INTRODUCTION/SUMMARY

Noble Capital & Management Inc("corporation") . welcomes the opportunity to present this Private International Bank Offering Memorandum for your confidential review. This memorandum provides both general and detailed information regarding the use, operation and ownership of a private international bank. It will also serve as a valuable desk-top reference aid for planning and designing international solutions to your business problems.

This section is a summary of the Offering Memorandum. You should carefully review the entire Memorandum because a great deal of information is covered. This first section is only a summary and, like all summaries, may omit specific details. You should refer to each individual section to explore a topic in detail. Only by doing so will you be assured of being fully informed.

For many years, offshore banks and tax havens have mystified Americans. Bank accounts in Switzerland have been portrayed by the media as tools of international drug traffickers or hiding places for the ill-gotten gains of organized criminals. In fact, however, banks in Switzerland, Austria, the Caribbean, the South Pacific and elsewhere have been used by the most respected business names in the world for wholly legitimate purposes. Though the concept of offshore (or private international) banking is filled with mystique and beset by misinformation, it can be clearly understood. Put simply, offshore banking can be defined as banking, borrowing or investing in countries with laws and regulations considered more favorable than those that apply in the United States. As used in this Memorandum, private international banks are American-owned financial institutions that take advantage of special banking privileges, tax laws and financial regulations in countries often referred to as international banking centers.

Chartered under the laws of the countries in which they operate, these banks are fully recognized by the international banking community. Even more importantly, they provide a wide range of services beyond the legal capability of domestic U.S. banks. Perhaps the most striking feature of owning a private international bank is this: It is a single investment, yet a total financial strategy.

Given the current state of America's economy and the need for Americans to overcome confiscatory taxation, red-tape regulation and unwarranted invasion of financial privacy, it is not surprising that alert American corporations and individuals are seeking foreign protection for their assets. Again and again, private international banks have proven to be uniquely beneficial for raising capital, reducing taxes, lowering loan costs and assuring complete privacy and confidentiality of one's business affairs.

As stated by one international bank owner: "A private international bank is the most powerful business tool known today."

MAIN FEATURES OF TAX-ADVANTAGED INTERNATIONAL BANKING

The international banking centers with little or no taxes are largely concentrated in two geographic regions – the Caribbean and the Pacific. Anguilla, The Bahamas, the Cayman Islands, Bermuda, the Netherlands, Antilles, Hong Kong, Singapore, the Cook Island, Vanuatu and Nauru are the main countries hosting tax-advantaged private international banks, but more nations are joining the ranks each year. Laws of various foreign jurisdictions differ greatly. One jurisdiction may be more attractive than another at any given time. WFI keeps informed of these changes in order to offer international bank ownership in the most desirable and useful locales.

Some of these international banking centers are small island nations with weak economies. And, it is easy to see why. Small island have fewer natural resources than industrialized countries. Their citizens are usually poor and unemployment is often high. By enacting liberal tax laws, such countries can attract foreign capital. Investors from the United States, Europe, South America and elsewhere pay an annual fee to operate their own banks. In turn, the islands appeal as offshore financial centers attracts more money and tourism, increases employment and enhances their stature and reputation within the international economic community.

To secure a nice in the highly competitive world of international commerce, island government's custom-tailor various aspects of their legal systems to complement and accommodate international banking activities. Viewed in this context, offshore or private international banks are government-endorsed and licensed private corporations. Because this government support enables them to do business tax free, without burdensome red-tape regulations and in complete privacy, such banks offer tremendous competitive advantages to both owners and customers.

Though the Caribbean Basin has long been considered the hub of international activity, the Pacific/Asian area has boomed in recent years. Funds held in Singapore alone have exceeded U.S. $200 billion (compared to just U.S. $21 billion in 1977), Hong Kong is the probable host to even more assets (secrecy laws make an exact count impossible), And deposits in the smaller financial centers like Nauru, Vanuatu, the Cook Islands and Tonga are steadily swelling. If this rate of growth continues, the Pacific/Asian market will soon lead the world in international banking activity.

HOW THE AURODOLLAR MARKET WORKS

A key factor in the growth of the offshore banking industry was the development of the so-called Eurodollar market. For those unfamiliar with the term, a Eurodollar is simply a U.S. dollar owned by a non-resident of the United States and deposited in a bank outside the U.S. A phenomenon of the post-World War 2 financial world, the Eurodollar is unique in having become a major world currency while existing in neither banknote nor coin form. It is a currency without a national central bank to regulate it.

In the early 1950's, several Communist countries feared that increased political hospitality between the United States and the U.S.S.R. might prompt the U.S. government to block their working balance deposits in U.S. commercial banks. Such actions are typical during wars and times of international tension. For example, the United States blocked German, Italian, and Japanese bank balances in 1941; Iranian deposits in 1979 and Panamanian deposits in 1988. And, the U.S. is not alone – the British blocked Egyptian assets at the time of the Suez action and the Argentine deposits during the Falklands clash. Prior to the creation of the Eurodollar, the only banks in which a national currency could be deposited were banks of the country that issued the currency and those where that currency was considered legal tender.

As a consequence of the concern over working balance deposits, several European banks, principally in London, offered to accept the deposits and to maintain them in U.S. dollars instead of converting them to the local currency (at the times, the dollar was the strongest currency and the one in most demand). Continued worry about a "dollar shortage" provided a strong incentive for banks to obtain and hold U.S. dollars.

The next step in the Eurodollar evolution was the willingness of those same European banks to not only accept deposits in U.S. dollars but to also pay interest on such funds deposited for less than 30 days – even periods as brief as overnight. That contrasted with U.S. banking regulations, which prohibited banks in the United States from paying interest on such short-term deposits. In addition, a Federal Reserve Board regulation then in effect limited the maximum Amount of interest a U.S. bank could pay on all time deposits.

Having attracted a supply of dollars on which they were paying interest, even if only for a short term, the European banks sought ways to use these dollars. Traditionally, banks put deposits to work by making loans. Though U.S. banks were unwilling to make even short-term loans at less than their stated prime rate, there were still many major international firms that had to borrow short-term dollars from their U.S. bankers. Sensing an opportunity, the European banks offered these large firms short-term dollar loans at an interest rate below the prime rate of U.S. banks. Thus, by working within the range of what U.S. banks could pay on deposits and the minimum rate at which the U.S. banks were willing to lend, the European banks began to develop a major following among both depositors and borrowers operating within the world economic community.

In other worlds, the Eurodollar market grew because it offered bank customers deposit and loan terms superior to those available in U.S. markets – or, for that matter, in strictly regulated foreign markets. And, in large part, it was able to offer there favorable terms because in the banks dealing in Eurodollar deposits and loans were exempt from reserve requirements and other regulatory restraints imposed on domestic American banks and foreign banks operating under the controls of their governments. In essence, then, the Eurodollar market became a "wholesale" market in which banks, financial institutions, large corporations and even countries could find bargain rates.

Given this competitive advantage, it is not surprising that the Eurodollar market quickly expanded beyond London – moving first to the other European financial centers, then into Asia, Latin America and the Caribbean. It is equally understandable that many smaller banks, seeking a similar competitive edge, moved into the market alongside the major foreign money center banks. And, finally, it is easy to see why many new offshore banks were created specifically to provide entry for domestic financial institutions, companies and even individuals into this lucrative worldwide market.

It is important to note, however, that – despite the lack of reserve requirements and government regulations – banks dealing in Eurodollars must still engage in sound fiscal practices. Whether the lender is the European branch of a major U.S. bank or an individually owner private international bank, a Eurodollar loan must be made based on exactly the same credit criteria as any other loan. It differs only in the means by which the loan is funded – in essence, a Eurodollar loan is being made with borrowed funds. However, if a Eurodollar loan is not repaid, a bank suffers the same loss it would suffer from a bad loan made in the United States and funded with money from U.S. depositors.

This fact has been overlooked by too many bank credit officers in recent years, as evidenced by the tremendous Latin American debt problems.

THE PATH OF MONEY, POLITICS AND FREEDOM

According to the Federal Reserve Bank of Richmond, the international money market "effectively links the world's major (i.e., free-world) countries." Banks are the strength of that link, for the bank makes free exchange of currency and commerce possible across international borders. A government affected by this money market pay place restrictions or levy taxes on investors passing money through its country. As a practical matter, free-world governments like to make money wherever possible. They view money passing across their borders as an opportunity to collect tax revenue for the privilege of using their laws and commerce. For that reason, investors continue to channel their money outside countries with excessive taxing authority.

Because international banking transactions are merely book entries rather than tangible currency exchanges, banks are uniquely suited to move money outside government authority. It is a fact of financial history that business transactions and wealth flow through money centers offering relaxed government restrictions.

The interdependence of national economies, coupled with the fact that the movement of money and investments need only be done on paper, has made the creative investor a citizen of the world. Government regulation is therefore onerous to him.

Investors and businessmen who run and use private international banks become “free-world” citizens (or what best-selling author Doug Casey calls “international-men”) because they avoid investment restrictions, transaction-reporting requirements, taxation, double taxation at home and abroad, compliance with burdensome government rules, public disclosure of transactions, registration of securities and U.S. oversight of banking operations.

An American interested in this kind of freedom can become “government-proof” by using private international banks in two ways. First, he can become a customer of an offshore bank and he can gain control – in complete privacy – of his own private international bank. Since most businessmen are not willing to share profits, give up control or breach privacy, they are willing to make an additional investment to acquire their own bank rather than someone else’s.

WHO’S WHO IN OFFSHORE BANKING

The legitimate and positive nature of offshore banking is often overlooked or distorted. The truth is that many prestigious American corporations and banks maintain offshore operations. Those gaining the benefits of offshore banking typically establish wholly owned banking corporations in offshore centers that impose no tax and have fewer financial regulations that the United States.

This trend is most conveniently observed by examining annual reports of various publicly held American firms. Dow Chemical Co., Pfizer Inc. and American Express are just three companies that have major international banking concerns. Through its Swiss subsidiary, Dow Banking Corporation, Dow owns a bank located in the Cayman Islands known as Dow Banking (overseas) Limited. Its original purpose was to meet Dow’s portfolio-management needs and to handle various international transactions. But it became a major profit center, reporting an annual net profit in excess of three-quarters of a billion dollars. Pfizer's banking arm – Pfizer International Bank (PIB) – had a similar experience. Organized in the Cayman Islands to help the company better manage its offshore capital flow and control its tax liabilities, PIB wound up earning $49 million for the corporation in its first year of operation (1986) and almost $60 million in the second.

