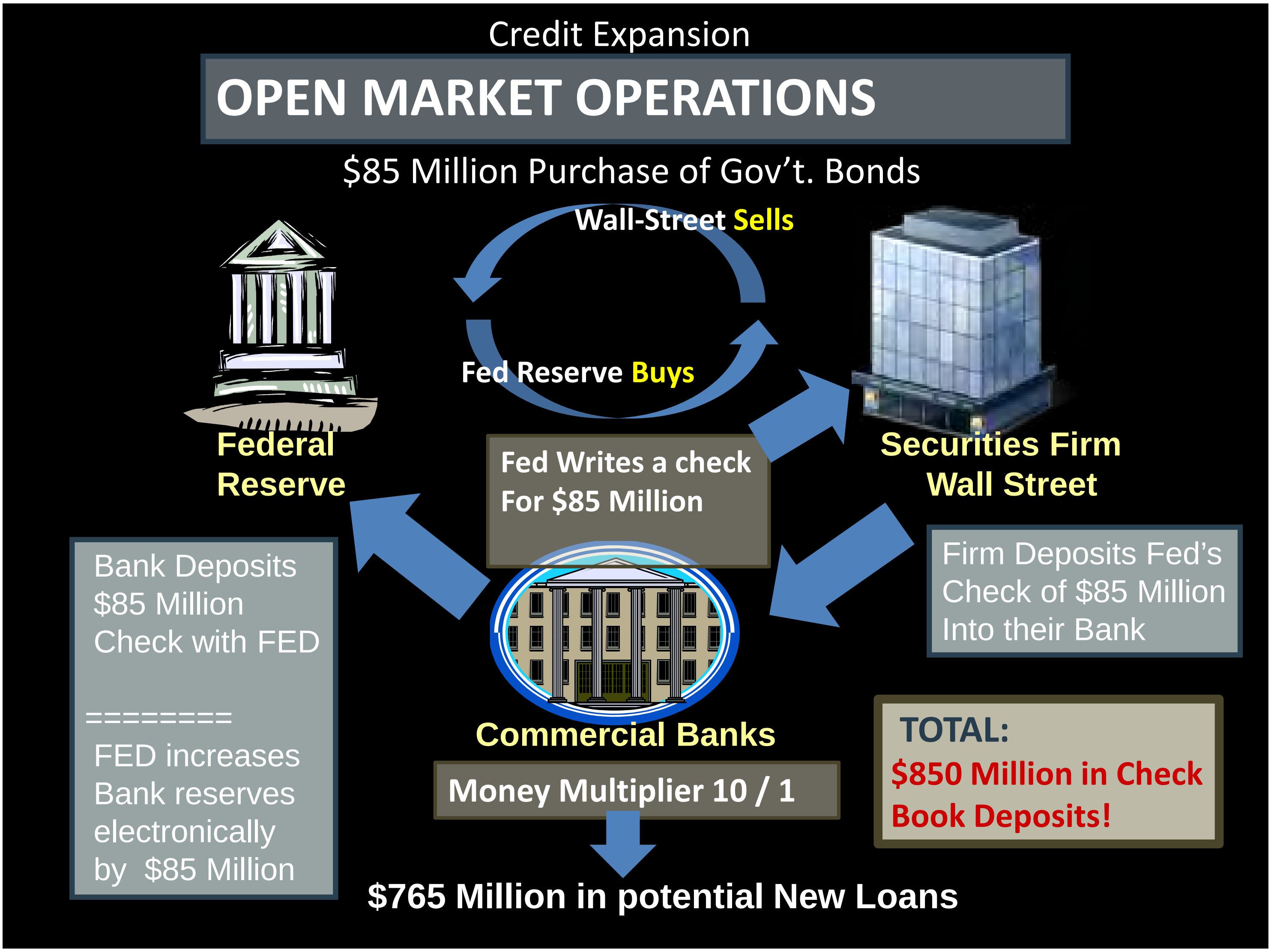



FIGURE 2

The remainder of U.S. paper dollars, more than half of them, circulate in foreign countries. Banks in foreign countries hold a large portion of them while others are hoarded in the homes of citizens of other countries who prefer our currency to their own country's paper currency. The international drug trade also involves substantial amounts of dollars and even the CIA is reputed to hold up to $2 billion in one hundred dollar bills in order to pay for its overseas covert operations. It is astonishing to learn how much of our currency is used by money laundering bank channels, arms dealing, drug trafficking, fraud, and waste. Consequently, there is actually very little physical currency (dollars) held inside the U.S. banking system. And yet, $14 trillion dollar transactions flow in and out through the U.S. Banking system virtually uninterrupted *on a daily basis,* according to the Federal Reserve Bank of New York,[3] Is this some kind of super money velocity? No. The disparity in the numbers is actually our *credit system.* Credit is what is expanded and contracted—but mostly expanded, by the Federal Reserve Bank through our commercial banking system.

