Chapter 18

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.*
>
> *—R. Nelson Nash*[1]

As he tells the story in his underground classic, *Becoming Your Own Banker*—which has sold more than 200,000 copies—R. Nelson Nash hit upon the "Infinite Banking Concept" in a flash of revelation in the early 1980s. Nash realized that the proper use of dividend-paying whole life insurance could eventually allow someone to "become his own banker," meaning that he could obtain his lifetime financing needs (for cars, children's education, retirement income, and even house purchases) from policy loans and dividend payments, *rather than* from traditional banks or other lending institutions. Nash explains in the introduction:

> 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…
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> 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 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.[2]

In the above quotation, Nash is referring to the fact that whole life insurance policies are an excellent way to transfer large amounts of wealth (with significant tax advantages) to the next generation, either through (1) naming children as the beneficiaries on one's own policy, or (2) by funding policies on children or grandchildren when they are quite young, which will provide them access to a large store of capital later on in their lives.

However, in our context Nash's statement carries a special significance. As we will see, the widespread practice of IBC would greatly accelerate the achievement of the Sound Money Solution. In

a very real sense, a household's decision to practice IBC would increase the likelihood that future generations can grow up in a world enjoying monetary and banking freedom.

IBC: The Mechanics

The present book is not a substitute for Nash's original classic. Interested readers may also benefit from Dwayne Burnell's 2010 book[3] which gives a more conventional presentation of the compelling case for dividend-paying whole life insurance as a prudent component of a household's financial plan. In the remainder of this chapter we will provide a mere sketch of Nash's idea, so that the reader understands the logistics of self-financing through whole life policies. We will then be in a position to explain the significance of IBC to the Sound Money Solution.

The first step to practicing IBC is to take out a dividend-paying whole life insurance policy, provided by a mutual insurance company (in which the policyholders, not third-party stockholders, are the joint owners of the company). Normally this will be a policy on the person who wishes to implement IBC, but if that person is uninsurable he can still enjoy the "living benefits" of IBC, by taking out a policy on someone else in whom he has an insurable interest (such as a spouse, child, or business partner).

Recall from Chapter 15 that a whole life insurance policy allows the owner to accumulate "equity" in the policy, as long as he continues making premium payments. More specifically, the original contract specifies guaranteed surrender cash values, which grow every year the policy is in force. (These values are "guaranteed" in the sense that the policyholder is legally entitled to them if he decides to abandon his policy at any point.) Beyond the *guaranteed* cash values, the contract will also show projections of *actual* cash values, given assumptions about the performance of the insurance company's asset portfolio, and the reinvestment of dividends into the purchase of additional insurance. In other words, the cash value of a whole life policy has a constantly rising floor, but its actual value at any future date will likely be higher than the contractually guaranteed minimum.

If you talk with an actuary, he will tell you that the cash value of a whole life policy at any given time, is computed as the present-discounted value of the death benefit, minus the present-discounted value of the "adjusted future premium flow." What makes these values difficult to compute is the uncertainty of the time of death. But notice that with every passing year, the present value of the looming death benefit obviously increases, while the present value of the remaining stream of potential premium payments obviously decreases. This is why the cash value of a policy grows (exponentially) over time.

A more intuitive way of understanding the growth in cash values, is to realize that if the insured attains a high enough age (121 years for example), the growing cash value will have "caught up" with the growing death benefit. At that point the policy is completed, and the insurance company sends a check (probably for several million dollars) to the very senior citizen. Because the insurance company knows that it will ultimately have to pay a large sum on a whole life policy—either to the named beneficiary when the insured dies, or to the policyowner when the insured attains the required age and the policy is completed—the company needs to wisely invest the stream of premium payments to make sure there is sufficient wealth to meet its contractual obligations. As a policy matures, therefore, the portion of the insurance company's asset portfolio "backing up" the particular whole life policy continues to grow in market value. The guaranteed cash value of the policy represents (loosely speaking) this accumulating pool of assets being tended by the insurer.

