Bank (In)Security: 3 Reasons Banks Aren't as Safe as You Think

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

We've all heard the expression, "It's like money in the bank!" What could be safer or more reliable than one of our long-standing financial institutions?

Ironically, in recent years, it's becoming clear that banks aren't the safe havens for our dollars that we imagine. As a matter of fact, there are places that are decidedly safer than an FDIC-insured bank! In this article, we examine three troubling developments that may cause that old "Like money in the bank" saying to be permanently retired.

1. The IRS and Civil Asset Forfeiture

What do dairy farmers in Maryland, a Long Island snack-and-cigarette distributor, a Virginia Army sergeant saving for his children's college, and a 67-year owner of a Mexican restaurant in Iowa have in common?

They have all had bank accounts seized by the I.R.S. without any formal accusation or proof of tax evasion, money laundering, or criminal activity of any kind.

Hard-working grandmother and restaurateur Carol Hinders of Iowa had nearly $33,000 taken from her bank account - her entire life savings - because her pattern of deposits made from her cash-only Mexican restaurant aroused suspicion. Army Sgt. Jeff Cortazzo of Arlington, Virginia, found his daughter's college fund had disappeared for the same reason.

In most cases, the IRS settles the case by offering to give back a percentage of the seized monies in a process that "looks a lot like extortion," says the Institute for Justice.

Cortazzo settled, discovering that letting the thieves keep a portion of the loot is the fastest and cheapest path to getting anything back. Meanwhile, his daughter delayed going to college for a year. (Ironically, the sergeant began saving cash in shoeboxes, which turned out to be a safer option than his FDIC insured savings account!)

Hinders, who ran a humble cash-only Mexican restaurant, refused to bargain, rejecting the settlements and eventually getting her money back after a hard fight. Victory was bittersweet, however. She is now seeking restitution for the legal fees, which are more than double the confiscated cash. And in the process of the fight, she decided to close the business she started 38 years earlier, so she is permanently out of business.

Neither Sergeant Cortazzo nor Carol Hinders were ever charged with a crime.

(For more details on civil asset forfeiture, see the article, "Stolen Savings: Three Men and a Bank Account.") http://www.prosperitypeaks.com/stolen-savings-civil-forfeiture-banks-unsafe/

2. FDIC Insurance and the Illusion of Protection

When the value of houses and stocks went into freefall in 2008, a few people began to become concerned about their bank savings. The FDIC, which insures bank accounts, was quick to give extra assurances. FDIC insurance limits on savings accounts were increased from $100k to $250k and Suze Orman was hired as a spokesperson for public service announcements. The public breathed a little easier, and banking went on as before.

In 2009, the FDIC also put out a pamphlet called, somewhat grandiosely, “No Safer Place in the World For Your Money.” The brochure bragged that, if necessary, they could access a $100 billion line of credit from directly from the US Treasury that “under federal law, can be expanded to $500 billion.”

Very impressive indeed, until you consider that the total deposits in US banks is about $5.37 trillion. This pencils out to a guarantee of about two cents on every dollar deposited, unless they raided the Treasury coffers. (And re-appropriating the defense fund budget or the social security trust fund would hardly be a solution.) Other analysts have estimated the reserves to be even less than 2% of deposits.

This highlights a common misconception about FDIC insurance, and banking in general, that your money is somehow "backed" be real-world assets. That is simply not the case. To understand how this really works, let’s take a look at the concept of Fractional Reserve Banking.

Fractional banking is a system where only a small percentage of bank deposits are covered by cash-on-hand. The actual reserve requirement for banks is only 3 – 10%. This means that a bank can loan out 10 to 33 times what its customers have deposited. When a loan or credit card is issued, the applicant’s qualifications give the bank permission to extend credit, and in this way, money is manufactured out of thin air!

Today, dollars (which are literally "banknotes" representing a promise to pay) are not backed by gold, printed money, or anything stored in a vault. The value of this conceptual cash is determined by the worth that people agree to assign to it in combination with whatever confidence society has in the banking institutions and the government.

The truth is that FDIC insurance would be nearly useless in a real economic crisis in which there was a run on banks of any size. Your cash would still be worth more than Monopoly money, but not much.