The problem today is that our "credit system" is totally out of control. According to Mackenzie & Company[4] the entire world is now drowning in debt and most of it is in mortgage debt—a lending specialty of commercial banks. By peering deeper into all of this we can begin to see that, with the help of the Federal Reserve, *bank lending* has allowed commercial banks to amass an enormous amount of assets while having claims on all U.S. wages and corporate profits.. Plus, every single penny of it runs through the U.S. banking system. Even the Federal Reserve's checks when issued in payment for *Open Market Operations*[5] to buy U.S. Treasuries must ultimately be deposited into commercial banks. SEE: ***Figure 3.***

FIGURE 3



But now notice this. Even though banks are currently sitting with $2.5 trillion in *excess* reserves—placed there by the Federal Reserve during the 2008 financial crisis and then later increased in several rounds of *quantitative easing*—the U.S. banking system still only actually has *vault currency* of roughly $68 billion[6] of the $500 billion circulating in this country. This is equivalent to half a penny on the dollar against the total of U.S. bank deposits of $10.4 trillion according to FDIC stats. Also note that total bank reserves to total bank deposits is only about 18 cents on the dollar. What we are looking at is the clear evidence of *fractional* reserves as apposed to 100% reserves. The difference in these numbers is the enormity of our expanded credit. The point is that if we had bank runs similar to what we saw in Cyprus and Greece recently, where people demanded their cash, our banks would likely be out of money by the end of the day. This is why we say that despite their enormous power and monopolistic control, banks are still very vulnerable to bank runs. They are the most systemic risk-prone financial intermediaries on the planet and this is why when they get *"too big to fail"* they must be bailed out by taxpayer money, or we all go down with them.

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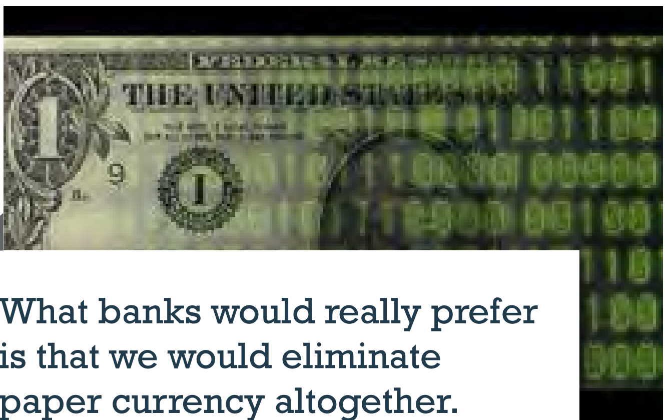
But couldn't the Federal Reserve just print the required dollars to meet this type of forced demand? Of course they could—after all it is just paper and ink. But that's just it; the banks would not really want that. Fractional reserve banking makes banks financial powerhouses and is, therefore, intentionally kept hidden from the masses. If we could actually withdraw the full amount of our money sitting in banks in actual currency I doubt, knowing what we now know, that we would redeposit that cash back into the bank. What banks would really prefer is that we would eliminate paper currency altogether.