In addition to the death benefit—which is paid tax-free to the named beneficiary upon the death of the insured—a whole life policy also generates "living benefits." One of these benefits is the payment of dividends. By their nature, insurance companies are very conservative, charging higher premiums than they will likely need (in an actuarial sense) to make the next year's death benefit payments. In a mutual company—one in which all the policyholders

collectively own the assets of the insurance company—the excess earnings are periodically distributed as dividends to the policyholders. The policyholders can draw out the dividends (tax-free, up until the original cost basis of lifetime premium payments has been surpassed), or they can choose to reinvest them by purchasing additional life insurance. In essence, by reinvesting the dividends a policyholder buys a "mini" version of his original policy, in a one-shot transaction. (Note that the premium payments do not increase with the purchase of additional insurance. The "mini" purchases are completely funded by the one-shot payment of a reinvested dividend.)

There is another major "living benefit" of a whole life insurance policy, which gets to the heart of IBC: The insurance company is prepared to make low-interest-rate *loans* to policyowners, with the "credit limit" being proportional to the cash value of the policy. The variable rate on the loan is contractually specified, and may allow the borrower to obtain the same low interest rate that major corporations achieve on their own bonds. The process is also quite simple. There are no lengthy forms to fill out, no need for a credit check, and no need to prove one has the income to pay back the loan. In fact, the insurance company doesn't really *care* whether the policyowner pays back the loan!

The explanation is that the insurer grants the loan, using the policy's death benefit as *collateral*. From the insurer's point of view,

therefore, a loan to a policyowner in a sense is the safest investment imaginable. Even U.S. Treasury bonds carry some risk of default. However, the insurance company *knows* that it will definitely recoup every last penny that a policyowner owes on a loan, even including the accumulated interest, because whenever the death benefit is paid out, the outstanding loan balance will be subtracted before the insurer cuts a check to the beneficiary. Naturally, if the policyowner pays back all or a portion of his policy loan, then this diminishes the lien against the death benefit, and frees up the cash value of the policy for future loans and/or a fuller death benefit payment.

IBC: The Practice

Nash recommends that individuals configure their whole life policies to allow for the quickest accumulation of cash values relative to the size of the premium payment. (There are IRS regulations limiting this practice, so it is of course crucial that anyone attempting to implement IBC deals with a competent agent who understands Nash's philosophy as well as the relevant tax laws.) Pushed to its logical extreme, a person wishing to implement Nash's vision would take out insurance policies not only on himself, but also on various people in whom he has an insurable interest, until the point at which his entire annual income is used to pay insurance premiums. In this way, one would truly have become his

own banker, meaning that the first stop or "headquarters" of his paychecks and other sources of income would be in a collection of his whole life policies. For such a person, the only point in having a standard commercial bank account, would be for the convenience of writing checks. The commercial bank wouldn't be necessary as a place to put savings, however, or even as a temporary resting spot when one figures out what to do with his "cash."

Naturally, most people do not push the concept this far, and in any event it would take many years to achieve such a position. In the beginning, Nash recommends that a person fund a single policy enough to reach the first milestone of buying his next car using his whole life policy, rather than with a traditional auto finance company. If the cash value has grown sufficiently, the policyholder could buy the new car by drawing out the dividends from the policy. However, it is more likely that a newcomer to IBC will not earn enough in straight dividends in the year he wishes to buy a new car. In that case, he can take out a policy loan from the insurance company, rather than turning to a traditional auto financing lender.

When newcomers to IBC apply for their first policy loan, they will be elated to discover that they can borrow at rates comparable to blue-chip bond yields—in other words, the individual can borrow on terms available to major corporations. Even so, Nash recommends that someone who borrows against his life insurance policy at these low rates, nonetheless acts as if he is being charged

the higher interest rate he *used* to pay, through conventional channels. For example, someone buying a new car could first obtain a written statement from the auto finance company stating the interest rate they *would* have charged for the particular car (and credit score of the borrower) in question. Nash then advises that the policyholder pays *this* interest rate back to the insurance company. Over the life of the loan, the policyowner who "pays himself back" in this manner will end up not only with a paid-off car, but also with higher cash values than he otherwise would have had, and all with the same out-of-pocket cashflows that he otherwise would have sent to the auto finance company.

