

PROOF - FROM THE HORSES MOUTH THE FEDERAL RESERVE ON MONETIZING YOUR PROMISSORY NOTE

“Each and every time a bank makes a loan, new bank credit is created – new deposits- brand new money.” Graham F. Towers, Governor, Bank of Canada 1934-1954.

“The process by which banks create money is so simple that the mind is repelled.” John Kenneth Galbraith (Economist).

I recently requested copies of various publications published by several branches of the Federal Reserve Bank. The quotes reproduced below are taken verbatim from several of these publications. They explain that the customer of a bank is the depositor when he obtains a loan and that he is entitled to the return of his deposit. The explanations you will read below admit that banks or depository institutions within the Federal Reserve System do not loan money from their own assets but rather, they create money by simply entering the amount created or crediting it in an accounting ledger.

Hats the Federal Reserve Wears

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Paragraph 6, Paragraph 3:

“Money for loans comes from two sources: 1) people who have saved and are willing to lend their savings; and 2) institutions such as banks, which have the power, within limits, to create money in checking-type accounts when they make loans.”

Paragraph 8, Paragraph 3:

“Federal Reserve notes are the only kind of paper money issued today.”

Modern Money Mechanics

Federal Reserve Bank of Chicago

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Page 3, Second Column, Paragraph 1:

“Who Creates Money? ... The actual process of money creation takes place primarily in banks. ... checkable liabilities of banks are money. These liabilities are customers’ accounts. They increase when customers deposit currency and checks and when the proceeds of loans made by the banks are credited to borrower’ accounts. ...”

Page 7, Example 3, Expansion-Stage 1:

“Expansion takes place only if the banks that hold these excess reserves increase their loans or investments. Loans are made by crediting the borrower’s deposit account, i.e., by creating additional deposit money.”

“Stage 7: Expansion continues as the banks that have excess reserves increase their loans by that amount, crediting borrowers’ deposit accounts in the process, thus creating still more money.”

“In the United States neither paper currency nor deposits have value as commodities. Intrinsically a dollar bill is just a piece of paper, deposits merely book entries. The actual process of money creation takes place primarily in banks.”

As noted earlier, checkable liabilities of banks are money. These liabilities are customers’ accounts. They increase when customers deposit currency and checks and when the proceeds of loans made by the banks are credited to borrowers’ accounts.

In the absence of legal reserve requirements, banks can build up deposits by increasing loans and investments so long as they keep enough currency on hand to redeem whatever amounts the holders of deposits want to convert into currency. This unique attribute of the banking business was discovered many centuries ago.

Then, bankers discovered that they could make loans merely by giving their promises to pay, or bank notes, to borrowers. In this way, banks began to create money. More notes could be issued than the gold and coin on hand because only a portion of the notes outstanding would be presented for payment at any one time. Enough metallic money had to be kept on hand, of course, to redeem whatever volume of notes was presented for payment.

Transaction deposits are the modern counterpart of bank notes. It was a small step from printing notes to making book entries crediting deposits of borrowers, which the borrowers in turn could ‘spend’ by writing checks, thereby ‘printing’ their own money. – Page 3

If business is active, the banks with excess reserves probably will have opportunities to loan the \$9,000. Of course, they do not really pay out loans from the money they receive as deposits. If they did this, no additional money would be created. What they do when they make loans is to accept promissory notes in exchange for credits to the borrowers' transaction accounts. Loans (assets) and deposits (liabilities) both rise by \$9,000. Reserves are unchanged by the loan transactions. But the deposit credits constitute new additions to the total deposits of the banking system. Page 6.

Page 24 says: "Loans add to bank deposits." The June 1992 edition shows standard bookkeeping entries from Page 7 to 33 proving that money is recorded as a bank asset and a bank liability is evidence of money a bank owes. The bookkeeping entries prove that banks accept cash, checks, drafts and promissory notes as money deposited to create checkbook money, which are bank liabilities which shows that the bank owes money to the one who deposited money at the bank.

Page 6 says, "What they do when they make loans is to accept promissory notes in exchange (an exchange or swap is not a loan) for credits to the borrowers transaction accounts" (emphasis added). Loans (assets) and deposits (liabilities) both rise. Then the next sentence explains that the bank assets and liabilities increase by the amount of the alleged loan. "Bank do not really pay out loans from the money they receive as deposits. If they did this, no additional money would be created." (emphasis added).

