Research Survey Supporting Information

Money/Banking Information

Handout

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What You Need to Know about Banking

Banking Truths	Ramifications/Comments
As soon as you deposit money in a bank, the money is no longer yours.	• The deposited funds become the bank's property and you become an unsecured creditor with an IOU from the financial institution. • Many people mistakenly believe that their account balance shows what they own. This is not so. Instead, it shows what the bank owes you. You merely hold a claim on cash or its equivalent.
Banks have always dispensed cash when a depositor requests a withdrawal. **We have been conditioned to believe we can go to our bank and get our money in cash anytime. However, legally that has never been the case.**	• As of Dec 10, 2012, failing banks will be resolved with Bail-In procedures **giving big banks legal authorization to confiscate our money without advanced warning**. This will happen overnight. • **The FDIC will not replace our money in a Bail-In scenario.** Our money will be used to recapitalize a new bank on the ashes of the old. Our account balances will be converted to equity (stock) in the new company and we will be responsible for selling this new stock to get cash. This happens because the FDIC will no longer be responsible for our deposits. **Why? Because the FDIC only insures cash accounts not equity accounts.**
Banks DO NOT lend their deposits. **Banks DO NOT lend their own money.**	• The common perception banks use our deposits and loan it to others is not true. Banks capitalize new loans by creating new money.
All loans in the US are funded by banks creating new money out of thin air.	• All money, except coins, is loaned into existence. • Money is created by creating debt. Money = Debt.
Banks create money by advancing credit to a borrower. For a borrower to get money from an "approved" loan, the bank creates a deposit in the borrower's name.	• Banks are not allowed to print cash, but they can do what from their point of view is the next best thing: create checking deposits out of thin air. **Banks issue loans out of thin air by opening up a checking account for the customer, whose balance (new money) is created out of nothing, in the amount of the loan.** • The new money created by this process covers only the principal of the loan not the interest charged. Since money can only be created by issuing a new loan, the only way to pay the interest is to create new debt. **This is why the national debt can never be paid off**.
One of a bank's primary sources of income is the interest collected on loans.	• To create new debt (and bank profit), banks must continually "encourage" people, companies and governments (local, state, federal and other countries) to borrow more and more.
Federal Reserve Notes i.e., the US dollar, are back by nothing e.g., gold or silver. They are simple pieces of paper that have value because the Federal Reserve and the U.S. Treasury say they do.	• This is what is commonly known as fiat (from the Latin- "let it be done") currency. • To avoid any confusion with an Italian car manufacturer you could also call it – "because we say so" currency.

The Federal Reserve is a private corporation and not a part of the Federal government.	• The Federal Reserve openly admits as much. For example, in defending itself against a Bloomberg request for information under the Freedom of Information Act, the Federal Reserve stated in court that it was "not an agency[1]" of the U.S. government and therefore not subject to the Freedom of Information Act
Why would the US Government borrow money from a private bank (Federal Reserve) and pay interest, when they could create the money themselves and have NO INTEREST PAYMENTS and NO GOVERNMENT DEBT?	• The answer is the Federal Reserve Act of 1913. • This legislation gave a private institution and their private owner's control of the money creation process in the US. Our country's debt could conceivably be 0 if the money creation process had been left in the hands of the federal government where the Constitution specifically says it should be.
All US banks are private except the Bank of North Dakota which is a public state bank.	• **The Bank of North Dakota acts like a mini Federal Reserve for the state,** providing corresponding banking services to virtually every financial institution in North Dakota**.** • **All interest payments stay within the state to be used to fund projects or reduce taxes.** • 40% of the world's banks are public.
Public banks create money the same way private banks do. The difference is a publically-owned bank returns the interest income back to the government or community it represents, while private banks siphon the interest income into the bank's private accounts and private bank owners accounts, progressively drawing money out of the productive economy.	• States deposit their revenues in Wall Street Banks (private banks) at minimal interest and then borrow money at much higher rates; yet they (the States) have massive capital and deposit bases themselves. • **If the States each had their own public banks, they could leverage money into low-interest (or no interest) credit for local purposes.** • **A state's infrastructure costs could be reduced by as much as 50% using the state's public bank.**

[1] http://www.wlf.org/Upload/legalstudies/legalopinionletter/102309Fleschert_LOL.pdf

The Great Secret of Banking

"It is well enough that people of the nation do not understand our banking and money system, for if they did, I believe there would be a revolution before tomorrow morning." Henry Ford, founder of the Ford Motor Company.