In terms of psychological motivation, it is definitely very useful for people to view the situation as withdrawing money from "their bank" and then paying the interest as well as the principal "back into their own bank." However, it is important to understand precisely what happens when one finances a purchase in this manner.

In the first place, strictly speaking the policyowner does not "withdraw" money from the whole life policy when taking out a policy loan. On the contrary, the premiums continue to be paid, while the cash value and death benefit of the policy grow as they normally would, regardless of the loan.[4]

When a policyowner takes a loan against his policy, it is the *insurer* who advances him the money. Then this loan balance grows

with interest, according to the terms of the loan. To repeat, the insurer has the policy's death benefit as collateral, so it doesn't care how quickly, if at all, the borrower repays the loan.

Now if someone adopts the full strategy recommended by Nash, in which he borrows from the insurance company at (say) 5 percent but makes payment on the loan as if it were rolling over at 7 percent (which is what the standard auto finance company would have charged), technically what happens is that the loan from the insurer is paid off more quickly than the same loan would have been paid off through the auto finance company. (This is obvious, since the outstanding loan balance rolls over at 5 percent on the insurer's books versus 7 percent had the loan been obtained in the traditional manner.) At some point, the loan to the insurance company will have been fully repaid, and then the remaining "car payments" actually purchase additional life insurance, causing a greater increment in the cash value and death benefit of the policy. This is why it is so much smarter to finance a car loan (or other major purchase) through a whole life policy loan, rather than seeking outside financing: Because the insurance loan is typically at a lower rate than the outside loan (which can't seize the borrower's life insurance asset in the event of default), the same cash flow dedicated to car payments will translate into net capital accumulation, rather than simply eliminating an outstanding debt.

If the above verbal description has not convinced the reader, the numerical illustrations in Nash's book will make it clear that financing via IBC versus outside lenders is a "no brainer" in terms of ending up with both the purchased asset and more net wealth. (To repeat, if a person has built up his policy sufficiently, he can finance a new car purchase completely out of the dividends, rather than by taking out an actual loan against the policy.)

When considering an individual who buys a new car with outside financing, compared to someone who uses the IBC approach, some of the latter's advantage is simply due to the fact that the person using IBC has previously *saved* the necessary capital in order to purchase the car. So part of the reason so many people have had their lives transformed through IBC, is that it has instilled discipline in their household finances and they save a higher portion of their income than they did previously. In one sense this is an "apples to oranges" comparison then, when evaluating the advantages of IBC versus the typical American household's approach to credit cards, auto financing, and bank mortgages.

In other words, part of the "magic" of IBC is simply that it encourages households to *save up* before making purchases, rather than buying cars and other goodies by going into debt. This aspect of IBC's advantages has nothing to do intrinsically with whole life insurance, but reflects the obvious fact that people who defer

consumption end up wealthier over time, compared to people who spend their whole paycheck as soon as it comes in the door.

Having said all that, it is still undeniable that most Americans are not robotic moneychangers, choosing the strictly "optimal" strategy when it comes to their finances. There is a definite *psychological* reinforcement that the IBC philosophy gives to many households who have begun practicing it. This reinforcement is just as "real" as other factors when considering various financial strategies, and it should not be dismissed as irrelevant.[5] Simply put, people are much more likely to sock away money when they view it *not* as, "Saving whatever is left over this month" and instead view it as, "This is my life insurance premium, which I need to make in order to keep my policy in force, and also it funds the increase in my cash values so I can borrow it later on when I need it."

We should also mention that the ability to finance purchases through policy loans can carry particular advantages for policy owners who also run their own businesses. For example, the household may purchase a car (using a policy loan) and then lease it to the business. The lease payment would then be a business expense. Another popular practice is for dentists and other medical professionals to use policy loans to purchase expensive office equipment, and then lease it to their own practices. This can yield significant savings compared to seeking outside lenders. Yet another idea is to use policy loans to allow patients to pay on credit, which

allows the dentist (for example) to increase his sales while offering better financing terms to his patients than they could have obtained from a third party.

Sometimes discussions of the many possibilities of IBC—after all, it is called the *Infinite* Banking Concept—lead the skeptical outsider to think, "This is too good to be true. What's the catch? How can I generate money from nothing?"