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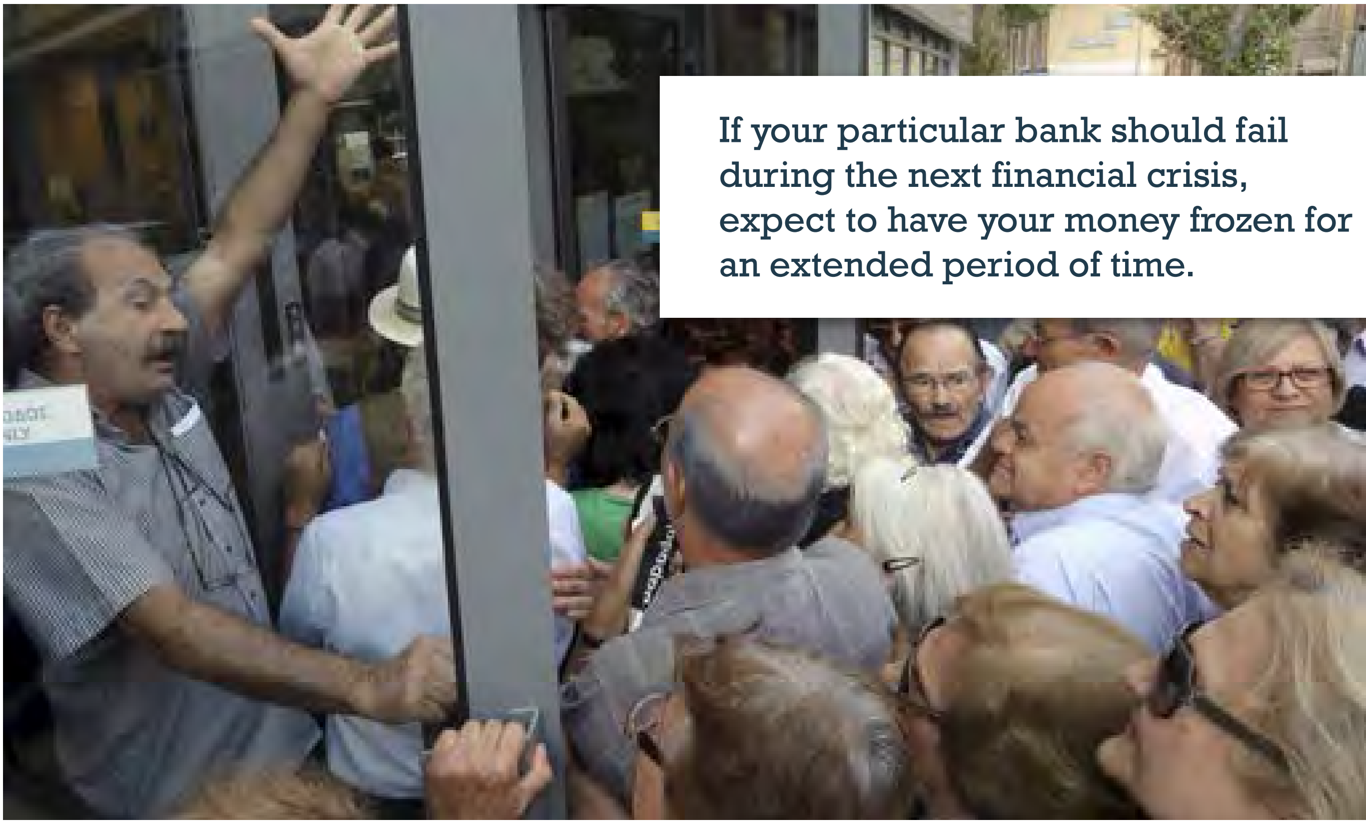
Most people sense that there is a huge financial crash coming; even our government officials realize this and they also know that cash could present a huge problem for banks. The present-day war on cash we now see everywhere is an ominous sign that banks are already taking steps to eliminate it. Chase Bank, the largest commercial bank in the



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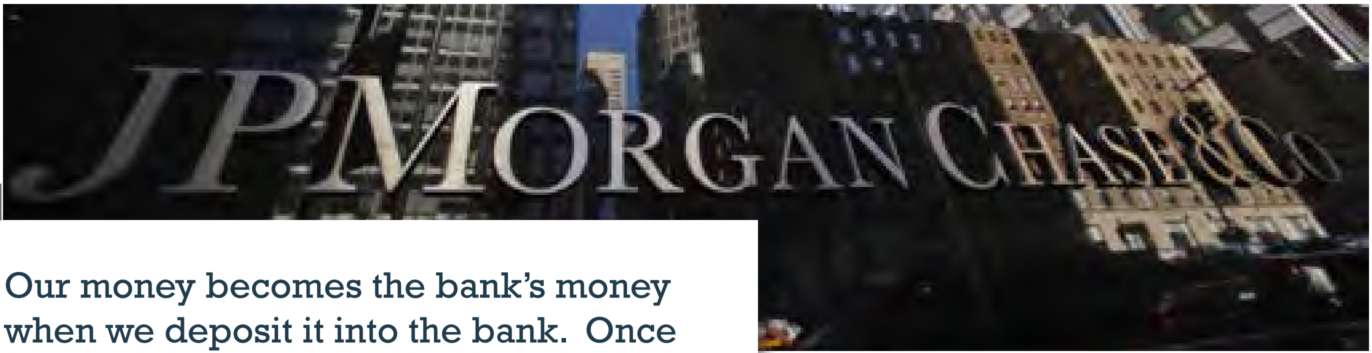
U.S., a division of Morgan Stanley, has already put in place new rules making it inconvenient to use cash.[6] How soon can it be before the authorities take more aggressive steps to phase it out altogether?