American Express owns American Express International Banking Corp. (AEIB), based in London, with satellite offices in the Caymans, Hong Kong, and other locations. AEIB is not used for domestic banking purposes, nor does it maintain offices in the United States (only a representative in New York). In spite of this, AEIB has returned to its parent company an average net profit in excess of $30 million per year since the mid-1970's.

Some of the best-known names in American commerce do their banking outside the United States: Sears, Boeing, Firestone, Continental Oil, Seagram's, Exxon, Monsanto, Rockwell International and Fluor are but a few. Bank of America, Chase Manhattan Bank, Citibank N.A., Chemical Bank of New York , The First National Bank of Chicago, Security Pacific National Bank and scores of other conventional banking institutions worldwide are a day-in, day-out part of this growing international community. In no small way, the interest of such firms in offshore banking has helped legitimize its reputation and emphasize its benefits. For example, in 1970, Bank of America earned 19 percent of its total income from non-U.S. sources. By 1980, BofA's overseas profits accounted for a hefty 50 percent of its annual earnings. That same year, Citibank earned nearly 75 percent of its money overseas. And, the overseas banking revenues of both these financial giants continue to grow today.

IMPLICATIONS FOR ALL INVESTORS

The message is clear: Major banks and corporations are involved in offshore banking because IT MAKES MONEY AND IT MAKES SENSE. Their leadership is a signal to individuals, medium-sized companies, and investment consortiums that international banking is a sound, profitable business venture.

Today, the individual is in a position to solve particular financial problems through the use and ownership of a private international bank. Whatever your current financial consideration, offshore or private international banking can provide you with an intelligent, practical and profitable investment strategy. It can also meet your need to conduct financial transactions in a secure environment, free of counterproductive government rules and regulations. As a bonus, it offers the distinction and prestige that is the core of the international financial scene.

Advantages available to private international bank owners substantially outweigh benefits offered by most other investment vehicles. Financial activities reserved only for banks – such as direct access to international capital markets, bank-to-bank benefits in the form of wholesale borrowing and reduced foreign exchange transaction fees – are suddenly accessible to the individual in his capacity as a bank owner or principal.

Once you acquire your own international bank, you can legally operate it according to personal priority. You can lend to third parties, make private investments, accept deposits, initiate and administer trusts, purchase real estate at low interest rates, transfer currency at your discretion, offer customers “back-to-back” loans, acquire options/merger funding and tap into escrow funds for short-term interest gains. In other words, you can fully compete for multimillion-dollar business with the world’s major commercial banks.

THE LIMITS OF AMERICAN BANKING

As an investor or businessman intereste4d in owning a bank, you basically have two choices: You can start or buy a bank based in the United States – or you can start or buy an international bank. If you decide to go the U.S bank route, you should be aware of the problems and obstacles. For starters, you need at least $2 million in capital, you must convince the state or federal government that you are worthy of owning a bank and you face a start-up time of at least two years and initial organizational costs of around $200,000 to 300,000.

In addition, the American banking industry is subject to regulation arising from oversight by several U.S. government agencies and their interpretation of the law. These include:

1. **The Securities and Exchange Commission** (SEC) governs the issuance of securities – and, though the Securities Act exempts U.S. banks from SEC

regulations for the registration of securities, once securities are issued (i.e., distributed to shareholders or held in treasury), banks are responsible to the SEC.

2. **The Internal Revenue Service** (IRS) governs payment and collection of U.S. taxes. U.S. banks are subject to IRS supervision because they operate in the United States and must therefore pay U.SS taxes. The IRS also requires banks to report all cash transactions in excess of $10,000 in value.
3. **The Office of Comptroller of the Currency** (OCC) or state banking departments regulates banks in their entirety. Reports must be filed, examinations made and rigorous scrutiny endured. Registration of bank securities takes place through these agencies. Since OCC and state banking regulations profoundly affect the internal affairs of a bank, their oversight effect is far greater than that of the SEC over registration of non-bank public corporations.
4. **The United States Customs Service** tracks cash coming into or flowing out of the country. U.S. banks are required to make reports to the Customs Service when transporting cash in or out of the U.S. in amounts exceeding $10,000.
5. Aside from these government agencies, the **Federal Deposit Insurance Corp**. (FDIC) and **Federal Bureau of Investigation** (FBI) play an important role in seeing that bank affairs are conducted legally and properly.
6. **The Bank Secrecy Act of 1970** requires American banks to retain records concerning their affairs and those of their customers for at least five years. Government control of the banks therefore implies government control of bank patrons.

THE OFFSHORE ALTERNATIVE

The need of American industry and individuals to do business internationally stems from the need to operate in an environment offering a relaxed legal posture and an absence of government rules and regulations. Offshore banking is not manufacturing. It’s not the import-export business. Nor is it scientific research. It is, however, a tactical, perfectly legal financial strategy that allows manufacturers, scientists, and importers to do their jobs in peace rather than waste time with meddlesome government policies that prevent them from so doing.

The decision to move operations outside the U.S. has repeatedly provided an uncommonly flexible and productive environment for virtually all areas of American business. Consider some of the classic examples of industries that have found it more beneficial to work overseas than in the United States:

1. **Offshore Research and Development Activities**. Both federal and state laws impose restrictions and limitations on certain R&D activities conducted in the United States. These limitations include restricted investigation of chemicals and toxic substances, munitions development or perhaps R&D of drugs like Laetrile or AZT. By conducting research in countries with no prohibitive laws in these areas, scientists and technicians may complete their activities with little problem.
2. **Offshore Gambling**. Gambling is a heavily regulated activity in the United States. In jurisdictions such as the Bahamas or St. Maarten, gambling may be conducted without costly, restrictive gaming licenses. Ongoing supervision of gambling is considerably more relaxed in these areas than in Las Vegas or Atlantic City.
3. **Offshore Medical Schools**. The American Medical Association constantly laments the shortage of qualified doctors in the United States, yet imposes strict entry requirements and high fees on students wishing to attend American medical schools. In the last several years, a number of "offshore" medical schools have appeared in such countries as Grenada, Jamaica, St. Vincent and Montserrat. Their academic standards are as high as any in the world. More significant, with respect to opportunities for students, they have more relaxed entry requirements than American schools.
4. **Offshore Mutual Funds**. The Securities and Exchange commission imposes burdensome restrictions on the types of investments U.S. mutual funds can make. U.S. funds are restrained from concentrating investment in one industry and are further limited in their ability to purchase shares traded abroad. Additionally, they are taxed on their gains. The offshore mutual fund, however, can legally avoid both SEC and IRS traps. As a result of relaxed foreign environments, mutual funds are able to perform better internationally then in the United States. And, the results prove it. Despite the global impact of the 1987 stock market crash, offshore

mutual funds produced returns more than double those of their American counterparts during that year. And, they recovered faster. Each of the top 10 offshore mutual funds provided a return in excess of 53 percent during 1988!

5. **Offshore Insurance.** Within the last several years, some 600 offshore insurance companies have been established. This incredible number illustrates the need U.S. companies have for self-insurance. American companies or groups of unrelated persons burdened with excessive insurance premiums can form captive offshore insurance companies in jurisdictions like Bermuda and the Cayman Islands. An offshore insurance company can avoid the prohibitive capitalization requirements of U.S. insurance companies. In addition, such a company can often make tax-free investments of premiums and reserves.
6. **Offshore Manufacturing.** The manufacturing of certain products is restricted in the United States. Distillation of liquor, assembly of electronic security devices such as scramblers, and oil refining are but a few manufacturing processes closely monitored by the federal government. In certain offshore jurisdictions, these activities can be performed free of government restriction or supervision. Typically, labor costs associated with manufacturing are also much lower in an offshore jurisdiction than in the U.S.
7. **Offshore Foreign Trade.** American-cased import companies are continually faced with tariff barriers. When goods are imported into the U.S., a customs duty must be paid. In turn, when goods are exported, a drawback or credit is provided against duty paid. This process involves expensive paperwork and scrutiny by customs authorities. But, if goods are landed in an international jurisdiction such as Panama or Hong Kong, and if the ultimate destination of those goods is another country, no import duty is levied at the time of entry. Therefore, offshore trading provides importers with considerable flexibility. Similar benefits are accorded exporters when shipping to countries that levy prohibitive import restrictions. Certain foreign jurisdictions are party to the Generalized System of Preference (GSP) any may be able to import goods to the United States without payment of duty. In this situation, goods are redirected through a country that is party to the GSP, some

repackaging or other transformation occurs on them, and they may then be imported to the United States duty free. In certain jurisdictions, significant tax benefits arise from this activity.

8. **Offshore Ship Registration.** Ships registering their ownership in certain overseas jurisdiction take advantage of two important benefits. The first is tax-related. Profits earned on shipping operations may be earned tax-free, provided the ship is registered to a corporation within that jurisdiction. Secondly, in certain foreign jurisdictions, the dollar amount of liability incurred as a result of injury to a crew member may be limited by statute. Therefore, it makes far more sense to register a ship overseas than in the United States. Panama and Liberia are the two most common foreign jurisdictions used for this purpose.
9. **Offshore Aircraft Registration**. When an aircraft is registered in a jurisdiction that has safety regulations less stringent than the U.S., the operational safety requirements are determined by the country of registration. The Bermuda 2 Treaty between the U.S. and certain British colonies provides that foreign registration shall govern colonial aircraft operated in the United States. By simply registering an aircraft overseas pursuant to the Bermuda 2 Treaty, an aircraft owner may be able to maneuver around unreasonable and often prohibitive safety regulations surrounding American aircraft registration. Not incidentally, a registration of this type can usually be effected through a corporation or bank incorporated in a jurisdiction covered by a treaty.
10. **Offshore Banking.** Individuals, companies and commercial banks alike have found that the most creative legal way to protect their finances and circumvent restrictive federal and state regulatory bodies is to form an offshore or private international bank. This offers a clue (if not an inspiration) to others wishing to fulfill the financial needs of their future.

WHO DOES BUSINESS INTERNATIONALLY?

Those who conduct business internationally usually do so in response to a specific need. One company may need privacy, another the prestige of a bank ownership, another relief from excessive tax liability, another additional operating capital. It is difficult to state categorically why one particular person might benefit from doing business internationally because conditions for optimum international activity vary enormously. For example, the owner of a private international bank need not serve the international market in order to realize financial benefit.