The *Great Secret of Banking* is that banks do not lend their depositor's money or their own but rather, loans are funded exclusively through the creation of new money. Banks create new money by advancing credit to a borrower. The bank creates a deposit in the borrower's name in the amount of the loan. *And for this the banks charge interest even though they have done nothing or risked anything to deserve it*[2].

When someone goes to a bank to get a "loan" we have been led to believe the bank is "borrowing" some of its existing assets to us and because the bank will no longer have these assets available, we should pay interest for their assets use. This is 100% false. We have been sold a bill of goods and have been blatantly lied to. When a bank makes a loan, it simply adds to the borrower's deposit account in the bank by the amount of the loan. The money is not taken from anyone else's deposits; it was not previously paid in to the bank by anyone. It's new money, created by the bank for the use of the borrower.

➔ Banks increase their profit by creating new money from nothing and charging interest for this "service."

➔ New money can only be created by creating new debt (under the current US banking system.)

➔ New debt can only be created by "encouraging" new loans.

➔ If a new loan becomes bad, the property's owner is foreclosed upon and bank gets the asset.

➔ Foreclosed properties, now owned by the bank, are sold at fire-sale prices bringing in new buyers.

➔ New buyers mean new loans and the process continues.

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[2] Author comment: **The creation of money by banks is so incredibly simple most people just don't believe it**. For over a year I have been asking people if they know how money is created and no one has been close to the right answer. This confusion is understandable since one of the banking industry's primary goals is to distract people from the reality of money creation. They befuddle people by adding a myriad of complicated ancillary finance issues so the essence of their money-making regimen is hidden. People accept the fallacy of paying interest because "it's always been that way," when in fact it hasn't. It only became common when the 1913 Federal Reserve Act was signed. This created a privately owned central bank with the Congress "delegating" its Constitutional power to coin money to private banking concerns. The banking industry's program of misleading the public is so complete, the majority of Americans cannot even conceive of the possibility of no-interest loans. Public Banks can exist and thrive with some of their loans bearing no-interest payments.

Paper Money or Paper Debt

The dollar bills pictured below may look similar but are monumentally different in their effect on the country.

This is MONEY

This is DEBT

A government does not have to issue its currency via an independent privately held central bank like the Federal Reserve. Rather, it can, if it wishes, issue its own currency and back that currency by precious metals. The United States Treasury did just that when it issued ***Silver Certificates*** from 1878 to 1964. In accordance with an Act of Congress, dated February 28, 1878, the Department of the Treasury issued to the public Silver Certificates which could be exchanged for silver dollars. The exchange of silver certificates for silver bullion ended in June 1968. The ***Silver Certificate*** is paper money and is still considered legal tender, which means it can be used as money to conduct financial transactions. This type of money carries no debt at all.

The ***Federal Reserve Note (FSN)*** *is* paper money issued by the Board of Governors of the Federal Reserve and backed by nothing other than the full faith and credit of the United States. FSNs are not issued by the US Treasury but rather a private bank, the Federal Reserve, which was created by an act of Congress in 1913. FSNs have their value because the Federal Reserve and the U.S. Treasury says that they do. This is what is commonly known as fiat (from the Latin- "let it be done") currency, or to avoid any confusion with an Italian car manufacturer – "because we say so" currency.