## Bank Deposits Are Risky—Now, More Than Ever.

All this comes to a head with the biggest problem facing all bank depositors today. The uninterrupted inflow and outflow of our money from commercial banks can now be legally and abruptly interrupted to our great disadvantage. This problem begins when we realize that the cash we hold in banks is not really our money even though we think it is. Actually, our money becomes the bank's money when we deposit it into the bank. Once we do that it goes on their books as a liability making us *creditors* of the bank. Now it is true that when we write someone a check or pay for something using online banking we do automatically reclaim title to our money and the payee receives it as a legitimate dollar transaction. But let's not forget what we stated earlier. Although we just made a dollar transaction we never actually held those dollars in our hands, but then again we seldom ever do. If you were to demand cash today for all the money you have in the bank and that total was more than $10,000, you will likely meet up with some bank resistance. Remember that banks don't really have that much vault currency on hand, and after all, you are merely a creditor of the bank, not really the owner of your deposited money.




**Our money becomes the bank's money when we deposit it into the bank. Once we do that it goes on their books as a liability making us creditors of the bank.**

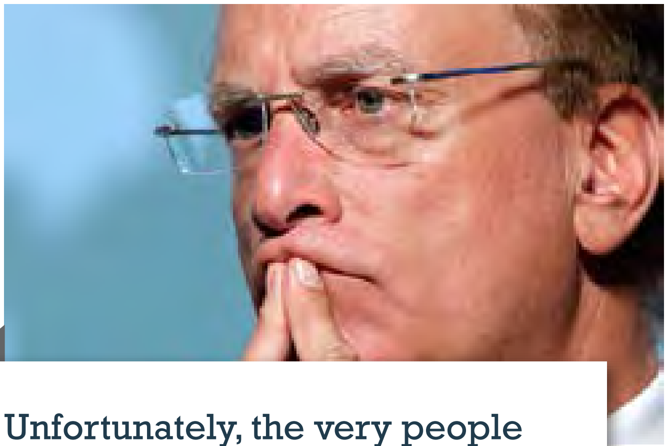
This problem increases by the recent enactment of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*[7] signed into law in January of 2010. In a simplified explanation, this law prohibits the use of taxpayer money to *"bail-out"* a financial institution that becomes insolvent. Instead, the Federal Reserve will now sequester that institution and attempt to *"rehabilitate"* it using that entity's own sources of capital, which is mostly comprised of stockholder and creditor monies. What makes this law problematic for us is that by creditor monies, they mean the bank depositors' money. These workout arrangements, or so-called *"bail-ins,"* have no assurance of success. The two recent test cases are what happened in Cyprus and Greece and the results for bank depositors were not good.

Bottom line is that if your particular bank should fail during the next financial crisis, expect to have your money frozen for an extended period of time and be aware of the risk of the possibility of losing it all. It is well worth understanding the parameters of this new law since not very much information is available without reading the actual law itself. For a more expanded yet still understandable explanation of the meaning of the Dodd-Frank Act, read my May 2014 ***LMR*** article, *"Bank Deposits Are Risky—Now, More Than Ever."* For a strategy that will help you prepare for the upcoming financial storms, read the *May, June and July, 2015 issues of the* ***LMR.***

## Conclusion

It is not difficult to conclude that the major owners of commercial banks have rigged the U.S. banking system in such a way that finding a way of escape seems near impossible. We are all so entangled with this system in an almost fatalistic embrace that with each passing generation the stranglehold only gets tighter and tighter. We might well be asking, *"How could things have gotten to this point?"*

It should well be understood that these powerful banking structures were not erected overnight. The central bank / commercial bank system has been around for centuries in other countries and even our own Federal Reserve System just celebrated its



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100th year anniversary. But how about the idea of just plain *cluelessness* as the main reason that things have escalated to this point? How many Americans know or care anything about banking? Perhaps John Adams was right when in 1829 he famously stated, *"All the perplexities, confusion and distress in America arises from the downright ignorance of the nature of coin, credit and circulation."* Unfortunately, the very people who are licensed to speak to people about their money pass much of this ignorance on to the masses.

This is why in 2013 Nelson Nash, Robert Murphy and I co-produced an educational course for financial professionals grounded in economics. In addition to covering the basic understanding of the "Business Cycle," which explains the booms and busts in the economy, students also learn the fundamental machinations of *fractional reserve banking* and credit expansion. But best of all, our Program graduates have a solution for going around this entire financial mess. It is well worth it to talk to one of them. You can find them listed at the Nelson Nash Institute https://infinitebanking.org/finder/

As I close this article (on Monday, August 24) I have just learned that the Dow is now down 850 points from Friday's close and halted…the NASDQ was the first to be halted at 7:58 ET and the S&P 500 Futures is halted for the first time in history. The allegedly "extreme" warnings we have been issuing for years are now dominating the headlines. *Here we go!*

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