THE UNIQUE VALUE OF A PRIVATE INTERNATIONAL BANK

The phenomenal growth of private international banking has its source in the special benefits that private international banks provide. Since international banking centers tend to be free of costly regulations (such as reserve and bonding requirements), such banks can offer a range of banking services to their customers and benefits to their owners. These include:

- **Profit**. All banks, foreign and domestic borrow money from their depositors at a low rate, lending it out to borrowers at a higher rate. Private international bank owners not only collect money from depositors but also profit from opportunities of money manipulation available only to banks
- **Privacy**. Strict bank-secrecy laws of host countries shield records of financial institutions from unwarranted probes by government agencies, tax officials, legal claimants or aggressive business competitors. By owning a private international bank, you ensure against financial intrusions that have become commonplace in domestic banking.
- **Tax Protection**. International financial centers have earned an international reputation as legal tax havens. Because host countries tax income of internationally licensed banks at a low rate – or have no taxes on them at all – a private international bank can shield its owner's dividends, interest and royalties from the IRS appropriation.
- **Bank Ownership with Minimal Red Tape**. A private international bank can be owned at a surprisingly low cost. What's more, an international bank owner does not need a string of banking credentials. In most cases, past business experience is sufficient qualification – especially given the availability of low-cost, professional bank management companies to help the inexperienced bank owner.
- **Asset Protection**. Assets placed in your own private international bank are immune to all judgments, seizures and other judicial writs issued in the United States.

- **Asset Diversification**. The best way to assure security of assets is to distribute them geographically. There is no better way to achieve such distribution than by placing them in one or more private international banks that you can own and operate according to your personal specifications

WHAT TO EXPECT IN THIS MEMORANDUM

- How a Private International Bank Works. A simple, step-by-step explanation of the mechanics of international-bank operations.
- **Profit Benefits**. Investors cite profit as their number one reason for moving assets out of American jurisdiction. Profit opportunities are detailed in this section.
- **Privacy Benefits**. Concerned investors find unlimited financial privacy in an internationally licensed private bank. This chapter outlines the extent and reasons behind this privacy protection.
- **Tax Protection Benefits**. Ownership of a private international bank is a well-established way to legally minimize or avoid tax obligations. You will learn how the tax laws of host countries work in your favor and provide protection again excessive IRS intrusion into your financial affairs.
- **Asset Protection Benefits**. Whether your assets are subject to legal claims, the potential impact of inheritance taxes or merely the vagaries of the market, a private international bank can provide protection. This chapter explains how, covering both legal protections and the advantages of international diversification afforded by private bank ownership.
- **Making it Work: Some Case Histories.** Perhaps the best way investors and business people can gain respect for the power of a private international bank is to see exactly how others have gained from the use of such banks. This chapter recounts both individual and corporate success stories.
- **Risk Factors**. Though the advantages are many, private international banking is not a panacea. This chapter details the potential pitfalls of using a private international bank and shows how to avoid or minimize them.
- **Comparison of Private International Banking Centers**. A comparative analysis and ranking of 13 different offshore financial centers.
- **How to Acquire Your Own Private International Bank.** The final section of this Memorandum describes assets and property comprising WFI's current offering of bank charters in Anguilla or Nauru. It provides a clear

picture of the elements that make a private international bank purchased or organized through WFI a unique value.

SECTION 2

HOW A PRIVATE INTERNATIONAL BANK WORKS

THE PRINCIPALS OF OFFSHORE BANKING

The dictionary defines “offshore banking” as banking, involving more than one country. Thus, from the U.S. perspective, offshore banking is banking conducted outside the United States. Depending on one’s perspective, of course “offshore” may also refer to a French businessman or investor banking outside France, or a Dutch businessman or investor banking outside the Netherlands. In this context of this Memorandum, “offshore banking” or “private international banking” refers to a U.S. person (which might be an individual, small business person, domestic bank or corporation) owning and operating a bank located and managed outside the U.S.

The basic principle in operation that makes it possible for an offshore or foreign vehicle (corporation, bank, etc.) to avoid the applications of U.S. laws, involves two characteristics. First, the offshore vehicle of “entity” must be organized under the laws of a foreign country. Second, the entity must not be generally considered “engaged in a trade or business” within the U.S. Therefore, in a general sense, to qualify for foreign treatment, offshore business should be conducted outside the U.S.

Yet, to the degree any foreign entity conducts business in the United States, it may be subject to U.S. law. Further complicating matters is the fact that an American individual or corporation owning 10 percent or more of an offshore entity may be subject to the U.S. tax on the entity’s undistributed earnings. Accordingly, in order to gain foreign treatment under the U.S. tax, banking and securities laws, American involvement with offshore entities must be planned and structured correctly. The easiest way to gain the most possible foreign benefits is through the use of a private international bank. Private international banks are accorded special privileges by U.S. tax laws that make it possible to avoid the pitfalls ordinary foreign corporations face.

The mere existence of a foreign corporation is not deemed conclusive proof than an enterprise is doing business outside the U.S. The IRS (for tax purposes), the SEC (for security reasons) and banking regulators (for banking reasons), will sometimes challenge the integrity of a foreign company's foreign status. The argument typically made underscores the theme that the enterprise has submitted itself to U.S. jurisdiction by operating through dependent agents, through a fixed place of business in the United States or by dealing publicly with U.S. investors.

Offshore activities involving American customers or owners of private international banks must be structured to legally circumvent statutes that bring the bank under U.S. jurisdiction. The legal test making a bank subject to American law is whether it has "a sufficient nexus or connection with the U.S." Because the terminology is so vague, the planning of each transaction should be done so as to eliminate potential areas of exposure. In theory, to avoid confrontation with U.S. regulators, it is best no to deal with U.S. citizens or residents, advertise in the U.S. or maintain offices here. In practical terms, of course, if an offshore bank is owned by American citizens or resident aliens, some American involvement is inevitable.

Americans own fewer private international banks than foreign corporations – and, as a result, bank owners are accorded a degree of protection from the scrutiny that conventional corporations face, simply because banks are less noticeable to regulators. They tend to blend into the commercial banking system, whereas foreign companies stand out like red flags.

To be sure that an offshore bank is not engaged in too much U.S. – related activity, you should limit its activities in the U.S. to:

- Holding a meeting of shareholders for a general or specific purpose.
- Maintaining bank accounts
- Maintaining brokerage accounts
- Making portfolio investments in stock, commodities or real estate.
- Making a private placement of its stock or securities

- Privately issuing letters of credit, bank guarantees or certificates of deposit, which are not deemed by the Securities and Exchange Commission to be securities.

DOING TRANSACTIONS PROPERLY – OFFSHORE

There are some 6,000 offshore banks operating today, most of which engage in one or more activities that exempt them from U.S. regulation and take advantage of banking's benefits. Some of these benefits follow – and additional advantages may be realized, depending on how and with whom financial transactions take place. Among a bank's options:

- To conduct banking business free of regulations imposed by U.S. banking laws, such as lending limits, interest rate ceiling, investment restrictions, reporting requirements and reserve requirements.
- To attract investors by taking deposits rather than selling shares or debentures.
- To preserve, in complete privacy, the confidentiality of its transactions and those of its customers.
- To gain bank-to-bank benefits such as borrowing funds from other banks at interbank lending rates.
- To create and administer trusts of every description.
- To issue letters of credit and bank guarantees.
- To make investments and shift them without taxations.
- To provide insurance to its customers.
- To gain access to the Eurodollar marketplace.
- To conduct foreign trade activities such as foreign-exchange arbitrage and securities and commodities trading.
- To loan money at any interest rate above state usury ceilings.
- To loan money to those who might not meet federal lending guidelines as qualified borrowers.
- To accommodate transfer pricing operations involving purchase of goods from one country and sale to another country or to a related corporations.
- To offer depositors financial privacy not obtainable in the United States.

Out of context, these would appear to be fairly sophisticated financial activities for a private international bank to conduct from within the U.S., trusting that they are performed in a matter that does not infringe on U.S. laws. After all, how can all of these activities possibly be conducted quickly and efficiently without business delay and without submitting to U.S. jurisdiction?

The answer lies in the use of an international management company operating in a foreign jurisdiction.

International management companies fulfill an important role in the world of private international banking. Though not necessarily based in the country where the private bank is charters, they provide a local presence (via agents or local officers or directors) in the foreign jurisdiction. As such, they can accomplish virtually any type of transaction the parent owner of a private international bank wishes to undertake – from within the country where the bank is located.

The key component under U.S. law in determining "offshore" status is offshore management. And, with an offshore bank management company providing officers and directors delegated by the shareholders to manage the bank and conduct any business that may come before them, the private international bank qualifies as a foreign entity.

Of course, the management company must be qualified and experienced – it must be able to provide local officers and directors, handle day-to-day banking business and keep accurate records of the banks transactions. If the management company is not efficient or qualified to perform services in regard for the bank, the parent owner runs the risk of incurring losses arising from mishandling of transactions and significant legal liability over non-compliance with American securities, banking or tax laws.

Though it may be only a legal entity operating from a one-room office in a foreign jurisdiction through a shared resident agent, a reputable bank of this type is fully recognized in the international banking community. Private international banks operating through what is commonly known as a "letter box," identified by little more than a "brass plate," are of little significance to the outside world. In most cases, they deal with clients exclusively by mail, fax, telephone or through agents situated outside the foreign jurisdiction.

The services of a professional management company can provide a bank with the sophistication it must have in order to compete with other banks for business on an international scale. In certain select situations, it may be only necessary to use the foreign jurisdiction as a "booking center," where transactions such as deposits and loans are made merely as entries on ledgers in custody of the directors.

LEGALLY TRANSFERRING ASSETS AND MONEY OFFSHORE AND BACK INTO THE UNITED STATES

Most international banking transactions involve no cash, but are merely tangible credit and debit accounting book entries. Movement of money between foreign centers typically involves a computer transfer or communication via telex, telecopier or telephone – not physical receipt and delivery of currency. An international bank's funds are in the bank's own deposit account with a commercial bank at one of the money centers. For U.S. investors, this usually means maintaining deposits with New York or Los Angeles banks. For European investors, funds are normally held in London.

A correspondent relationship exists between London and New York banks, using a credit-and-debit medium for transferring money on behalf of customers. If a U.S. investor wished to transfer, say, $100,000 to the Eurodollar market, he would issue a check on his New York bank payable to a payee with a bank account in Europe. The New York bank would then wire transfer those funds on behalf of the customer to the London bank for the U.S. customer's credit.

All this is possible because a credit relationship exists between the London and New York banks. No currency changes hands. The money movement is merely a coded communication between banks – either via a computer link or by telex. In the case of smaller banks, the telex is most common – and the coded message is called a testes telex. The telex has a code designated that identifies the number of a message received on a particular day, month, date, as well as the amount to be transferred. The figures are translated (using a chart similar to the one shown on the facing page) into numbers which, added together, produce the telegraphic test key. This coding technique assures both the sending and receiving banks that each is who it claims to be since the receiving party can only decode the message by knowing the code number. Once established, a private international bank can institute a test key with commercial banks holding its funds.