Fortunately, there is a straightforward answer: It's not too good to be true. Setting aside the psychological motivation to save more, the advantage of borrowing from one's life insurance policy—as opposed to seeking outside financing—is simple: The loan rate is lower. This is why a dental practice, for example, will end up with far more wealth after a few years of self-financing, than if it relied on conventional lenders.

There is nothing magical about this fact. The *reason* the insurer is willing to lend at such reasonable terms, is that it has the policy's death benefit as collateral. What this means is that, if the dentist should get hit by a bus while he still has a $50,000 outstanding loan, then his widow or other beneficiary will get that much lopped off the death benefit check.

For this reason, it is important for those who are interested in IBC to do two things: First, they should make sure the beneficiaries of their policies understand the implications; the insurance company doesn't want angry widows demanding "full

payment" after an IBC aficionado dies of a heart attack at 42. Second, those practicing IBC should make sure that they are never borrowing so much against their policies, as to leave a hole in their household financial plan in the event of an untimely death. In other words, if a household's financial plan requires $1.5 million in death benefit payments in order for the beneficiary to pay off debts and live comfortably without the major breadwinner, then if that breadwinner is practicing IBC, he or she should only borrow against the portion of the death benefit that is in *excess* of $1.5 million. IBC is a technique to *amplify* the benefits of insurance; it should not be used in a way that defeats the original purpose of life insurance.

The *Volume* of Interest vs. the *Rate* of Interest

In this book, we claim that the "money masters" in the government and major media have pulled a giant con on the American public. When it comes to inflation, for example, Americans are encouraged to look at villainous Arab nations, greedy corporations, or grasping labor unions. Americans are *not* told to look at the true source of the inflation, namely the Federal Reserve and fractional reserve banking system. It is the magician's classic ruse of misdirection.

For another example, in America "everybody knows" that the smart thing to do for retirement planning is to contribute the

maximum amount into tax-qualified mutual funds year in, year out. The idea of using life insurance as a method of retirement planning is so foreign, that the quotations in this book to that effect from Ludwig von Mises sound hopelessly anachronistic.

And of course, the biggest con of all was to convince Americans that green portraits of U.S. presidents are a perfectly normal thing to use for money. Using gold and silver was "so 19th century."

Along these lines, Nelson Nash has found another example of the financial ignorance of the American public: the focus on the *rate* of interest (or yield) rather than the *volume* of interest. Consider Nash's diagnosis of the financial situation of middle-class America:

> Several years ago I did a good bit of study on the spending habits of American families….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. [Our hypothetical] 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…). 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…

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*…

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 $34,167 has gone to interest and closing costs…[Y]ou find that *86% of every dollar paid out goes to the cost of financing!*...

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*….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![6]

Now one of the present authors is a professional economist, and he can anticipate a typical reaction to Nash's discussion. A "sophisticated" financial planner might read Nash's diagnosis of the problem facing American households and say, "Rubbish! Of *course* interest rates matter! Suppose there are two households making the same annual income, and further suppose that they devote the same fraction of their disposable income to finance charges every month—in other words, they make the same amount of money and also pay out the same 'volume of interest' in Nash's terminology. The only difference is, the first household's debts roll over at 1%, whereas the second household's debts roll over at 10%. Now according to Nash, both households are in the same boat, since they have the same volume of interest payments. But that's nuts; with the same income, the people in household A live in a mansion and drive Hummers, whereas the people in household B live in a two-bedroom house and drive Volvos. Of *course* interest rates matter, and of *course* it's better to earn a higher yield on your investments than a lower yield."

This standard reasoning is correct as far as it goes: Yes, *if we fix the volume of interest a household will pay to outsiders in finance charges every month,* then the lower the interest rate being charged,

the higher the household's standard of living. This is due to the simple fact that for a fixed dollar amount of finance charges, a lower interest rate will allow the household to take on *a greater amount of debt* and thus to buy bigger houses, fancier cars, and more vacation cruises.

But Nash is pleading with Americans to *stop letting society at large tell you what the "proper" amount of outside financing should be!* In other words, we don't need to "fix" the volume of interest payments going out the door every month, and then within that framework scramble for the best deals to roll over our mountain of debt.