I BET YOU THOUGHT..... – FEDERAL RESERVE BANK OF NEW YORK

"Banks create money by monetizing debt." For example, if the Fractional Reserve is 10%, a bank that has on deposit \$1 million (10% of \$10 million) can loan an additional \$9 million, money the banks don't actually have-they've created money!

Checkbook money is 'created' by currency deposits. Commercial banks create checkbook money whenever they grant a loan, simply by adding new deposit dollars

To accounts on their books in exchange for a borrower's IOU.

Money creation bookkeeping isn't gimmickry. Far from it. Banks are creating money based on a borrower's promise to repay (the IOU), which in turn, is often secured or backed by valuable items the borrower owns (collateral).

Banks create money by 'monetizing' the private debts of business, individuals and governments. That is, they create amounts of money against the value of those IOU's.

To create money, however, banks must have 'excess' reserves, funds exceeding those they are legally required to hold.

If a bank has excess reserves, it can create an amount of money equal to the excess, it can grant a loan. Borrowers write checks against their new deposits. When these checks are deposited at other banks, those banks collect payment from the borrower's bank. Bankers know that when other banks present borrower's checks for payment, they will have to transfer reserves on a dollar-for-dollar basis.

Page 5 says, "money doesn't have to be intrinsically valuable, be issued by a government or be in any special form."

Page 27 explains that the banks create new money by depositing IOU's, promissory notes, offset by a bank liability called a checking account balance. Deposit creation, rather than currency deposits, accounts for most of the \$375 billion of checkbook money.

Money is not limited to cash. Money is anything that has value and banks or people accept as money and money does not have to be issued by the government. Page 9 explains that cash and checkbook money have equal value.

I BET YOU THOUGHT- FEDERAL RESERVE BANK OF BOSTON

"There are no longer any specific backing requirements for Federal Reserve Notes."

"Banks create money by monetizing debt."

MONEY, BANKING & MONETARY POLICY – FEDERAL RESERVE BANK OF
DALLAS

It may not seem to make much sense, but banks actually 'create' money when they lend it. – Page 9.

Banks actually create money when they lend it. Because the loan becomes a new deposit, just like a paycheck does... This page also explains that when banks grant loans, they create new money. – Page

BANKING BASICS – FEDERAL RESERVE BANK OF BOSTON

Contrary To popular belief, credit cards are not a form of money even though people often refer to them as 'plastic money'. Credit cards users are actually taking out a loan.... Page 20.

TWO FACES OF DEBT – FEDERAL RESERVE BANK OF CHICAGO

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Page 19, Paragraph 3-5: "In their publication, the Federal Reserve admits to converting loan applications into money. They also admit to an obligation to return this money to their customers upon demand, just as they would return checks or cash that has been deposited into their bank.

Paragraph 3: "For an individual institution, they arise typically when a depositor brings in currency or checks drawn on other institutions. The depositor's balance rises, but the currency he or she holds or the deposits someone else holds are reduced a corresponding amount. The total money supply is not changed."

Editorial comment/Clarification:

From this paragraph, we conclude that when you deposit checks or cash into your account, the total money supply does not increase. Think about it. If you deposit a check at your bank, your account balance increases, but the account from which your check was written decreases an equal amount. If you are depositing cash, you are simply transferring money from one person to another person, or from one account to another account.

Paragraph 4: “But a depositor’s balance also rises when the depository institution extends credit, either by granting a loan to or buying securities from the depositor. In exchange for the note or security, the lending or investing institution credits the depositor’s account or gives a check that can be deposited at yet another depository institution. In this case, no one else loses a deposit. The total of currency and checkable deposits, the money supply is increased. NEW MONEY HAS BEEN BROUGHT INTO EXISTENCE BY EXPANSION OF DEPOSITORY INSTITUTION CREDIT. SUCH NEWLY CREATED FUNDS ARE IN ADDITION TO FUNDS THAT ALL FINANCIAL INSTITUTIONS PROVIDE IN THEIR OPERATIONS AS INTERMEDIARIES BETWEEN SAVERS AND USERS OF SAVINGS.”