MOVING ASSETS OFFSHORE

Assets such as real estate, securities, commodities, bullion, personal property, receivables, notes and contracts may be placed in a private international bank in several ways. Despite what most people think, assets and documents of title assets do not have to be physically located internationally in order to be owned by the bank. The bank, like any corporation, has a distinct and separate legal personality. It is this foreign personality – not the location of the assets – that gives rise to the benefits. Therefore, the transfer of right title and interest in an asset to the banks name movies it offshore, even if it's an office building on Sunset Boulevard in Los Angeles! In most cases, the transfer of U.S. property that has an appreciated basis will trigger the imposition of an excise tax. However, with prudent tax planning, the excise levy may be legally avoided.

BRINGING ASSETS BANK INTO THE U.S.

If an asset is transferred outside the United States (i.e., if ownership is conveyed to a private international bank), it may be freely brought back into the U.S. (reconvened back to a U.S. person) without a tax consequence, provided it has not increased in value. IF profits or gains are repatriated as income, dividends, interest or capital gains, a tax is imposed on constructive receipt. However, private international bank profits or gains that accumulate internationally and remain undistributed are untaxed – provided tax regulations are observed. As you will shall see, the two most common ways to use bank profits without tax consequences are through additional portfolio investment or by making loans in accordance with the U.S. tax regulations and definitions of banking. (These subjects will be covered in substantial detail in the Section of this Offering Memorandum dealing with the Tax Protection Benefits of an offshore bank.)

FROM PRINCIPLE TO PRACTICE

Ever since the concept of private international banking has been known, freedom seeking entrepreneurs have found different ways to use such banks. Here are a few examples:

Dow Chemical Company

Dow banking Corp. is a Swiss-chartered international bank owned by Dow Chemical Co. of Midland, Mich. In analyzing Dow's use of its privately owned international bank, one must be careful to note that, as one of the Fortune 500 companies, this corporation would not have been involved in offshore banking unless it knew it could have the full sanction of American Law.

Loot at the illustrations on the facing page from Dow Chemical's 1979 10-K Report filed with the SEC. There is no monition of Dow Banking (Overseas) Ltd., which is incorporated in Dow Banking Corp.'s annual report. Is this an oversight? Hardly. The Cayman Islands bank does not call undue or misleading attention to itself. Pursuant to American securities law, it is mentioned only where it needs to be discussed.

The reprints from Dow Chemical's 10-K show that it duly reports the extent of its holdings in its Swiss subsidiary. The Dow Banking Corp.'s statement of income reflects calculations showing a 600 percent return on investment. The advertisement on the following page appeared in an edition of Euromoney; the ad at the foot of the page appears in The Cayman Islands Handbook. It is in the marketing, no0t the reporting aspect of Dow Banking (Overseas) Ltd. that the identity and integrity of Dow's Cayman Islands bank are important.

According to the brochure of Dow Banking (Overseas) Ltd., "The bank is an active participant in medium-term Eurocurrency loans and accepts deposits in freely available Eurocurrency at call and for fixed terms. Interest rates paid on deposits are competitive and no taxes or duties are deducted. Through its affiliation with the Dow Bank Group, it can offer a full range of professional financial services including portfolio management, trusts and company management services as well as letters of credit and foreign exchange."

Here, then, is the success story of a corporation that ostensibly maintains no U.S. banking interest, but that has nonetheless (or for that very reason) ventured into the international banking business – and produced a profitable return. The statement Dow Chemical filed with the SEC reflects that the company's banking venture had accrued a 600 percent return on investment between 1975 and 1979.

The Panamanian Group

International Investment Bank Ltd. (IIBL) is a wholly owned subsidiary of a Panamanian corporation. It has been audited by a Costa Rican affiliate of Peat, Marwick, Mitchell & Co., one of the Big Eight accounting firms based in the United States. The insulation potential of an international bank is readily apparent in its multinational character. Sorting out this character of IIBL is one of the aspects of international banking and adheres in its favor with respect to financial regulation. In any case, the examples of marketing and financial material for the St. Vincent bank (shown on the following page) illustrate how international publications may be used by international banks to seek customers.

IBL's advertisement rain in the International Herald Tribute, and when inquiries were generated by the ad, IIBL's agent responded as instructed – with a simple brochure and account application. The result? A consistent record of substantial deposits on IIBL's financial statements! The decision of IIBL to institute an international deposit-by-mail program shows how an innovative approach to building business can attract income that established the bona fide full-service character of an international bank – and you will learn about other such approached in the Case Histories chapter of this Memorandum.

SOME HYPOTHETICAL EXAMPLES OF BANK PERFORMANCE

Later, in this chapter on Case Histories, you will see what several international banks have actually done for their owner. Before you get to that, however, you should have an overview of the types of things that are possible when you own a private international bank. The most cursory examination of the mechanics of international banking reveals that the financial possibilities are virtually limitless. Following are projections of uses to which your private international bank may, at some future time, be put.

Assume you own Bank of Commerce Ltd. (BCL), located in one of the leading offshore havens and managed by a qualified bank management company based in Canada. You are an adviser as well as sole shareholder. As an adviser, you are able to direct business to the bank without running afoul of state and federal banking laws. As a shareholder, you are able to direct the business of the bank.

Raising Capital

Throughout history, banks have been considered pillars of the community. Regardless of size, they are notable institutions of strength and trust. And, in fact, many banks do quite well – fulfilling their traditional role. But, the truth is that banks vary considerably in strength. In 1989, for example, more than 150 federally insured banks and savings and loans in the United States failed, while numerous others were forced to seek mergers with the stronger financial partners.

Most people are unfamiliar with the factors that make some banks stronger than others. Liquidity, assets, reserves, the quality of the loan portfolio – all of which influence the strength of a bank – are meaningless words to most people. Few ask for a bank's financial statement before depositing their money in it, and even fewer could read such a statement if they had it. Such an attitude is not unreasonable. The U.S. authorities who monitor the banking industry have created an aura of trust in banks that is generally well deserved/ However, this has produced a fundamentally uneducated public, which is to the advantage of the private international bank. Because they are banks, private international banks can often attract capital as easily as their domestic counterparts – by simply asking for it.

Here is but one example of how an international bank can attract capital. You are at a party where several responsibly well-heeled people are enjoying food and drink. You spot author William Shakespeare, who knows a great deal about writing but little about banking. You start making small talk and gradually steer the conversation to matters of finance. At the proper moment, you mention your affiliation with an overseas bank that is currently paying 12 percent on one-year international certificates of deposit.

Will Shakespeare almost drops his martini on his Gucci loafers. The poor guy is only getting 8 percent on his $100,000 CD at a local bank. Thinking himself a smooth financial operator, he decides (with some subtle prodding by you) that BCL should have the honor of being his banker. Immediately, he puts his hundred grand on deposit with you. That your bank is small is of little concern to him. It is a bank. As far as he knows, all banks are created equal. This transaction has accomplished the following:

For your bank:

- You have raised $100,000 quickly and with little effort.
- There is now an additional $100,000, available to you for portfolio investments.
- Little expense was incurred in obtaining this money. Your cocktail-party solicitation was legal because you engaged in a private, not public, offering.
- The credibility of the bank has been enhanced by the addition of another person to the list of depositors.

For the customer:

- He earned more on his money than he could from a domestic bank.
- He received 12 percent interest.
- Ho now has a financial instrument that he can sell should he need liquidity.

Your Bank as Fiduciary

BCL can act as a middleman, a fiduciary, and make plenty of money doing so. But you must be careful. Timing is important. As Shakespeare might say, “the readiness is all.”

Many people make the mistake of thinking they can arrange a deal and, once it is finalized, buy an international bank and reap the harvest. Unfortunately, many such people learn the facts the hard way. To maximize your profit on a major financial deal, you must own the bank before the deal-making begins.

If you earn a commission for arranging a deal, you must pay tax on this to the IRS. The commission is ordinary income. If you arrange the deal and purchase the bank just before it is complete, the IRS may well say that you were acting primarily on your own behalf and not as an agent for the bank. If, however, you have arranged the deal while working as an agent for the bank, and the bank earns the commission, the income is the bank's and therefore tax-exempt.

To act as an international fiduciary and receive, hold and disburse funds on behalf of third parties, you must have BCL, in operation in an offshore haven and an operating agreement with an international bank management company in Vancouver or Montreal. It is unlikely that anyone with a significant amount of money would have you personally arrange a major deal for him anyway. However, it is entirely probable that he would be interested in having a bank arrange such a deal.

This is how your fiduciary status would arise. Suppose a Petro-dollar-rich Arab has placed $100 million in trust in London, for reasons of privacy. This money is now looking for a home. A prospective borrower in California is looking for about $100 million to finance a condominium construction project on Wilshire Boulevard's Golden Mile in Los Angeles.

It would be nice if you, as BCL owner, could fly to London and Los Angeles to bring the London trust and American borrower together. Not surprisingly, however, the trust is unwilling to deal totally with BCL, an unknown banking entity, by turning over $100 million for an American borrower. You need a prime bank.

There are some 30 prime banks in existence. These are the world's major financial institutions and have the respect and trust of the entire international financial community. The London trust wants a letter of credit and promissory note from a prime before it will turn its money over to you. In effect, the prime bank would act as guarantor vis-à-vis the London trust.

This is how the deal is set up. You go to London and speak to the head of the Arab's trust. He agrees to give you $100 million when he receives a letter of credit and promissory note from a prime bank. Assuming the money is to be lent at 10 percent annually, you go to New York and speak to one of the money-center banks there. It agrees to the deal, but will not promise this kind of money without getting something in return. Its commission will be high – 9 percent, or $9 million.

Just as the prime bank is not a philanthropic organization, neither is your BCL. You are providing a service to the borrower whose business you have generated – and service is expensive. Accordingly, your bank's cut as fiduciary is 1 percent, or $1 million!

The prime bank gives you the letter of credit and promissory note. You take these to your man at the London trust and he gives you $100 million. You return to New York and give the prime bank its $9 million. Your bank either keeps its $1 million commission or (more likely) deposits it electronically in BCL's account with the New York bank. You then fly out of Los Angeles and hand your borrower $90 million, or (more likely) have it transferred electronically to the borrower's Los Angeles bank account. In any case, the borrower understands that, in addition to paying the 10 percent interest on the $100 million, he has to pay the 10 percent interest on the $100 million, he has to pay off the top of the necessary commissions, or points, for the deal to take effect.