FSNs are real money i.e., legal tender, but they are 100% debt with interest owed by the US Government to the private bank that created them i.e., the Federal Reserve. Since private banks can only create new money from new debt, this money comes about because the US Treasury has “borrowed” money from the Federal Reserve and given the Federal Reserve US Treasury Bonds as collateral. **And just like any other private bank, the Fed charges the US Government interest even though they have done absolutely nothing to deserve it.**

> **Why in the world would the Federal Government borrow money from a private bank (Federal Reserve) and pay interest on this, when they could create the money themselves and have no interest payments & no government debt at all?**

A government can also issue non redeemable or unbacked currency which the US issued in the form of a United States Note from 1878 to 1971. A United States Note has a distinctive red seal and serial number and is still considered legal tender. The difference between a United States Note and a Federal Reserve Note is that a United States Note represents a "bill of credit" and was inserted by the Treasury directly into circulation free of interest. Federal Reserve Notes are backed by debt purchased by the Federal Reserve, and thus generate interest income for the Federal Reserve System.

This type of money is also called “Sovereign Money,” and carries no debt at all.

All US Banks are Private – Except One

Since the passage of the Federal Reserve Act in 1913 all banks in the US, including the Federal Reserve, were private until 1919 when North Dakota formed the first Public Bank in the United States. To this day the Bank of North Dakota (BND) remains the only public bank in the US. The financial benefits the BND has brought to the state are astounding.

A Nov 16, 2014 article in the Wall Street Journal stated that the BND;

1. Is more profitable than the Goldman Sachs Group
2. Has a better credit rating than JP Morgan Chase
3. Hasn't seen a profit growth drop since 2003
4. Has more than doubled its total assets since 2007
5. Its return on equity, a measure of profitability, is 18.56%, about 70% higher than those at Goldman Sachs and J.P. Morgan
6. Has a Standard & Poor's Ratings of double-A-minus which is above the rating for both Goldman Sachs and J.P. Morgan and among U.S. financial institutions, second only to the Federal Home Loan Banks, rated double-A-plus.

The article goes on to describe other unique aspects of the BND's public banking model:

1. It traditionally extends credit, or invests directly, in areas other lenders shun, such as rural housing loans.
2. Retail banking accounts for just 2%-3% of its business. The bank's focus is providing loans to students and extending credit to companies in North Dakota, often in partnership with smaller community banks.
3. It acts as a clearinghouse for interbank transactions in the state by settling checks and distributing coins and currency.
4. The bank's mission is promoting economic development in the state, not competing with private local banks[3].

[3] http://www.wsj.com/articles/shale-boom-helps-north-dakota-bank-earn-returns-goldman-would-envy-1416180862 by Chester Dawson. Dawson goes on, however, to credit the BND's remarkable performance to the Bakken oil boom. Giving his article the controversial title, "Shale Boom Helps North Dakota Bank Earn Returns Goldman Would Envy: U.S.'s Lone State-Owned Bank Is Beneficiary of Fracking," he contends: "The reason for its success? As the sole repository of the state of North Dakota's revenue, the bank has been one of the biggest beneficiaries of the boom in Bakken shale-oil production from hydraulic fracturing, or fracking. In fact, the bank played a crucial part in kick-starting the oil frenzy in the state in 2008 amid the financial crisis" That is how the Wall Street-owned media routinely write off the exceptional record of this lone publicly-owned bank, crediting it to the success of the private oil industry. But the boom did not make the fortunes of the bank. It would be more accurate to say that the bank made the boom. Dawson confirms that the BND played a crucial role in kick starting the boom and the economy, at a time when other states were languishing in recession. It did this by lending for critical infrastructure (roads, housing, hospitals, hotels) when other states' banks were curtailing local lending. But while the state itself may have reaped increased taxes and fees from the oil boom, the BND got no more out of the deal than an increase in deposits, as Dawson also confirms. The BND is the sole repository of state revenues by law. Having excess deposits can hardly be the reason the BND has outdistanced even JPMorgan Chase and Bank of America, which also have massive excess deposits and have not turned them into loans. Instead, they have invested their excess deposits in securities. Interestingly, the BND has also followed this practice. According to Standard & Poor's October 2014 credit report, it had a loan to deposit ratio in 2009 of 91%. This ratio dropped to 57.5% in 2014. The excess deposits have gone primarily into Treasuries, US government agency debt, and mortgage-backed securities. Thus the bank's extraordinary profitability cannot be explained by an excess of deposits or an expanded loan portfolio. Further eroding the Dawson explanation is that the oil boom did not actually hit North Dakota until 2010. Yet it was the sole state to have escaped the

What, then, are the remarkable achievements of this lone public bank attributable?