Editorial comment/Clarification:

If through extending credit “new money is brought into existence” and if this money is in “addition to funds” other than what the institution provides in their operations, then, it is obvious that the lender does not loan any of their own assets or the assets of the depositors when a loan is given or when they “extend credit”.

“In exchange for the note..” (“the note” refers to your completed credit card or loan application, which is considered a promissory note) “...the lending or investing institution credits the depositor’s account ...” (creating your account and depositing the money into your account amounts to the same thing)

“...or gives a check that can be deposited at yet another depository institution.” (if they can write a check from your application/promissory and give it to another bank, this is further confirmation that your application has been converted into money)

“...the money supply is increased. New money has been brought into existence by expansion of depository institution credit.” (if the money created from your loan application causes the money supply to be increased, and it is “new money,” it brings up the question—where did the money come from?) It was derived from your signature, which is your personal property. Since the banks have created the money using your personal property, it is your money. This means the banks are paying for your credit card purchases with money that belongs to you!

Paragraph 5: “But individual depository institutions cannot expand credit and create deposits without limit. (don’t you feel sorry for them) Furthermore, most of the deposits they create are soon transferred

to other institutions. **A DEPOSIT (OF MONEY) CREATED THROUGH LENDING (FROM YOUR LOAN APPLICATION) IS A DEBT THAT HAS TO BE PAID ON DEMAND OF THE DEPOSITOR, (THAT’S YOU)** JUST THE SAME AS THE DEBT ARISING FROM A CUSTOMER’S DEPOSIT OF CHECKS OR CURRENCY IN THE BANK.”

Other characteristics that vary with types of debt are the collateral a borrower offers, if any, the contractual arrangement for payment of interest and principal, and the

negotiability of the debt instrument itself. – Page 1

In addition to issuing securities, the federal government, through the Federal Reserve System, issues non-interest-bearing debt-currency or paper money. Currency is so widely accepted as a medium of exchange that most people do not think of it as a debt. Technically, however, Federal Reserve notes are liabilities- Page 4.

Debt provides a money creation function. It also provides a means of creating entirely new funds – funds needed to finance the greater volume of new projects and spending that contribute to economic growth.

New money has been brought into existence by expansion of depository institution credit – Page 18 & 19.

TWO FACES OF DEBT – FEDERAL RESERVE BANK OF NEW YORK

“In addition to securities (IOU’s) the Fed issues debt as money. Most people did not realize that debts are assets.”

Points of Interest

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Banks and Deposit Creation: “Depository institutions, which for simplicity we will call banks, are different from other financial institutions because they offer checking accounts and make loans by lending checkbook deposits. The deposit creation activity, essentially creating money, affects interest rates because these deposits are part of savings, the source of the supply of credit. Banks create deposits by making loans. Rather than handing cash to borrowers, banks simply increase balances in borrowers’ checking accounts. Borrowers can then draw checks to pay for goods and services. This creation of checking accounts through loans is just as much a deposit as one we might make by pushing a ten-dollar bill through the teller’s window. With all of the nation’s banks able to increase the supply of credit in this fashion, credit could conceivably expand without limit. ... **When banks create checkbook deposits, they create money as well as credit since these deposits are part of the money supply.”**

Accounting Standards:

The Financial Accounting Standards Board publishes accounting standards in its annual publication Original Pronouncements. Under the Statement of Financial Accounting Standards No. 65 (FAS65), “Accounting for Certain Mortgage Banking Activities,” it states that:

- “1. Mortgage banking activities primarily consists of two separate but interrelated activities: (a) the origination or acquisition of mortgage loans and the sale of the loans to permanent investors from a variety of sources, including applications received directly from borrowers (in house originations), purchases from realtors and brokers, purchases from investors, and conversions of various forms of interim financing to permanent financing.”

And under the Statement of Financial Accounting Standards No. 91 (FAS91), “Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases,” it states that:

- “4. An enterprise may acquire a loan by lending (originating the loan) or by purchasing (acquiring a loan from a party other than the borrower). This Statement applies to both a lender and a purchaser. This Statement shall be applied to individual loan contracts.” In other words, the phrase “originating the loan” means purchasing a loan from the borrower and “purchasing a loan” means buying the loan from a third party after it has been purchased from the borrower.
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THE NATIONAL DEBT- FEDERAL RESERVE BANK OF PHILADELPHIA

The power [of creating money] also makes it possible for governments to pursue policies which could have even more disastrous results than bankruptcy.”