BCL earned an easy $1 million just my handling paperwork and having you, as agent, make some trips abroad, spend time on the telephone and, in general, make things happen. Of course, in practice things are more complicated than they appear. The parties involved have to trust and believe in you. If you are a good negotiator and have a bank, however, you can put deals such as this together.

This transaction has accomplished the following:

<u>For your banks:</u>

- Earned it $1 million.
- Incurred minimal expenses.
- Enhanced its reputation with a prime bank, a major lender a major borrower and the financial community in general.
- Got you some travelling, winning and dining at company expense.

<u>For the lender:</u>

- Earned him market rate for his money with little hassle or risk

For the prime bank:

- Earned it a significant commission just for guaranteeing a loan

For the borrower:

- Obtained a considerable sum of money at a decent cost.

Your Bank as Loan Agency

In the previous example, BCL acted as a fiduciary and you traveled around the world, arranging deals. This one has you sitting at home, taking it easy and earning money while doing so. All you do is let someone else use the good name of your bank.

How is this done? Agents do the worked on behalf of BCL, putting together loan deals for it. And, they pay you for the privilege.

You’re sitting in your office, wondering how to stimulate business for your private international bank. You’re a banker – the last thing you want to do is knock on doors to sell the benefits of BCL. You’d like a team of salesmen, but you don’t want them to cost you anything.

No problem. Place an ad in The Wall Street Journal. You can advertise for agents there because you are looking for personnel. This is different from advertising your bank as such. You do not, however, advertise for salesmen. Your ad is in the Business Opportunities section and is offering to license loan agents.

What are you licensing? The use of your banks good name. In theory, anyone can be a finder and put together lender and borrower. In practice, few people have the clout to pull this off. That is why most major deals are put together by banks.

That’s where BCL comes in. It licenses the person as a loan production agent. You charge him a one-time license fee of, say, $5,000 plus 10 percent of his gross. This is similar to a franchise arrangement, whereby the franchiser charges a one-time franchise fee and a predetermined royalty on sales.

Because BCL is an international bank, the loan production agent cannot operate in the U.S. (There are exemptions – e.g., arranging mortgage loans in California.) Yet, the loan production agent gets to use the bank's name, which will enable him to arrange far more deals than if he were on his own. He makes money from the commitment and the finder's fee.

This transaction has accomplished the following:

For your bank:

- Brought you representation at virtually no cost.
- Earned BCL a $5,000 fee, up front, for every single agent licensed.
- Earned BCL 10 percent of each agent's gross.
- If the loans are arranged so that they are back to back (borrower places funds in your bank as collateral for the loan), your bank increases its capital.
- Earned your bank the interest paid on the loans
- Increased BCL's exposure and name recognition.

For the agent:

- Earned him credibility, which should substantially improve his ability to arrange deals.
- Earned him fees for his services.

A PRIVATE INTERNATIONAL BANK MODEL

Following is a step-by-step look at how a private international bank progresses from idea to initial operation and on to full service operation. Each example is in two parts, a background statement and a theoretical analysis that illustrates the logic of each step.

Beginnings

Background:

Mr. Robert O. Banker lives in Los Angeles. He is an investor in California real estate, securities and commodities. Mr. Banker owns a private international bank. His objectives are to operate his bank legally in order to reduce or eliminate

U.S. taxes on his investments. He is also interested in operating his bank to raise investment capital by attracting customers and depositors.

The name of Mr. Banker's bank is The Bank of Commerce Ltd. (BCL), located in a leading offshore financial center and managed by a Canadian-based bank management company. BCL has a resident agent, foreign directors to manage it, a mailing address in the offshore haven and an account at a commercial bank in Los Angeles on which Mr. Banker is the sole signatory. Mr. Banker's official connection with the bank, mandated by the Minutes of BCI, is Independent Agent or Advisor.

Theory and Analysis:

Mr. Banker lives in the United States to illustrate that an international bank may be owned by a U.S. resident. He is shown to make real estate, securities and commodities investments to illustrate that the bank may be used to reduce taxes on portfolio investments. Other types of passive income might be applicable to this example, such as income from profits earned as a limited partner in a Hollywood movie. Mr. Banker's interest in raising capital in the form of deposits has three associated benefits:

1. The capital he raises from third parties strengthens his contention that BCL is in the banking business, which is important to define for U.S. tax purposes.
2. The capital he raises in the form of deposits may, within the limits of ordinary liability, be used to increase the size of his portfolio investments, even as BCL is obligated only to repay a fixed rate of return to depositors.
3. If he secures depositors, Mr. Banker has acquired customers to which he can offer other banking services in the future.

BCL has foreign directors to preserve the benefits of doing business internationally, has the offshore mailing address needed for securing business through advertisements placed in international media and has a commercial bank account in Los Angeles so that any deposit Mr. Banker acquires for BCL may be invested quickly, electronically and internationally at his sole discretion. Mr. Banker's role as agent or adviser illustrates that he maintains ostensible authority from the bank to perform certain activities such as the planning of new business and deciding what types of investments are appropriate for BCL. It is not necessary for Mr. Banker to fill this role. An attorney, accountant or other person situated in the U.S. may take that position without creating tax problems for him, provided the relationship is structured as independent of Mr. Banker and not dependent on him. To put it another way, the attorney would have to work for BCL, not for Mr. Banker, in order for Mr. Banker to maintain a beneficial tax position.

BCL Solicits Customers

Background:

BCL has developed a cash-flow situation from the income generated by Mr. Banker's investments and the bank's capitalization. Mr. Banker writes an ad soliciting depositors and arranges to have it placed in the international edition of Time. Time guarantees that its international edition does not have circulation in the United States/ In the ad, BCL offers 12 percent per annum, tax free, on six-month certificates of deposits. The ad directs prospective customers to write to BCL's offshore address for further details. The resident agent for BCL's Canadian management company fulfills mail requests by sending prospective customers an account application and a letter describing BCL's certificates of deposit.

The ad and follow-up mailing is successful. Checks arrive to BCL's offshore post office box, and are then remailed to the management company in Canada, where they are deposited in a Canadian bank. When they clear, BCL's management company or its resident agent confirms the deposit and sends the customer a CD in accordance with prearranged instructions from Mr. Banker.

One depositor, Mr. Valdex, lives in Chile and is most interested in getting his money out of the country for fear of government expropriation. He sends a check for U.S. $5,000 for a six-month CD. BCL's management company deposits Valdez's check for collection in its Chilean correspondent bank. After collection, the U.S. $5,000 is wired to Mr. Banker's account in Los Angeles and journaled as a loan on BCL's ledgers both internationally and in Los Angeles. It is then invested by Mr. Banker in securities, commodities or real estate – at Mr. Banker's discretion as BCL adviser.

Theory and Analysis:

By offering its services through an ad in the international edition of Time, BCL develops business. The manner of the solicitation, which is wholly outside U.S. jurisdiction, is such that there has been no infringement on U.S. tax or banking statutes. Further, it enhances BCL's contention that it is in the banking business with disinterested third parties.

Mr. Valdez's needs are fulfilled because he is expatriating his wealth from a repressive government. The money has been held in accordance with such procedures as mandated by Mr. Banker and winds up for Mr. Banker's use in Los Angeles. The more this type of transaction occurs for BCL, the more quickly the bank will build assets and a solid customer list it can use in the future.

BCL Expands and Provides International Banking Services

Background:

Mr. Banker has developed a list of current and prospective customers. Some have expressed an interest in services such as investment advice. Mr. Banker prepares and prints a 15 page brochure describing the investment services BCL offers. These services include safe deposit, investment advice on a performance-fee basis, trust services the government of the offshore haven have licensed it to perform, portfolio investment in BCL's name, precious-metals trading and such other services as may develop into profit centers for airfreighted to BCL's management company in Canada for mailing to his current and prospective customer lists. Numerous inquiries result from the mailing. They are forwarded by the management company's agent in the offshore financial center to BCL's adviser, Mr. Banker, in Los Angeles.

Some inquiries are handled by Mr. Banker by means of form letters and application blanks. Where interest is expressed by those of substantial means, Mr. Banker writes a letter on BCL's stationery, signed by its resident agent, in which BCL agrees to entertain a meeting to discuss the needs of the bank's prospective clients. AQs a result of assured business, Mr. Banker as bank agent tours overseas, meeting with some of his clients. Extensive business develops.

Theory and Analysis:

___Mr. Banker is clever enough to know that his mailing list is one of his most valuable assets. He is determined to cultivate the list through BCL, to make profits for the bank and to increase his personal wealth. The modest investment in a brochure serves as the "door opener" and calling card for a business leader to demonstrate BCL's capabilities.

Mr. Banker's willingness to travel and host personal meetings abroad develops more business for BCL. This method creates virtually unlimited opportunities – and, both Mr. Banker and BCL are unaffected by U.S. regulation because his customers are not residents of the U.S. At this point, in selected situations, Mr. Banker can begin filtering in U.S. customers developed through indirect contacts.

BCL Services Mr. Banker Needs.

Background:

Mr. Banker has a mixture of customers for BCL – depositors, borrowers and recipients of investment advice. Some of BCL's customers are American, others are foreign residents.

Now Mr. Banker deposits some of his own capital into BCL, which uses it to make securities, commodities and portfolio investments on his behalf. Mr. Banker does so, acting as BCL's agent and adviser, and keeps the income generated by investments on deposit with BCL, legally avoiding U.S. tax on it. BCL makes several loans to Mr. Banker, which are repaid within one year.

Mr. Banker avails himself of the tax-saving benefits associated with the ownership of BCL. He also avails himself of the profit-making activities associated with any bank.

Theory and Analysis:

The uses of BCL by Mr. Banker are deemed as related-person transactions for tax and accounting purposes. The reason for this is that BCL is wholly owned by Mr. Banker. The negative effect of this relationship is only important if tax benefits are sought. Since any U.S. tax benefit Mr. Banker may seek will be based on the contention that BCL is well and truly in the banking business, it is important that BCL acquire a mixture of customers. This is why the fact that BCL has a wide client base is stressed.

ASPECTS OF DAILY OPERATIONS

Marketing

There are many methods of a private international bank can use to acquire customers. The most obvious and apparent way to lure customers away from domestic commercial banks is by providing the same or similar types of services at better prices, more efficiently, and on a more personalized basis. For example, letters of introduction, safe-deposit services, letters of credit, short-term financing, letter of commitment, trust services, collections and similar activities are all provided by most American financial institutions.