1. The answer is something the privately-owned major media have tried to sweep under the rug: the public banking model is simply more profitable and efficient than the private model.

2. **Profits, rather than being siphoned into offshore tax havens, are recycled back into the bank, the state and the community.**

3. The BND's costs are extremely low: **no exorbitantly-paid executives; no bonuses, fees, or commissions; only one branch office; very low borrowing costs; and no FDIC premiums (the state is self-insured).**

4. These are all features that set publicly-owned banks apart from privately-owned banks. Beyond that, they are **safer for depositors, allow public infrastructure costs to be cut in half** since no interest needs to be charged as the BND would just be paying the interest charges back to itself[4].

Public vs. Private Banks

Public banking is *banking operated in the public interest*, through institutions owned by the people through their representative city, county or state governments. Any governmental body which can meet local banking requirements may create a public bank with no federal legislation needed. For instance, all required laws and procedures are in place so an Idaho State Public Bank, an Ada County Public Bank or a Boise City Public Bank can be created with each serving the needs of their particular population.

Public Banking is not new, in fact, 40% of banks globally already use it. It hasn't taken root in the US because the big banks and particularly the Federal Reserve have keep it quiet so as not to ruin their legal and dynastic money creation oligarchy.

credit crisis by the spring of 2009, when every other state's budget had already dipped into negative territory. According to Standard & Poor's, the BND's return on equity was up to 23.4% in 2009 – substantially higher than in any of the years of the oil boom that began in 2010.

[4] Text taken from http://www.publicbankinginstitute.org/bnd_outperforms_wall_street by Ellen Brown.

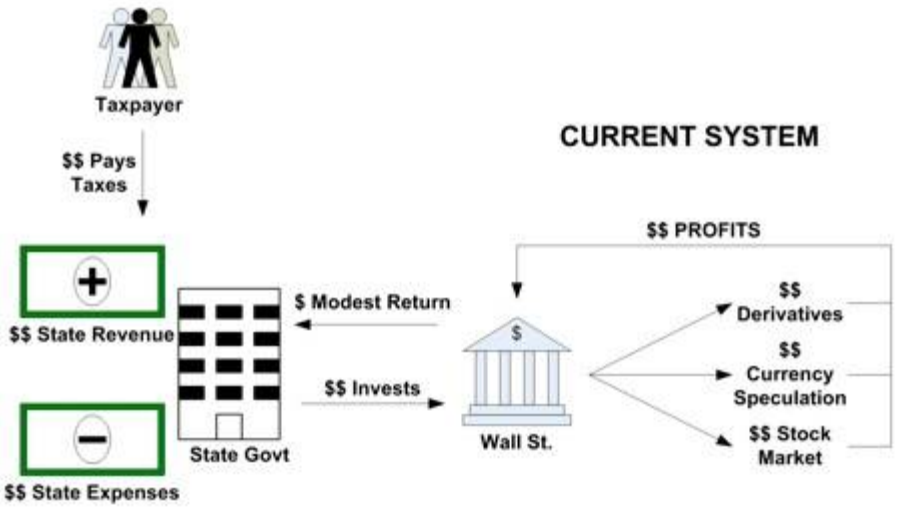

Figure 1: Private Banking Money Flow

Public banking is distinguished from private banking in that its mandate is to serve the public good. Privately-owned banks, by contrast, have shareholders who generally seek short-term profits as their highest priority. Public banks are able to reduce taxes within their jurisdictions, because their profits are returned to the general fund. Costs of public projects are greatly reduced since public banks can charge low interest rates or in some cases no interest. Eliminating interest reduces the cost of public works projects by 50%.

