



# Infinite Banking Primer

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Cash flow management is the number one challenge small business owners, entrepreneurs, and households encounter. While discipline plays an important role, the hard truth is that the traditional financial system fails to equip people with the necessary tools required to efficiently save, finance, and invest. This is largely due to our lack of sound money, which punishes savers and fuels an economy driven by consumption and short-term thinking.

Another issue is the tendency to outsource banking needs. We all have a banking need because everything we buy is financed, either by paying interest to third-party creditors or through the lost opportunity cost from paying cash. When you relinquish control of your capital, you forfeit the potential for future growth on your capital. This reliance on the traditional banking system not only forces your capital to flow in through one door and quickly out the other but keeps you dependent on others to obtain the things you want and need in life. Business owners, entrepreneurs, investors, and individuals want surefire ways to achieve financial freedom without taking on significant risk or sacrificing other valuable opportunities.

This is where Infinite Banking comes in as the solution, empowering you to immediately take control of your finances, reduce risk, protect capital, and build a permanent asset for long-term wealth accumulation. **Infinite Banking is a proven strategy that allows you to efficiently save and compound capital, but rather than spending your capital, thereby surrendering any future growth on your capital, you can safely borrow against it to eliminate lost opportunity costs.** In this primer, we'll explain what Infinite Banking is, how it works, and highlight the best use cases, while showing you the steps to get started.

## Control & Financial Freedom



## Guaranteed Growth & Access to Financing



## Short-term Action, Long-term Results



## Minimal Effort & Sacrifice





# What is Infinite Banking?

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The Infinite Banking Concept was first introduced by the late R. Nelson Nash, who discussed the concept in his book *Becoming Your Own Banker: Unlocking the Infinite Banking Concept*. The book is highly recommended for those interested in Infinite Banking. However, we define **Infinite Banking** as the ***process of safely growing and leveraging capital using a specially designed, dividend-paying Whole Life insurance policy from a mutual company***. This definition was carefully crafted to capture each component of Infinite Banking.

- **The Process** - Infinite Banking is not a product, but a time-tested process that requires a change in thinking and disciplined behavior. This is not a theory, but an action that provides users with control, setting the stage for long-term wealth creation.
- **Safely Building Capital** – There are alternatives used to grow capital, and there are alternatives used to preserve capital, but this structure provides an unmatched combination of both safety and lifetime guarantees embedded within Whole Life insurance.
- **Safely Leveraging Capital** – Wall Street has no shortage of ways to take on more debt, but the inherent benefits from Infinite Banking allow us to safely leverage our capital with little to no risk. Leverage is critical because we all have a banking need, and this allows us to avoid interrupting the compounding of our capital by borrowing against it, rather than giving it away.
- **Specially Designed Policy** – A straight Whole Life insurance policy offers certain benefits, but by structuring the policy accordingly to maximize liquidity AND growth based on the policyholder's needs, we can greatly improve the utilization of the strategy.
- **Dividend-Paying** – A dividend-paying (or “participating”) Whole Life insurance policy pays dividends out to policyholders which can be used to boost the long-term compounding of the strategy.
- **Whole Life Insurance** – Many out there foolishly attempt to sell indexed universal life (IUL) policies as the foundation for Infinite Banking. However, these policies can be expensive and dangerous, especially later in life. They fail to provide the time-tested security & guarantees required for Infinite Banking to be successful.
- **Mutual Insurance Company** – As opposed to stock companies that are owned by external shareholders, mutual companies are owned by the policyholders, or the customers themselves. This aligns incentives across the board and provides policyholders with enhanced benefits and growth as we’ll see later on.

This combination of features allows us to create a privatized banking system and warehouse for our wealth, offering the unique ability to ***access our capital without interrupting the growth on our capital***. Before we show you why Infinite Banking is the perfect solution to solve our problems, we need to explain the fundamentals behind the process.



# Infinite Banking Fundamentals

## *The Product*

While Infinite Banking is the *process*, Whole Life insurance is the underlying product or foundation. Whole Life insurance is a type of permanent insurance that provides permanent death benefit coverage for the life of the insured or until he/she turns age 121, in which the death benefit is paid out in full. Policyholders pay predetermined, fixed premiums to the insurance company for a defined period of time. The insurance companies pool risk across millions of policyholders, thereby reducing the risk of loss.

During the life of the policy, the insurance company invests the premiums (“float”) in high-quality, fixed-income assets that generate a return on capital. The insurance company then generates profits and increases the ability to pay claims. It’s critical that the insurance company carefully assess risk, because unlike a bank or an investment manager, they contractually guarantee the death benefit payouts. It’s not a matter of “if,” but “when.”