Consider the recent housing boom in the United States. When Alan Greenspan cut the federal funds target rate—in order to provide a "soft landing" after the dot-com crash—this pulled down long-term interest rates, including conventional mortgage rates. Now if Americans had continued to buy the same types of houses as they had at the higher mortgage rates, then Greenspan's intervention would've simply translated into lower mortgage payments for the typical household, and hence more money left over each month for dining out, medical bills, tuition, or—dare we say it?—for *saving*.

Of course, that's not what most Americans did when buying a new home in the period 2002 – 2005. Instead, they used the "expert" rule of thumb to determine how much of one's disposable

income "should" go to a mortgage payment. At the absurdly low mortgage rates, this automatic devotion of a fixed dollar amount to monthly housing expenses, translated into a willingness to buy much more expensive houses. In other words, many Americans didn't first decide what type of house they wanted, and then sought a loan to purchase it. No, many Americans worked the other way, first starting out with the question, "How much of a mortgage payment can we afford?" and then seeing "how much house" they could get for it.

In this particular example, of course, the tragedy was that mortgage rates eventually turned back up, and the bubble eventually popped. At that point, many Americans—especially those who had bought a house for purely speculative reasons, and financed it with an adjustable rate mortgage (ARM)—were caught in a terrible predicament: They were underwater on a house for which they couldn't afford the mortgage payments.

But even in an environment of stable interest rates, we see the problem that Nash has identified: Too many households pay their bills every month and then find, "There's nothing left!" Even if a spouse takes a second job, it seems there is no way to get ahead. Many households remain one sickness or layoff away from financial ruin.

There are many reasons for this, including punitive taxes and the boom-bust cycle itself. But Nash has pointed out that much of

the responsibility lies with the households themselves, in their attitude toward debt. There is nothing "natural" about paying a huge fraction of disposable income to outside lenders every month. The only reason it seems natural is that "everyone's doing it," but our mothers supposedly refuted *that* particular justification in our childhoods.

As a simple experiment, we ask the reader to guess—without looking—how much his or her household spends purely on *financing charges* each month. Write this guess down. Then, the next time the reader pays the bills, calculate the actual number. Remember that it includes not just obvious items such as the explicit finance charges on credit cards, but also the component of mortgage and car payments that doesn't go to principal reduction.

The result will probably shock most readers. What the number means, is that this is how much *extra "income"* the household would have each month, if its debts magically disappeared. It shows how much *past* decisions to accumulate debt—to spend beyond the household's means at the time—are constraining the household's *current* finances.

No one likes a pastor who claims to be sinless, and the present authors freely admit that they have been just as susceptible to the perverted vision of "the American dream" as anyone else. Our point in this section is not to wag our fingers at the reader and scold him or her for irresponsible prodigality.

On the contrary, our hope is to help the reader by *diagnosing the problem*. Once the problem is identified—namely, taking on far too much external debt—the solution is blindingly obvious: Households need to *live within their means*. They need to *save more*. They need to postpone big-ticket purchases because "we just don't have the money yet."

The main ideas in this book are quite simple. We stress that money should be sound, banking should be honest, and households should be frugal. Somehow the virtue of thrift—a penny saved is a penny earned—became yet another casualty of "modern economics."

It *is* possible to salvage your household's financial situation, despite the shackles put in place by powerful forces. But you don't stand a chance if you allow these same forces to design your blueprint for escape. As on so many other topics, when it comes to financing decisions Americans should consult the leading "experts"—and then do the opposite.

Becoming Your Own Banker

It is easy to get lost in the details of particular applications of the IBC process. In the grand scheme, what Nelson Nash is recommending is quite simple: He advises every household to go into the banking business, in addition to whatever other sources of

income it enjoys. However, an IBC bank is special in that it has only one "depositor": the person who owns it. In this way, the household banking operation is not subject to the numerous regulations concerning conventional banks, because the only person's wealth at risk is the one making life insurance premium payments.