Even spokesperson Suze Orman confessed her own moment of panic. In a candid US News Money interview in which she discussed taping an Oprah show during the height of the financial crisis, Orman revealed, “I knew it was possible that by the time we came off that show that the entire United States economy could have collapsed. Our credit had frozen — I wasn’t sure we were going to be able to get money out of our A.T.M.’s."

Suze knows as well as anyone, people can't keep spending money that doesn't exist, whether it's from credit cards or a fractional reserve banking Ponzi scheme. Like Bernie Madoff, banks are betting that they'll never have to pay too many people back at once.

3. Banking Cyber-Thieves

Thus far, U.S. banks have remained quite mute on the matter of cyber-attacks. Whether they remain unaffected or simply don't want to confess losses, for fear of losing customers remains a disputed matter.

Not disputed is the fact of enormous bank losses between 2013 and 2015 from cybercrime. An estimated $500 million to 1 billion dollars went missing from banks when an international cybergang known as Carbanak hacked into the systems of about 100 financial institutions.

One bank lost $7.3 million when its ATMs were programmed to spew cash at certain times that henchmen would then collect, while a separate firm had $10 million taken via its online platform. By targeting the accounting systems, the criminals often stole money directly from the banks rather than individual account holders. In one scheme, account balances were artificially inflated (for instance, from $1,000 to $10,000), then the "extra" money was transferred to the cyber-thieves.

Their intended targets were primarily in Russia, followed by the United States, Germany, China and Ukraine, according to Kapersky Lab. http://www.kaspersky.com/about/news/virus/2015/Carbanak-cybergang-steals-1-bn-USD-from-100-financial-institutions-worldwide The attacks remain active and are described by Kapersky as an indication of "a new stage in the evolution of cybercriminal activity."

And it's not just the cash that cyber-thieves are after - it's personal information. Starting in June of 2014, hackers reached nearly 90 servers at JP Morgan Chase. The breach wasn't even discovered until late July, by which point the thieves had attained "the highest levels of administrative privilege for dozens of the bank's computer servers," according to those privy to the investigation, as told to NYTimes.com.

No funds were touched and the bank maintained that highly sensitive information such as account numbers, passwords, and social security numbers were not part of breach. However, hackers did obtain personal information such as customer names, addresses, phone numbers and email addresses.

Unfortunately, laws about informing customers of such a breach differ from state to state and are very vague in what they need to be informed about and when. Some states allow companies to wait up to a month before disclosing a breach, and in some states it's not required to even disclose that unless names are tied to identifying numbers such as Social Security number, account numbers, etc.

Perhaps even more disturbing than the fact that 83 million households were affected by the JP Morgan Chase breach is the fact that nine other banks and brokerage companies were also hacked, but remain unnamed. As reported by *The New York Times* in "Hackers' Attack Cracked 10 Financial Firms in Major

Assault," http://dealbook.nytimes.com/2014/10/03/hackers-attack-cracked-10-banks-in-major-assault/ the huge cyber attack "could have been much worse."

Where is your money the safest?

We believe the best defense is a good offense. In addition to monitoring your bank account for potential criminal activity, keeping passwords safe, and not using your mobile phone for banking, we recommend aggressively saving ELSEWHERE.

While some Americans have responded to fear-mongering by keeping their money in the Beautyrest Savings and Loan or the First Bank of Sealy Posturepedic, we believe there are much better ways to manage your cash. (Besides, mattresses, freezers, and sock drawers are frequently checked by burglars looking for cash!)

Consider a credit union for your needed cash on hand. Credit unions have a history of being safer than their banking counterparts. That's because credit unions use less leverage and don't engage in risky investments with their depositors' money, as banks are now able to do. During the 2009 economic downturn, 98 banks out of 8200 went under, while only 11 out of 7846 credit unions failed.

A good choice for long-term savings is mutual insurance companies. Whole life insurance is an excellent vehicle for storing and growing long-term cash. Whole life insurance policies have been utilized by Presidents, executives, successful business owners, and corporations, *including banks*. Even though the Rockefellers used this as a tool to store and grow wealth, it is still available to everyone.

Mutual insurance companies are owned by the policyholders instead of shareholders. They are not allowed to leverage savings as banks do, nor do they deal in the risky ventures that caused banks to fail. Best yet, when held long-term, whole life policies earn internal rates of return that are currently out-performing any bank savings account or certificate of deposit.

To find out more about using cash value whole life, consult your Prosperity Economics Advisor, listed below.

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