Whole Life insurance is a time-tested asset that has been around since the mid-1800s, preceding major events like the Civil War, Great Depression, the Income Tax, the skyrocketing inflation of the 1970s, the Great Financial Crisis, and more. While Infinite Banking is a newer concept that has been officially organized, numerous wealthy business owners and entrepreneurs like J.C. Penney, Walt Disney, and Ray Kroc found use leveraging their whole life insurance policies to start, grow, or protect their businesses.

Banking on Whole Life Insurance	
<b>J.C. Penney</b>	J.C. Penney borrowed against his Whole Life insurance policy during the Great Depression to keep his business afloat as thousands of banks failed.
<b>Walt Disney</b>	Walt Disney borrowed against his Whole Life insurance policy to start Disney after banks denied him loans after failing to see his vision.
<b>Ray Kroc</b>	Ray Kroc borrowed against his Whole Life insurance policy to pay employees of McDonald’s in the early growth stages.

## *Cash Value*

During the life of the policy, the insurance company assigns a Cash Surrender Value (“Cash Value” for short) to the policy. This is effectively the net present value of the death benefit. Since this is permanent insurance, and the only question of the death benefit payment is “when,” insurance companies are always prepared to surrender the policy, relieving them of their future obligation. During the life of the policy, since the insurance company can invest premium dollars, and because the risk of early death is minimized, the cash value increases every year to equal the death benefit at age 121. The cash value can also be boosted through dividends, and once a cash value has ascertained a certain value, it cannot contractually decline. Cash value is an asset.



## ***Base Premium vs. PUA***

Contributing dollars towards base premium effectively means paying for your death benefit over time. Dollar-for-dollar, as opposed to PUAs (see below) this buys you more death benefit and allows the policy to become more efficient over time, but it also comes with uncertainty for the insurance company. A sizable base is necessary to boost long-term growth for the policy, but as critics note, we won't receive much liquidity in the short-term because the insurance company is relying on you paying premiums for years to come that can be pooled and invested.

As opposed to straight Whole Life insurance, in which 100% of premiums go towards base, Infinite Banking involves a specially designed policy, where a portion of premium dollars are used to buy PUAs (paid-up additions). These PUAs are single premiums that buy additional death benefit, which is added to the base policy death benefit. Since they are already paid up, it reduces uncertainty for the insurance company. As a result, PUAs boost immediate liquidity allowing the policyholder to increase and borrow against early cash value. Infinite Banking policies are specially designed to provide sufficient liquidity in the short term while buying enough base to generate long-term growth.

## ***Stock vs. Mutual Companies & Dividends***

There are generally two types of life insurance companies - stock and mutual. Stock companies are owned by stockholders who are entitled to profits from the company. On the other hand, mutual companies are owned by policyholders, and any profits that accumulate beyond the insurance company's operating expenses, claims, and reserves are paid out to policyholders in the form of dividends. With Infinite Banking, we only work with mutual companies when designing our policies, which gives clients more control. Incentives are aligned with mutual companies.

Additionally, the companies we work with have a history of paying dividends for over 100 years in a row. These dividends, if used properly, are paid out tax-free. While these dividends can be paid out in cash, we prefer to receive the dividends as more Paid-Up Additions when designing an Infinite Banking policy. By setting these up to buy more insurance, we're not only obtaining more immediate liquidity, but we're boosting the long-term compounding of the policy.

## ***Policy Loans***

It's possible to take withdrawals, and potentially tax-free withdrawals from the policy. However, our objective with Infinite Banking is to grow and leverage capital, and we can achieve this by leveraging cash values. The insurance company contractually guarantees access to policy loans. Since the insurance company already owes you a large death benefit, the policy loan, which is collateralized by the cash value, is deemed as very low risk to the insurance company, and therefore, rates are quite attractive compared to alternative loans you might find in the banking industry. For instance, while we don't focus too heavily on policy loan rates because it misses the big picture (safely leveraging your capital, thereby not interrupting your compounded capital growth), we're currently seeing loans offered in the 4.00-5.50% range for context. Borrowers have full control over the repayment schedule.