A private international bank can offer the same (or even more extensive) services at perhaps a lower cost and, in many cases, more efficiently than commercial banks. But, it is important for the banker to fully understand how a private international bank may and may not get customers, as well as how it may not serve them.

Before a bank or any business can operate effectively, it must have customers. Without a market to serve, there is no point in a bank's attempting to offer services. The extent to which international banks may solicit business from Americans is severely restricted; the federal government does not want to encourage any of its citizens to move their money out of the country. How, then, may a private international bank attract the kind of money that will allow it to operate as a profitable business on the one hand and qualify as a bona fide bank for tax-benefit purposes on the other hand?

A bank may not advertise its services publicly in the United States. It may not make public offerings in the manner of a publicly held corporation. International advertising is permitted, however, as are private, or so-called restricted, offerings.

Using Print Media

Ads for international banking services may appear in print media only if those media are not circulated in the United States. This is why ads for private international banks do not appear in such financial publications as The Wall Street Journal but are found in the international editions of Time and Newsweek. Other favored print-media outlets are the International Herald Tribune and magazines of international airlines. Dow's ads for its Cayman Island bank are but one instance of the scope of foreign advertising.

Advertising in foreign media is an excellent way to attract non-American individuals and companies as bank patrons. There is a significant need by wealthy investors around the world to invest in U.S. securities and real estate. Private international bankers are in a good position to "tap" this market by simply running an ad for the service or by traveling abroad and making personal contact with prospects.

Representative offices may be opened with relatively little effort in Florida. There is no doubt that such an office would assist an international bank in gaining business from the United States. The drawback to such an office is that business derived from the use of the office may be taxed as U.S. income. Further, to the extent an American business office is maintained, federal authorities may construe it as a method of attempting to advertise publicly for foreign customers.

Private Offerings

A restricted or private offering is a permissible way to advertising for a bank, and this method may be used to the United States as well as abroad. It takes many forms, though at its core is the fact of personal, controlled contact, the "rifle" rather than "shotgun" approach to marketing. A cocktail party conversation that leads a customer to a private international bank is one example. However, if an international banker were to advertise a cocktail party in the local newspaper and use the party to pitch his concept, he would be on shaky legal ground.

A private international banker or his agent may take part in investment seminars, speaking engagements or other gatherings that are limited to a selected few individuals. General interest articles on the subject of international banks may appear in any media. This is editorial content rather than paid advertising, and may encourage an individual or business to place funds in the international banking system.

Solicitation through investment clubs or organizations may also prove successful. Groups of people formed for purposes other than banking may find that providing international banking deposit services to members could be of advantage to both bank and customers. The purpose of a private international bank's marketing program in this regard would be to convince those with influence over the group of such advantages.

All of these situations are valuable opportunities that may gain new customers for an international bank. Friends, fellow investors, existing business clients, associated and other contacts are potential customers of private international banks. The ingredient that makes these marketing adventures pay off for the bank is the right promotional strategy and the right banking product. What makes them legal is their exclusivity.

Advertising Restrictions No Problem

Analyzed carefully, what first seems like a marketing disadvantage – restricted access to the potential market – is actually an asset. One of the primary concerns of many private international banks is how to manage their financial affairs and those of their customers discreetly. What a private international bank might gain in broadening its customer base by advertising in The New York Times, it would lose in privacy. The more visible a financial institution is, the more vulnerable it is to attack my meddlesome regulators. Limited access to the mass of potential banking customers allows the bank to choose its market. The First National Bank of Everytown, U.S.A, must take on customers more or less at random – but the private international bank can screen its customers before extending them its services.

Are potential foreign customers offended at the prospect of being screened by a bank in which they are depositing their money? Quite the reverse. Most people consider personalization or a friendly relationship a prime reason for doing business with a particular bank. A private international banker has tremendous opportunity to gain business by simply being friendly, helpful and discreet.

TOOLS OF THE TRADE

Just as personal contact is the essence of obtaining customers for a private international bank, electronic contact is the bank's means of serving them. This must be examined on several levels. When evaluating the potential of a given country to host a bank, the would-be owner assesses its accessibility to the United States – in physical terms and in terms of telecommunications. Instant phone service and the availability of direct flights from an American city to the foreign jurisdiction are crucial factors that might determine the success or failure of a business deal.

The minimum pieces of electronic equipment needed by an international bank are a telex machine, a telecopier (facsimile, or fax, machine) and a reliable phone system.

Telex equipment is gradually being replaced by telecopier (fax) setups – or by direct computer links carried over standard telephone lines. However, if you want a telex system, one can be obtained for about $1,000, with billings based on minutes of use (about 40 cents per minute is typical) Fax equipment can be installed for as little as $600 or so, and billings are computed on the regular phone bill. If you don't want to actually own the equipment, both telex and fax machines can be leased for less than $50 a month.

Telexes are cheaper for short messages – a page of text telexed to Montreal or Vancouver will cost about $3.00, but a six-page telex document will cost about $25.00. Fax machines send an 8-1/2 x 11- inch page in 20 seconds – meaning you can send the same six-page document to Montreal or Vancouver for about $5.12.

A reliable phone system is a function of AT&T (or the other long-distance carriers such as Sprint and MCI) and your local phone companies in the United States and a corresponding system in the host jurisdiction. Usage rates change constantly, but at this writing an international phone call to the Caribbean or Pacific-Asian areas costs about $7.50 per three minute call.

Travel expenses must be considered an expense of private international banking because certain business activities will necessitate traveling to the bank's host country offices. There are times when a closing ceremony, transfer of funds or letter or credit relay must take place at the home office of your bank. In such a case, travel and accommodation expenses become a part of the bank's income statement. Accordingly, the ease with which you can travel to your home office is an important part of your bank's operations. If your bank is located on an island accessible only by sea canoe, your credibility as a banker might be in as much doubt as your ability to handle large amounts of money.

Bank Management Services

WFI Corporation strongly recommends the use of an international bank management service. Few things have a greater impact on the degree of success enjoyed by a private international bank than a quality management service, simply because most new private bankers have no banking or international financial experience. A quality management service alleviates the need for experience because it can perform all the key administration functions for a bank owner, as well as providing the invaluable advice on how to make the highest possible profit and reap the most benefits from bank ownership.

For as little as $2,500 annually, a bank management firm will handle all your mail, telephone and telex communications, processing deposits and keeping track of receipts. It will maintain your bank office, provide typing and photocopying service and keep up your bank's files. It will draft key documents or deposit agreements, send out bills and statements, handle funds transfers to and from the U.S. and act as a custodian of your confidential records, documents, minutes, books, and ledgers – ensuring the privacy of your business dealings. Most importantly, however, a good management company can give you foreign exchange privileges and access to wholesale capital markets – providing specific and sophisticated international investment advice whenever you need it.

WFI Corporation has established working relationships with leading bank management firms in Montreal, Vancouver and other locations and can assist in the selection of a service at the time you purchase your bank.

Personnel

In addition to a management firm, your operating statement must allocate resources to any secretarial, clerical or executive personnel necessary for running the bank. A resident agent is not simply a designation on a piece of paper but a breathing human being whose competence has to be not only judged but compensated. In many foreign jurisdictions, bank-chartered directors must be residents of the host country. Additionally, your bank will require the services of a competent attorney. The word competent is extremely important. Horror stories abound regarding false claims made my attorneys promising the help someone who wants to start a bank. A good deal of research in this area is therefore a must.

Efficient day-to-day operations require trustworthy administrative man-power. To this end, it is necessary to allocate funds to pay salaries commensurate with generally accepted business practices and the degree of administrative performance that will result in smooth banking procedures. Obviously, the easiest way to handle this is to have a qualified bank management company make all the arrangements, hire all the people and simply send your bank a single bill for its services.

Paperwork and Incidentals

Stationery, stock certificates, CD forms, application blanks, corporate minutes, letters of credit and banking forms of all descriptions that conform to generally accepted standards of banking language must all be budgeted for in a bank start-up operation. In this connection, it is vital for the bank to “say the magic words” that will allow all transactions taking place by means of these pieces of paper to be treated as perfectly legal documents pursuant to the laws of the host country.

This involves working with printers (definitely) and with graphic artists (probably). It does not matter whether all printing is done in the United States. The legwork and time investment are the important things. As marketing and customer contact will take place by mail, there will also be an ongoing need to update printed promotional material, letters of introduction and the like. International banks owned by such companies as American Express update their marketing pieces all the time. Indeed, in the discussion of Mr. Banker earlier, the mailing campaign example should be read as but one in a series of marketing tactics employed by the bank to get and keep business. In this regard, postage will be an ongoing expense, as will air freight, courier services and other forms of materials or document transmittal.

Once again, a qualified bank management company can save much expense by using its experience and expertise to identify and provide all of the necessary items.

If your bank intends to operate a high-volume business, a fully equipped business office in the U.S. will probably be a necessary expense. This type of office is permitted in the U.S., provided no management functions or solicitation of the public are conducted. There is no restriction on operating a U.S office that performs solely clerical, secretarial, and administrative support services such as typing, bookkeeping or relaying information from the clients to the host country or bank management service offices.

Apart from the supplies directly related to the bank's financial operations will be a need for ordinary stationery, typewriters, staplers, etc., together with office furniture and accessories common to all business offices. Still, private international banks are generally at a cost advantage when dealing with depositors because customers are solicited by mail and seldom if ever visit the banks premises. On the whole, an investment in a tasteful brochure or promotional literature makes more sense than spending money on fancy desks and executive chairs.

THE LEGWORK

Putting together elements of a duly chartered private international bank involves a good deal of organization. Apart from the money required, you must be able to follow proper procedure and know how to shepard a proposal through a bureaucracy – even the limited ones found in most countries that welcome private bankers. Non-professionals who have chartered private banks without assistance report a time lag of six months to a year from initial investigation to first business day – depending on the host country. That can be a real problem since time and money, both wisely spent, are the key ingredients of successful international bank licensing.

That is where WFI Corporation and this Offering Memorandum come in. Because of its established connections in leading offshore havens and its experience in the field, WFI can reduce a private international bank purchaser's start-up time to less than six weeks – and reduce his aggravations tenfold. Approximately four weeks are spent making necessary equipment, personnel and legal arrangements to license the bank. The balance of the time involves a background check, which has the effect of indemnifying a host country against the bank owner's unsuitability to operate the institution. Once the investigation is complete, relevant papers are filed with the foreign government – and the bank is in business.