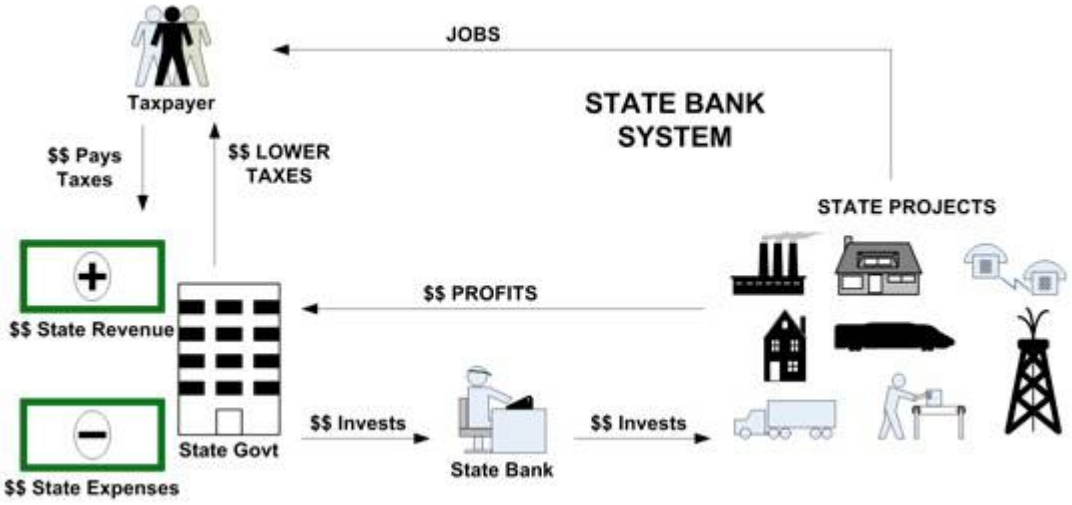

Figure 2: Public Banking Money Flow

Table - Comparison of Public vs. Private Bank

Item	Public Bank	Private Bank
Number of Banks	• **One** - Bank of North Dakota formed in 1919.	• 6,891 as of Oct 2013[5].
Ownership	• Owned by the people of the state, county or city population served.	• Owned by private people, corporations, or foreign interests.
Goal	• Promote the economy of the state or community in the best possible way by providing credit for growth and prosperity. • State Public Bank - Underwrite & guarantee local community bank financing thereby reducing or eliminating bank failures in the state. • Local Community Public Bank – provide a safer deposit option and allow more attention to individual customer needs.	• Rapid, short-term generation of profit.
Investment Options	• None. • All funds and profits are used to serve the people of the state or community.	• Any kind - Derivatives, CDOs, Stock & Bond trading, gold purchases, Real Estate, International projects etc. • Money can go anywhere in the world and most certainly out of the state where it was deposited.
Risk	• Safe. The money is to be used for state or local community people & projects only.	• Extremely High. With the repeal of the Glass-Steagall Act in 1999 private banks can now comingle consumer deposit accounts and investment accounts in the same pool for the purposes of the bank's own investments. Since consumer accounts are protected by the FDIC, investment accounts are now also protected but for the banks only – not consumer investment accounts.
Operation	• Public servants & professional bankers.	• Politicians & professional bankers.
Manager Wages	• Salaried public servants paid by the state or community with a transparent pay structure. • No bonuses or stock options because public banks have no stock. • No perks other than normal pay raises.	• Millions, limited only by the bank board's approval. • Paid from bank profits. • Unlimited bonuses. • Perks including stock options, planes, houses etc.

[5] According to the Federal Deposit Insurance Corp., in the past 30 years, more than 10,000 banks have closed because of mergers, consolidations or failures. The overwhelming majority of those closures were small banks, or those with less than $100 million in assets. Small banks are the most important source of loans for small businesses. Since the end of the recession, small banks have approved three to four times more small business loans every month than big banks. Small banks make their money from what many think of as traditional banking -- the spread between the interest they pay to depositors and the interest borrowers pay for loans. However, the Federal Reserve's monetary policy since the 2008 financial crisis of keeping interest near zero has cut that difference paper-thin. http://www.cbsnews.com/news/number-of-us-banks-drops-to-record-low/. Since 2008, rules created by the Bank for International Settlements and the Federal Reserve have hit small banks the hardest. This trend of creating and constantly modifying laws and financial rules has been a huge burden for small local bank hindering their continued operations. The many small changes coming from many different agencies and many different directions when taken in aggregate appear to be intentionally caused so as to create an environment where small local banks can be easily acquired by big banks.