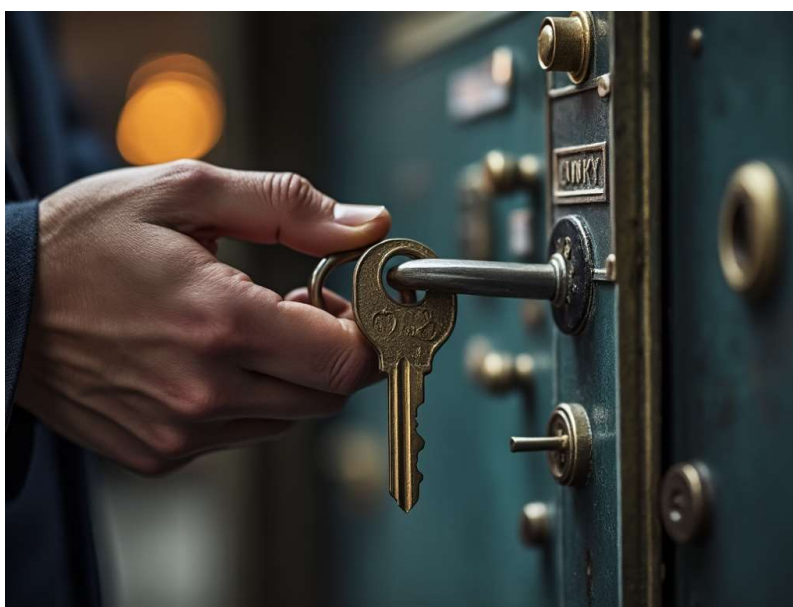
# Why Infinite Banking Works

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The best way to show why Infinite Banking works so well is to compare it to the traditional financial system. We'll show you why Infinite Banking allows us to **regain financial control, create a guaranteed long-term warehouse for our wealth, and provide a far superior way to save, finance, and invest.**

## *Control*

While Infinite Banking is not a “bank” in the literal sense, it does serve as a privatized banking system that we control. Whole Life insurance, which is the foundation of Infinite Banking, is a contract with an insurance company. It comes with lifetime guarantees - not just in the death benefit that will be paid out, but the growth of and access to cash values. The cash value of a contract is not some hypothetical number based on grandiose market expectations. Instead, it represents a contractual value that the insurance company would pay out to policyholders to surrender the policy and relieve the insurance company of future obligations.



## *Warehouse of Wealth*

Saving within a Whole Life insurance policy is required to get started with Infinite Banking, but the main point is to leverage your capital to buy the things you need or fund attractive investment opportunities. However, an outstanding policy loan isn't just a liability - it serves as a warehouse for future wealth. Repaying policy loans frees up the growth on your capital until the next opportunity presents itself. Due to our inflationary money, having the capacity to deploy capital at guaranteed growth rates in the future is critical for long-term wealth creation.



## ***Saving***

Historically, banks had two primary functions: to store money and issue loans. In today's terms, we can think of those two functions much more simply as demand deposits and time deposits, respectively. With a demand deposit (i.e., a checking account), banks store your money and provide you with immediate access when you "demand" it. On the other hand, a time deposit (i.e., a CD) is effectively a loan to the bank (that the bank lends out to capture a spread) in which your capital is locked up for a period of time and the bank eventually pays you back with interest.

The issue today is that banks don't really differentiate between demand deposits and time deposits. Banks engage in fractional reserve banking, in which they give you the illusion of control with your savings but still lend out those dollars by printing money. This is destabilizing for the banking system, and due to the increased leverage, either poor investments or a sudden rush for cash can threaten bank solvency. As a result, banks generally are unable to pay attractive interest rates on savings. A large percentage of profits go towards buying back stock or are paid out to shareholders.

Contrarily, Whole Life insurance serves as a sound money alternative. Insurance companies have components of both "demand deposits" and "time deposits," in which current cash values serve as immediately available capital, while the longer-term guaranteed growth of the policy serves as a long-term asset. There's no confusion by the policyholder or the insurance company, and as a result, the insurance company can elect safe investments to drive growth and pay dividends to policyholders that exceed the guaranteed returns.

## ***Financing***

Infinite Banking also provides a far superior way to finance purchases. Since the cash values of a policy are always less than the death benefit throughout the life of the policy, the insurance company always owes you (death benefit) more than you owe the insurance company (policy loans collateralized by cash values). As a result, unlike banks that require you to apply for loans, demand strict and expensive repayment terms, and may come after your assets if you don't repay, insurance companies don't even ask what your loans will be used for. They can also offer cheaper rates and aren't concerned whether or not you even repay the policy loans. Outstanding loan balances and interest would just be subtracted from the death benefit paid out to your beneficiary.