This, of course, is only the beginning. Ways the bank may be used are a matter apart, as are basics of money and bank management. These issues will be addressed in later Sections of this Offering Memorandum, and the exact applications and opportunities for the bank can be structured by the management service, based on the new owner's needs and desires.

SECTION 3

PROFIT BENEFITS OF A PRIVATE INTERNATIONAL BANK

The essence of earning a profit in the banking business is borrowing money at a low rate of interest and lending it out at a higher one. Yet the way banks borrow money is different than the way most corporations borrow. Banks borrow from their customers. The money deposited by one set of customers is in turn loaned out to another set. The difference between the amount the bank pays the first set of customers and the interest it collects from the second set is its ordinary profit.

In addition, the term profit refers to the spread between the cost of doing business and any income generated as a result of doing business. Cost reduction leads to increased profitability in any business – and, private international banking is no exception.

Therefore, the ability to borrow funds at a lower interest rate, the ability to save on U.S. taxes, the ability to save on transaction fees and the ability to operate at a lower cost than domestic banks all amount to a savings, which can be seen as creation of new profits.

Anyone who opens a checking account at a commercial bank is really loaning that bank his money in exchange for the privilege of having a checkbook. Since the early 1980's banks have been paying interest on checking accounts (so long as the account holders maintain a minimum balance ranging anywhere from $500 to $5,000). The rates paid on these accounts obviously fluctuate, but most today are paying around 5 percent – a rate similar to that paid on regular passbook savings accounts. The cost to the bank is that 5 percent, plus the cost of processing checks and maintaining records on the accounts. Meanwhile, the bank lends the depositor's money to third parties at the prime lending rate (or more, depending on the type of loan), keeping the difference (usually a spread of 4 to 12 percentage points) as profit.

A private international bank can perform the same type of activity as commercial banks, but it has one problem – it is prohibited from advertising publicly in the United States to attract customers. How, then, can it earn money by conducting ordinary banking business? Answering that question is the purpose of this Section, which will describe ways in which private international banks can be used as profit centers. And, let there be no doubt, private international banks have long proven themselves a reliable and continuous source of legitimate profits!

THE CORPORATE CONNECTION

Though the concept of private international banking is somewhat vague in the minds of many, it is certainly not new. Its place in American corporate history can be traced back to 1969, when the Fed imposed a 10 percent reserve requirement on banks, creating liabilities to foreign branched and against borrowings from their non-affiliated foreign banks. In other words, a limit was placed on the amount of money an American corporation could pump into foreign subsidiaries or borrow from offshore sources.

Yet, a good deal of money for domestic ventures was available only from European sources. This was due to the huge dollar reserves the major European countries and Japan had accumulated as a result of the U.S. balance-of-payments and deficits, which have grown steadily over the past three decades. In order to tap the multibillion-dollar Eurodollar market for financing domestic operations, such multinational corporation as Dow Chemical and Firestone were virtually forced to establish their own affiliated banking subsidiaries. This they did – at first in Switzerland, and later in offshore havens around the globe.

After the wholly owned banks of Dow (the Dow Banking Corp.), Firestone and other major U.S. companies had been in operation for some times, the corporations began to fully appreciate the power of offshore banking ownership. Suddenly, the large U.S.- based multinational corporations found they could conduct banking business and shift investments virtually tax free, exchange currency without restriction and operate in an environment of complete secrecy and privacy. Most importantly, because the business was conducted internationally, they did not have to comply with meddlesome U.S. banking regulations.

This is why, even when the reserve requirements were lowered in 1974, the international banking business continued to expand. Many corporate-owned international bank operations have evolved into complex configurations of foreign ownership that are the very pinnacle of financial leverage..

THE EURODOLLAR CONNECTION

The postwar Eurodollar market playe4d an important role in the development of private international banking. Confidence in this unique method of doing business was enhanced by bank owners' successes in the 1960s. The early 1970s witnessed a good deal of pyramiding of Eurodollar deposits, whereby European banks would deposit and redeposit the same funds in a succession of banks. The interbank deposits would create artificial assets and liabilities without expanding the money supply outside the banking community (we'll fully explain this money-management technique later in this Section).

In 1974, as a result of an environment perhaps too liberal and unregulated, the Eurodollar market suffered a setback. The collapse of Bankhaus I.D. Herstatt, a private German bank, weakened public confidence and motivated many investors and depositors to seek the protection and regulation of U.S. banking law.

As a result, the character of the Eurodollar market changed – and with it that of private international banking.

Investors who wanted maximum protection of their assets irrespective of federal regulation placed their money directly with American banks and S&Ls. Investors interested in speculation and maximum returns on invested capital remained in the Eurodollar market with institutions of lesser credit standing but higher ROI potential than those in the United States. The institutions able to pay highest interest rates and provide the best returns – those that were well-managed irrespective of free-market risks – were the ones that survived.

The conventional investor is interested in the security of insured deposits as keenly as the creative investor is interested in quick turn-around and a healthy bottom line. With the protection of an insured account, however, comes rigid control – just as surely as a free market brings additional risk. The climate of "protection" provided by United States financial law versus the climate of non-intervention that is the hallmark of an international jurisdiction will serve to illustrate why so many investors are re-examining their priorities and increasingly embracing the international alternative.

AN OVERVIEW OF PRIVATE INTERNATIONAL BANK PROFITS

The spread between income and cost of doing business constitutes the profit for any business. There are significantly lower costs in international banking than in domestic banking, identified as follows:

- Offshore banks are not required to maintain reserves against depository liabilities.
- There are no Federal Deposit Insurance Corp. (FDIC) fees.
- Offshore banks manage to avoid a wide range of minor, but costly regulatory constraints faced by domestic banks.
- International banks are not required to allocate credit to certain borrowers at below-market rates.
- Offshore banks are not forced to purchase certain types of securities (such as government debt); they are free to allocate their resources as they choose.
- There are no credit ceilings restricting international banks from going after profitable business
- There are no official limits on interest rates that may be paid on time deposits (as was formerly the case in the U.S.), nor are there lending-rate ceilings (as there still are in many U.S. states).

The profit-making potential of a private international bank must be examined in two categories. The first has to do with profit that the bank itself can make as a banking entity. Though by no means unrelated, the second involves the bank not just as a business entity, but as a vehicle that can be put to many uses in order to enhance the profit picture of its parent shareholders.

Let us first examine the matter of the bank as a distinct entity. There are three major ways in which a private international bank can generate income: by taking deposits, extending credit and investing. To the degree that international banking facilities the interests of various business concerns, it falls more within the meaning of a merchant bank than a commercial bank. In any case, the private international bank profits by operating effectively as borrower, lender, and investor.

DEPOSITS RAISE CASH – AND LEAD TO PROITS

By means of carefully planned marketing, private international banks have been able to attract big and small investors as depositors. This success is attributable in large part to the interest rates these banks are willing to pay to depositors who leave their money in the bank for long periods. They have been known to pay interest as high as 20 percent to 25 percent per annum to depositors who left their money on account for nine years. Even in the lower-interest-rate environment of the late 1980s, some private international banks were offering to pay depositors as much as 12 percent on deposits of just one year.

Mail-Order Banking

The sample ads on the following page show the kind of deposit programs that can be developed – and the type of marketing promotions that a private international bank can use to attract new depositors. But, the advertisements are just the beginning. Obviously, as a bank owner, you hope such promotions will bring in direct deposits (one bank owner we know recently received $40,000 in new deposits from just one such ad). But, even if they don't they can provide a valuable asset – a list of interested parties that can be targeted with further marketing devices.

For example, when readers respond to an ad without actually sending in deposits, your bank management service can mail complete information packets about your bank to them. This reinforcement of the original ad will usually bring in another wave of deposits. (The bank owner mentioned above used this strategy – and picked up $160,000 in additional deposits, bringing the total return for his ad campaign – which cost less than $10,000 – to more than $200,000!)

However, the mere ability to raise large amounts of money in deposit form does not make a bank profitable. After all, deposits are considered liabilities (money owned to depositors) on a bank's financial statement. Private international banks profit because they can invest the depositors' funds in high yielding investments – such as the stock market, real estate, currencies, precious metals, commodities, trust deeds, factoring programs and other leveraged assets – that can earn substantially more than what the banks must pay the depositors when they redeem their accounts.

By the time the depositor is ready to withdraw his original deposit and any interest that it had accrued, the bank has already used the principal as seed money to make its own investments and create yields exceeding the yield it has promised to pay the depositor at redemption. The difference between the yield the bank has received from its investment and the interest it must pay the depositor is its profit.

In fact, most banks encourage their depositors to extend the length of time they keep their money in the bank. The longer a bank has principal available to it, the longer it can continue to use that principle as seed money for investments of its own, delaying as long as possible the payback date of the principal amount, if not the amount of yield.

WHY INTERNATIONAL BANK DEPOSITS ARE PROFITABLE

Though a bank's income sources may be identified easily, making a profit is not simply a matter of announcing a grand opening or even persuading depositors to use the banks services. Just as attracting deposits is a function of marketing, so moving them is a function of sound financial management.

Though there is no reserve requirement for private international banks in most host countries, bankers are implicitly liable for safe keeping of funds on deposit with them. In this sense, cash reserves of a private international bank consist of money available for business cash-flow purposes. If the bank offers check-cashing services, it must keep money available so that check drawn by depositors will not be dishonored in the American money system. This could draw undue attention to your offshore bank.

As the high number of failures of FDIC banks during the 1980s attests, even the best intentioned institutions and bankers have trouble with basic principles of cash flow. Fortunately, managerial incompetence in the domestic banking system is underwritten by the FDIC. You can readily appreciate that a private international banker cannot afford the visibility or reputation of having even a single account compromised. A command of standard business practices is therefore an important part of protecting the profit picture of a private international bank.

In any bank, foreign or domestic, some customers execute demands on the money they have deposited in the form of checks, while others deposit it. Still others are repaying loans, which is a source of bank income. Accordingly, the bank does not really need to keep 100 percent cash reserve on hand in order to operate. A fractional reserve is all that is required. All banks, including private international banks, invest and make loans with the money that they do not have to maintain in reserve to meet the needs of customers. However, because the reserve requirement for private international banks is so low, they may invest or make loans with a greater percentage of their cash on hand.

What can be done to help the private international bank maintain a favorable cash-flow position? In the area of constantly flowing demands and deposits, the international bank follows the custom of banks the world over in depending on the statistical probabilities, the slim chance that every depositor will not come in and call for his money at the same time, and that every creditors will not call in loans (e.g., margin calls) owed by the bank.