Accepting Consumer Deposits.	• A state public bank most likely would not take these deposits. • A county or city public bank may take these but doing so would put them in competition with already existing local banks and that is contrary to the mission of a public bank. However, if the only local banks are branches of big banks then a county or city public bank should be created to directly compete against the transferring of state generated funds to out-of-state owners.	• Yes
Ownership of Depositor's Money	• The public bank owns the depositor's money but the owners are the citizens of the state or community being served.	• The private bank owns the depositor's money for the direct benefit of the private owners of the bank.
Depositor Insurance	• A public bank would self-insure rather than use the FDIC which has regulations and large fees. This does not put depositors at risk. Rather, it helps avoid risk and unnecessary expense, since the community's assets would cover far more than the FDIC's $250,000. • FDIC insurance is not only expensive but subjects members to FDIC regulation, making the state subservient to a semi-private national banking association. • Public banks would not join the FDIC to maintain their financial independence.	• FDIC. • Currently the FDIC reserves cover only .25% (that's ¼ of 1%) on deposits, and .008% (8 one thousandth of a %) when derivative exposure is included.
Bank Borrowing	• Public banks would be part of the Federal Reserve System to access the low interest rates given to private banks.	• Private banks are part of the Federal Reserve System which allows them to acquire funds at low interest rates
How new money is created.	• Public banks create money by advancing credit to a borrower. • When a public bank makes a loan, it simply adds to the borrower's deposit account in the bank by the amount of the loan. The money is not taken from anyone else's deposits; it was not previously paid into the bank by anyone. It's new money, created by the bank for the use of the borrower.	• Private banks create money by advancing credit to a borrower. • When a private bank makes a loan, it simply adds to the borrower's deposit account in the bank by the amount of the loan. The money is not taken from anyone else's deposits; it was not previously paid into the bank by anyone. It's new money, created by the bank for the use of the borrower.
Amount of interest charged.	• A State Public Bank does not finance intrastate projects to make a profit. They are financing projects for the public good of its citizens. • Can charge no interest if it desires. Since the State Public Bank is financing state projects the assignment of interest payments is simply creating and paying money back to itself. • Interest rates are set by the state on a case-by-	• Private Banks fund loans with new money created out of thin air specifically for that purpose. They then charge interest for doing something where they have risked none of their own assets. • Interest is one of the primary sources of bank profits and is used solely for the personal benefit of the bank's owners. • Interest is charged for all loans.

	case basis. For example, the state might charge interest on a loan taken by an out-of-state contractor doing work in the state.	• Highest rate possible.
Interest dollars collected.	• If interest is assigned to a loan, all proceeds go back into the local coffers for the direct benefit of the citizens of the community served.	• All interest proceeds go to the private owners of the bank. • The owners of a private bank may not be US citizens so the income and profits could be going to another country.
Interest dollars spent.	• All interest proceeds are used to pay for state or community projects, agencies, personnel or anything directly benefiting the citizens of the local served. This includes the reduction of taxes.	• Spent exclusively by the private owners of the bank who could be any single person, group, corporation, or non-US entity.
Role of local banks.	• Cooperative • Local banks do the jobs normally attributed to banks i.e., saving & checking accounts and loans with more attention paid to local customers because they are their neighbors. • If the only community banks are local branches of the big national banks then a county or city public bank should be created to directly compete against the transferring of state generated funds to out-of-state owners. • If the only community banks are local branches of the big national banks then the state public bank would not necessarily want to cooperate with these institutions as they (big banks) would be conducting business in a way contrary to the state public bank's mission of promoting the state's economy. This mission requires money made in the state to stay in the state. However, any money made by the big national banks would be transferred out-of-state for the exclusive use of the bank's private owners who could be any single person, group, corporation, or non-US entity.	• Local branches of big national banks are very Competitive.
Disaster Relief.	• A state public bank can provide disaster relief thru immediate funding as witnessed by the North Dakota floods of 2014. While disaster victims in other states wait for federal relief that is often too little too late or rely on insurance policies with obscure clauses excluding coverage when needed most.	• No, not unless the can make money on it.