## ***Investing***

While some talk about the benefits from a savings and financing perspective, few understand how complementary Infinite Banking is to an investment strategy. The reality is that even the most successful investors experience periods in which attractive investment opportunities aren't available. Infinite Banking is so helpful because it provides you with a place to store your capital that pays you to wait. Additionally, when you think about many of these companies paying out 5%+ tax-free dividends, it reduces the FOMO (fear of missing out) and allows investors to be much more selective.

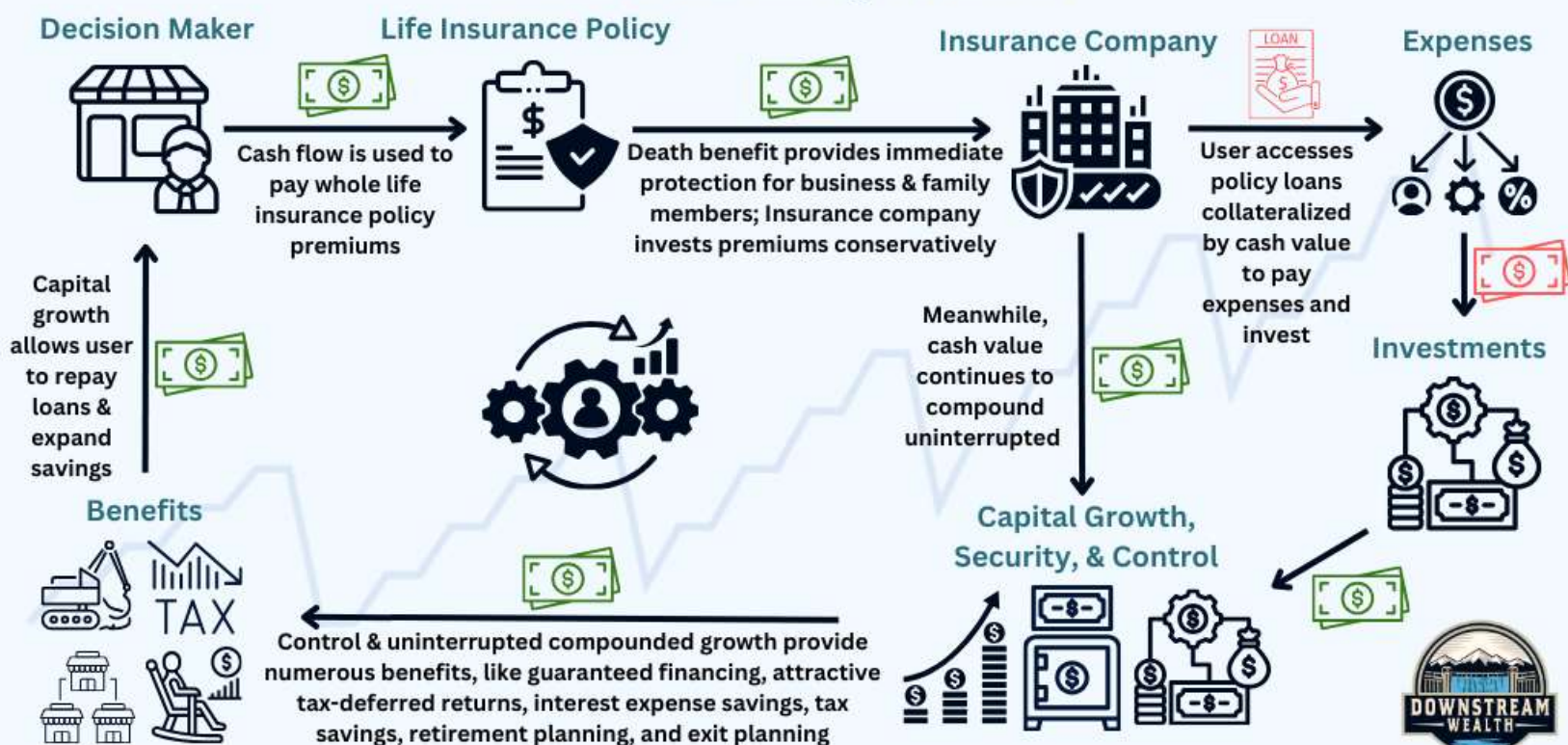
# Using Infinite Banking

Many get tripped up trying to understand how to use their Infinite Banking policies. Whether you are a small business owner, entrepreneur, investor, or household, the process is very simple. Policies are structured conservatively to ensure you have sufficient cash liquidity on-hand for current expenses. Beyond that, excess cash is used to pay base premiums & PUAs. Policy loans can then be taken to invest in new opportunities, finance purchases, pay down debt, or even refill your current cash reserves (if necessary). When cash frees up through income, a savings in cash flow from financing, or investment returns, it's used to replenish your privatized banking system.