PUTTING IT SIMPLY- BOSTON FEDERAL RESERVE BANK

“When you or I write a check there must be sufficient funds in our account to cover the check, but when the Federal Reserve writes a check there is no bank deposit on which that check is drawn. When the Federal Reserve writes a check, it is creating money.”

MONETARY POLICY IN THE UNITED STATES – FEDERAL RESERVE BANK OF SAN FRANCISCO

p.13 “Bank loans are funded by banks creating new deposits.”

A DAYS WORK AT THE FEDERAL RESERVE BANK OF NEW YORK – FED BANK OF NEW YORK

“There is still another and more important element of public interest in the operation of banks beside the safekeeping of money; banks can ‘create’ money. One of the most important factors to remember in the connection is that the supply of money affects the general level of prices—the cost of living. The Cost of Living Index and money supply are parallel.”

GOLD – FEDERAL RESERVE BANK OF CHICAGO

“Without the confidence factor, many believe a paper money system will eventually collapse. Present experience indicates the system can operate without a gold guarantee however, and that the only confidence required is a firm conviction that money will be accepted in payment for goods and services.”

FEDERAL RESERVE BANK OF CHICAGO – ABC’S OF FIGURING INTEREST

Page 2 explains that by depositing money in a savings account, an individual makes a loan to the bank.

FEDERAL RESERVE BANK OF CHICAGO – PUBLIC DEBT – PRIVATE ASSET

Page 2 explains "The bank owes us the money that is in our account."

"Federal Reserve bank credit does not consist of funds that the Reserve authorities get somewhere in order to lend, but constitute funds that they are empowered to create." (Federal Reserve Bank: Its Purposes and Functions, 1939 Edition) Evidence straight from the Federal Reserve's own documents !! Almost like taking candy from a baby !!

Conclusion: "In the United States neither paper currency nor deposits have value as commodities. Intrinsically, a dollar bill is just a piece of paper, deposits merely book entries...The actual process of money creation takes place primarily in banks." The Federal Reserve Bank publications *I Bet You Thought*, page 27, and *Modern Money Mechanics*, pages 2-25, and others admit that the bank creates new money every time that banks grant loans, that the promissory note is money, and that the bank records a loan from you to the bank, resulting in a new bank liability. The new bank liability shows that the bank owes you money from recording the promissory note or credit card application as a loan from you to the bank. The lender KEEPS THIS DEPOSIT AND NEVER PAYS YOU BACK.

The bank does not fulfill its part of the loan agreement to legally loan you money, thus nullifying the agreement between the two of you, and releasing you from a "repayment" obligation. SO THE UGLY TRUTH OF WHAT THE BANKS ARE DOING IS TO LEND YOU YOUR OWN MONEY. YES, YOU, THE BORROWER CREATED THE FUNDS FOR YOUR OWN LOAN. The bank still owes you for the value of the converted funds they obtained for free due to the power of your signature. The bank never risked any of their own assets or the assets of their depositors in this transaction and in fact are forbidden to loan out their own assets due to the policies of the Federal Reserve. The banks bookkeeping entries, tell who loaned what to whom and how much. Therein lies what happened. Nowhere in the agreement or promissory note does the bank say that they're going to alter the note (in violation of UCC 3-407, by the way) and change it into a draft AFTER you sign it so that it modifies "in any respect the obligation of a party" and they do it by "an unauthorized addition of words to an incomplete instrument relating to the obligations of a party." These words are "Pay to the Order of". Now the bank can sell or deposit this negotiable instrument, just like you can deposit cash or a check in the bank. This creates the value for your loan. The bank just gives this value (monies) back to you and call it a loan. This is not a loan but an "exchange". However, the bank expects you to pay AGAIN by putting a mortgage on your property. The bank still owes you for the value of your deposit (promissory note). Yes, banks "create money" when they do a loan. They do not lend out their own assets. The Federal Reserve publications are clear.