

THE LAUGHING BANKER

I entered the manager's office of my neighborhood bank and made this proposal:

"Mr. Bank Manager, there is a piece of vacant land in my area that I'm interested in buying. It is well-suited, the town is developing in its direction, and I am virtually certain that its value will rise. I've thought the matter out carefully from every angle and I've come to the conclusion that the land would be a very good buy."

"There are several reasons why I prefer the prospective capital gains of a vacant lot to the current cash income I could have by buying another type of property, such as an apartment building."

"For example, I don't particularly need a supplementary income at the moment, because these are the best earning years of my life."

"Also, the extra income that I would receive from income-producing property would, in any case, be cut considerably by the income tax I would have to pay."

"For these reasons, I think that the purchase of this land is a good-buy – provided I can be sure that its value will increase over the years, enough to represent a good return on the investment I make."

"Since I don't want to lose money on this enterprise, I'd like to make an agreement with you and your bank that will protect me financially and give me security and peace of mind."

"The purchase price of the land is \$28,000. If I buy it at that price, I want to have a written guarantee from your bank to protect me on several points." Specifically:

- "I want your guarantee that the property will be worth \$100,000 in 35 years (at which time I'll be age 65) and that the bank will buy it from me at that price."
- "I'm prepared to accept a reasonable shrinkage in its immediate value if I decide to sell within the next few years; such shrinkage is to be expected in the case of a long-term investment such as this. However, I want – this early-sale clause notwithstanding – the guarantee that, each year, the land will have a market value proportionate to the \$100,000 it will be worth in 35 years, and that the bank will buy it back from me at that value at any time I wish."

- "In the event of my death, whenever this occurs (in three days, three months, or three years), I want your guarantee that the bank will pay to my heirs the full \$100,000 that the land will be worth in 35 years."
- "I want your bank (in the event of my death) to absorb any capital gains tax that would be chargeable, so that my heirs will receive the \$100,000 without paying any income tax."
- "I want the bank to consent to be trustee and to administer (without charge) the proceeds from the sale of this land, either for my heirs in the event of my death or for myself if I so desire, and I want the bank to guarantee the principal and interest."
- "I want the bank to absorb maintenance costs and any taxes that could be levied against the land during the years I am the owner."
- "I want the bank to give me the privilege of buying this lot in installments over a period of 20 years, if I should decide to do so, rather than paying the \$28,000 in cash. In this way, I would make 20 level annual payments at about 6 percent interest, so that each annual payment would be about \$2,200."
- "Finally, in the event of my death before the end of the 20-year period, I want the bank to cancel the remaining payments and deliver the \$100,000 ultimate value guaranteed by the bank to my heirs."

"Mr. Manager, if the bank accepts these conditions, I will buy that piece of land. What do you think?"

The bank manager laughed. Then he told me that he didn't think a financial institution could comply with my wishes under such conditions.

Yet, as you probably guessed by now, all I did was describe a \$100,000 permanent life insurance policy. It is a policy that can be purchased with a single premium or over a 20 year period. Life insurance is one of the best contracts ever conceived. It is what you offer your clients.