Once someone has built up a sufficient amount of saved capital in his "bank," he is ready to begin making loans to borrowers. Again, an IBC bank differs from a conventional bank in that the first customer is going to be the banker himself! That is, the person practicing IBC will begin "lending himself" money when he needs to buy his next car, or when he needs to pay for his daughter's wedding. Yet as the decades pass, and the IBC process yields an ever-growing stockpile of available capital, the household banker can begin using policy loans to take advantage of lucrative investment opportunities, as opposed to conventional lifetime needs. This means that the IBC practitioner has options unavailable to the average American. To give just one example, Nash has a very intriguing section in his book showing that it might do a child far more good to fund a policy rather than pay the same cashflow for a four-year college degree. The hefty cash value in such a policy would then allow the 22-year-old (without a college degree) to start a lucrative car leasing business, assuming he or she had the requisite business savvy.

The genius of Nash's concept is that he identified a traditional financial product sitting within everyone's grasp, and yet escaping everyone else's notice. In principle, households could stockpile savings using other techniques, and become "banks" without using whole life insurance policies. Yet as we'll see in the next chapter, whole life policies are appealing on several criteria, whereas other vehicles have at least one major drawback.

As a final note in this section, we remind the reader that IBC is not a "gimmick," nor does it rely on a "tax loophole." It is true, one of the advantages of IBC versus other possible approaches is the excellent tax treatment that whole life policies currently enjoy. In particular, if dividends are reinvested back into the purchase of additional life insurance, the accumulating cash values are not subject to tax. Later on, if the owner elects to withdraw the dividend payments as income, these too are tax-free up until the point at which the lifetime premium payments have been exhausted. In other words, the policyholder is only taxed on the dollars taken out of the vehicle, over and above the ones initially put in. (The reason is that the IRS treats these payments not as dividend or interest income, but as a "return of premium," because the policyowner was charged more premium than the insurer ended up needing, in order to meet its death benefit obligations.) And a very significant tax advantage is that the entire death benefit goes to the beneficiary tax-free.

Having said all this, IBC doesn't work *merely* because of the current configuration of the tax code. Whole life insurance has been around twice as long as the IRS; it is not a creature of the state. It just so happens that the features of mutually owned, dividend-paying whole life insurance companies are almost perfectly suited to allow middle-class households, with relatively little hassle, to begin accumulating financial capital in order to enter the banking business.

On the subject of taxes, we should issue one final note of caution so that the reader understands the correct case for IBC: If a policyowner advances loans or leases equipment to his outside company, and then has his company treat the interest and lease payments as tax-deductible business expenses, he must be sure to declare these payments as taxable *income* when filing his household taxes. As of this writing, the IRS does not object to the techniques described above, and actual IBC practitioners have survived audits. The key to a successful defense, however, is to document every transaction and to make sure that any claimed business expense involving payments to the household, has a corresponding income claim on the household's tax filing.

[1] R. Nelson Nash, *Becoming Your Own Banker*, Fifth Edition (Birmingham, AL: Infinite Banking Concepts, 2008), p. 18.
[2] Nash, *Becoming Your Own Banker*, p. 3.
[3] Dwayne Burnell, *A Path to Financial Peace of Mind* (Bothell, WA: FinancialBallGame Publishing, 2010).
[4] We are simplifying somewhat in this section of the text, in order to introduce the mechanics of a policy loan. In practice, some insurance companies reduce the dividend that they pay to a policyholder, based on the size of any outstanding policy loan. (In other words, if two policyholders had identical whole life policies and cash values, but one had an outstanding loan while the other did not, some insurance companies would pay higher dividends to the second policyholder.) The advantages of self-financing through policy loans are obviously reduced, if doing so slows the internal rate of return on a policy's cash values. However, this slight complication does not change the fact that the borrower still does much better by obtaining his financing at much lower interest rates from the insurer, than by turning to a traditional finance company.
[5] The psychological motivation is not the *only* advantage of IBC. Depending on the specifics, it is possible that the internal rate of return on a whole life policy's cash values are greater than the after-tax yield on bank CDs. Nash's Table 1 (p. 45) illustrates a plausible scenario in which someone eventually accumulates more wealth by financing car purchases through IBC, rather than by using a sinking fund involving bank CDs.
[6] Nash, *Becoming Your Own Banker*, pp. 17-18.