## Traditional Cash Flow Model



## Infinite Banking Process







## *Use Cases*

Infinite Banking use cases are “infinite,” but we’d like to highlight a few common ways we see clients using their policies. Please note there’s quite a bit of overlap across the many use cases, and this largely ignores the benefits alone from Whole Life insurance such as retirement income, a tax-free death benefit used for estate planning, or creditor protection.

### *Business Owners, Entrepreneurs, and Investors*

- **Equipment Financing** – Rather than paying cash or using bank loans, business owners may borrow against their whole life insurance policies to fund the purchase of new equipment. By doing so, they create a permanent, compounding asset, while avoiding heavy bank fees and avoiding any bank liens on their assets should they run into a tough year and be unable to pay back the loan.
- **Escrowing Taxes** – Unlike W2 employees, business owners and entrepreneurs have the privilege of paying the government’s ransom quarterly. Cash must be stored somewhere, so rather than sitting in a taxable bank account and withdrawing cash, users may pay policy premiums from revenue and use policy loans to pay taxes. Future estimated tax payments can then be used to pay down policy loans and refill the company’s liquid reserves.
- **Investments** – Whether Infinite Banking users are looking at business expansion, private investments like real estate, private placement deals, businesses, or accumulating assets to protect against inflation (i.e., gold, commodities, Bitcoin, etc.), or wish to invest in publicly traded securities (stocks or higher-yield credit instruments), policy loans can be used to access capital. The best part is that when investment opportunities don’t exist, capital compounds tax-deferred within the policy, paying investors to wait for the right opportunities.

### *Households*

- **Home or Vehicle Financing** – Many with sub-4% mortgages may think they got a great deal when buying their home. However, around 70% of your mortgage payments may be going to interest in this case. It’s not just the rate that matters, but the **volume** of interest. By leveraging cash values to finance a home (or a portion of your home), loan repayments aren’t amortized, and therefore, our clients are able to pay down loans much more quickly by rapidly reducing principal balances. The same idea works for vehicles.
- **Education** – Many parents save for their children’s college. This is a great education tool where parents can take out a policy on their kid, allocate money each year to the policy, and once he/she turns 18, the parent can transfer ownership, allowing him/her to borrow against the policy to pay for tuition, room & board, and textbooks. Rather than having crippling student loan debt, the child will have a permanent growing asset, death benefit, and savings vehicle.
- **Family Vacations** – Many are already saving for vacations, but rather than saving cash and spending cash, parents can use Infinite Banking to create a permanent asset, use policy loans to pay for vacation, and repay policy loans as they begin saving for the next year’s vacation.



## ***Getting Started with Infinite Banking***

If you're reading this, you probably already have some level of interest and at least a few questions. We believe education is the most important step to getting started with Infinite Banking. Our clients start with an introductory call, which allows them to ask us questions and allows us to assess their understanding and specific interest in Infinite Banking.

From there, we provide additional resources to help educate clients. Once we're confident our clients understand the concept, we provide a personalized presentation showing clients how we'd recommend structuring a policy for their needs. Our analysis focuses heavily on your cash flow and liquidity. We then get our clients feedback to help us optimize the solution. We take the burden off you by handling the policy application, monitoring next steps, issuing the policy, and helping you with any questions when getting started and beyond.

Infinite Banking isn't for everyone. However, if you are interested, these are some basic requirements for getting started with Infinite Banking:

1. A general willingness to think differently and learn
2. Some level of savings, free cash flow, or financial discipline
3. An insurable interest (is frequently the owner, but could be a key person in a business or a child, for example)
4. Provide general financial info such as savings, cash flow, assets, and debt
5. Basic health and lifestyle questions to assess what type of rating you may receive

If you're interested in hearing more about Infinite Banking, visit [Downstreamwealth.com](https://Downstreamwealth.com) or scan the QR below. You'll find additional resources such as a FREE Infinite Banking for Small Business Owners book, a weekly blog post, and an in-depth FAQ section for those new to Infinite Banking. You may also reach us directly at [info@downstreamwealth.com](mailto:info@downstreamwealth.com).



## ***About Us***

Downstream Wealth was created by two financial industry veterans with extensive but unique backgrounds. We strive to help clients obtain financial sovereignty, protect & build capital, drive business growth, and monetize value. To learn more about our history, values, principles, and approach, please visit [downstreamwealth.com/who-we-are](https://downstreamwealth.com/who-we-are).