A private international bank's cash reserve is a function of fiduciary responsibility on the part of the bank, as well as implied confidence on the part of the customer. In this connection, where CD's or other forms of semi-liquid time deposits are concerned, the private international bank may establish withdrawal terms that would allow it ample time to raise a large amount of cash in case the holder of a CD wants to redeem an inordinate amount. For instance, at the time the CD is issued, the instrument before could specify that "a notice of X number of days is required before withdrawal is permitted." This is a common provision of domestic CD's, most of which also tack on a substantial penalty for making the early withdrawal.

From time to time – for reasons of foreign-exchange exposure, tax position, privacy or visibility – a private international bank may wish to discourage loan applications altogether, particularly from unknown, non-affiliated third parties. Our offshore bank could ask a new would-be borrower to accept smaller loan amounts or shorter maturity, or to postpone borrowing, or any combination of the above. It is a commonplace method of profit protection in domestic banking; there is no reason a private international bank cannot use the same technique to protect its cash reserve.

Beyond the need to maintain a reserve against withdrawals, new deposits are important because they can be used in a number of ways to generate additional profits for the private international bank. Among the most commonly used methods are currency-ex-change services, trust and cash management services and Eurodollar trading.

Currency Exchange

A number of private international banks have taken advantage of the banking industry's ability to exchange currency for customers from a country whose currency is inconvertible in the normal marketplace. In a number of cases, private international banks have been successful in converting South African, Latin American, even Iron Curtain currency to U.S. dollars (described in Section 2) is but one instance of a private international bank's usefulness.

Suppose Bank of Commerce Ltd. – our Caribbean-based private international bank – establishes a correspondent account at a South African bank. Then, a resident of South Africa deposits his local currency with the private international bank's correspondent and receives a CD. When the local resident wishes to make a withdrawal, he may do so by borrowing against the certificate of deposit – in U.S. dollars. The private international bank can legally maneuver around foreign exchange restrictions because banks are typically immune to local currency restrictions – and, even though it is dealing in U.S. dollars, it can bypass any U.S. government sanctions because it is operating outside U.S. jurisdiction.

Because this type of transaction would be impossible by conventional means, the bank's fee in a situation of this type might be as high as 20 percent of the deposit – considerably more than the interest it would have to pay on the original deposit.

Trust and Cash Management Services

Most private international banks that have been licensed to do so have found it profitable to provide trust company services. This service may include the ability to receive assets into custody on behalf of clients and to manage, administer and invest those assets in accordance with client instructions. Trust activities include the ability to act as a trustee under deeds of settlement, wills and other types of trusts. This is quite the same trust authority domestic banks have. The difference is that an international trust faces far less tax liability than its domestic counterpart – and investment options for the trust's assets are far more varied.

The bank's ability to profit in this way depends on the nature and extent of services involved and the diligence with which they are administered. Private international banks have charged from $5,000 to $10,000 per year to administer a trust for a client.

For an individual or a company, cash management means using otherwise dormant cash in the highest profit-yielding situation obtainable. For example, an individual may choose to keep his cash in a high-yielding cash equivalent mutual fund with check-writing privileges (a so-called money market fund) rather than in an ordinary checking account.

The amount of yield necessary to attract funds in a given investment away from its next best investment-yield situation is known as the "opportunity cost." For example, if a NOW checking account yields 5 percent per annum on average balances, and a money market fun with check-writing privileges yields an annual rate of 8.5 percent, the difference in yield, or opportunity cost, is 3.5 percent per year. Expressed differently, it costs an investor 3.5 percent a year to keep his funds in a NOW account.

The need for cash management and the lowest possible opportunity cost is more apparent in banking than in any other business. The objective of any banker is to ensure that his capital is invested and utilized in the highest yielding opportunity legally available to him at any given time. For this reason, American bankers would like to invest all of their long-term deposits in high-yielding ventures such as commodities and real estate. However, they are specifically prohibited from doing so by federal banking law. International bankers, free of the Federal Reserve Board's restrictions, are able to invest all their capital – both long and short term – in any investment to which they feel morally committed. This is a primary reason that it is more desirable to own a private international bank rather than a U.S. bank.

Individuals and companies with large balances in their checking or savings accounts at commercial banks should also make decisions based on the principle of opportunity cost. They would find it more profitable and economical to maintain those balances with their own private international banks. Their bank may then make investments in any high-yield, acceptable-risk opportunity that presents itself – without regard to liquidity or reserve restrictions that would apply in the U.S.

A private international bank is needed for this purpose in order to provide an element of separation between cash maintenance and investment opportunity. It may be imprudent for some corporations not to show cash in the bank on their balance sheet, even though all their cash may be invested wisely. The private international bank provides a way around this – allowing the parent corporation to show money on deposit in a bank while directing cash management investments with that money to earn profits and income free of local and U.S. taxes.

American corporations and individuals now experience a good deal of financial opportunity cost because they must maintain large balances at commercial banks for escrow accounts, trust accounts, real-estate broker accounts, travel agent accounts and insurance broker accounts. In many situations, they could maintain these deposits in a private international bank. Because the international jurisdiction does not impose reserve requirements on the bank or its customers, they could have the bank make cash-management investments appropriate to their needs, thus lowering their opportunity cost.

Tapping the Eurodollar Market

According to Federal Reserve Board statistics, foreign deposits of U.S. dollars totaled more than $1.3 trillion at the end of 1989. A significant portion of these deposits were negotiable certificates of deposit issued by international banks. If an international bank is owned by a financially sound business or individual with a good history of repaying obligations, that corporation may be in a position to “tap” into the Eurodollar market and place its own bank’s CD’s directly into the marketplace with little effort and expense.

Eurodollars are deposits denominated in U.S. dollars, placed with banks outside the United States, including deposits at foreign branches of U.S. banks. The terms “Asiadollars” and “Latin dollars” are merely geographically localized synonyms for Eurodollars. However, the term “petrodollar” has slightly different meaning. Petrodollars are U.S. dollars maintained outside the U.S. as a result of the sale of oil by oil-producing countries, usually those in the Middle East. Petrodollars are seldom converted into the currency of the oil-producing nation. Rather, they are invested in the Eurodollar centers and in many cases invested in CD’s issued by international banks. Accounting for the purchase and sale of Eurodollars is usually conducted in the jurisdiction where they are traded. However, these dollars are tied to U.S bank accounts for the reason that their purchase or sale is reflected as a credit or debit on the ledgers of a commercial bank in New York or London.

Since the Eurodollar market is virtually unregulated, it is governed by competitive forces. Banks often “pyramid” their Eurodollar holdings – depositing and re-depositing the same funds in a succession of banks. This may not make good financial sense over the long term, but it can have a very positive short-term effect for the banks involved (especially private international banks) because the activity is reflected as an increase in business and thus shows on the books as an increase in profits – or, more precisely, in profit structure.

Two types of certificates of deposit may be placed in the Eurodollar market. The first type is the “tap” CD. This type is generally issued to one broker or investor for a particular purpose. Tap CD’s may vary in maturity, interest rate, amount, denomination of currency and negotiability.

The second type of CD – more common in the Eurodollar market – is the “tranche” CD. “Tranche” means “slice” in French. Like bonds, tranche CD’s are issued for an aggregate amount – e.g., $100,000, $200,000, etc. – then sliced into $5,000 or $10,000 denominations. The slices are then sold to the public in bearer form, through market makers or broker. Because they are publicly held and negotiable, they are often quoted in various publications or in brokerage houses in Europe. Tranche CD’s often have a large secondary market, which enhances their liquidity (meaning they may be freely traded among secondary-market investors).

To tap the Eurodollar market using this method, a bank issues a set amount of certificates of deposit and places them with a broker in Europe. The broker then places the CD’s with his clients, who have portfolios receptive to earning favorable returns.

Specifically, the bank issues a predetermined amount of bearer International Certificates of Deposit (ICD’s). Since no money is collecte3d from their issue, they are journaled on the bank’s contra-account, which does not affect the capital assets or liabilities of the bank. The bank has a broker in Europe who markets the ICD's more or less on consignment. The broker places them with his clients, at which time cash is collected and the liability recorded on the bank's balance sheet. The final step involves the broker remitting the ICD proceeds to the bank after deducting a fee.

By applying the techniques of the Eurodollar market to the issuance of tranche/bearer IC's private international bankers may be able to raise capital privately from among members of their incorporating group – or perhaps from clients of the bank. Funds derived from the sale of certificates of deposit may then be loaned back to the parent shareholders for use as they wish.

INSURANCE SERVICES

Many private international banks are providing insurance services to their customers. This may include various types of high-risk coverage – such as malpractice, corporate liability, strike insurance and insurance on other risks that would be too expensive to seek from ordinary underwriters. The ability to profit from providing these services depends largely on the competition of the market and the cost of the insurance if purchased from U.S. sources. The premiums add to the capital position of the bank, provide investment principle of the type used by the U.S. insurance companies and build up a reserve should any claims arise from the captive-insurance operation.

The insurance business became a truly major profit center for many private international banks as a result of the liability crisis that hit American companies, professionals and even cities and counties in 1985. With domestic insurers charging outlandish premiums – or refusing to grant policies at all – those parties with high-risk positions had no alternative but to turn offshore. Some merely went to established foreign insurers willing to take on the risk at more reasonable premiums. Others, usually professional groups of individuals with common risks, established cooperative insurance pools – based either offshore or in states like Vermont or Colorado, which have more lenient insurance regulations – that would provide coverage for all the members. Finally, many single companies, professional groups and trade associations set up "captive" self-insurance operations based in places like the Bahamas, Panama or the South Pacific Islands, where strict U.S. insurance regulations could be avoided and tax advantages gained.

For the insured parties, there are two immediate financial benefits in a captive insurance company. The first in the mere fact that it can make certain types of coverage available. Conservative American underwriters still consider many ventures too risky and simply refuse to provide coverage – or, if they can be talked into offering a policy, demand a premium that is prohibitive. Thus, a company that needs unconventional coverage before embarking on a new venture might have to abandon its plans because of the difficulty of finding a bond. However, an international captive insurance plan, which can be reinsured by a conventional underwriter with less difficulty, can solve the problem for many companies. Compared to the cost of initial coverage supplied by a domestic underwriter, the international premium is likely to be much lower.

Second, there are also tax benefits related to international captive insurance coverage – though the Tax Reform Act of 1986 wiped out some of these. Prior to that law, U.S. based companies that self-insured through a captive offshore insurance company were able to pay their premiums into a contingency fund (set aside in case of trouble), invest that cash, return a tax-free dividend to policy holders if the investments did well – and still deduct the premiums as expenses on their U.S. tax returns. However, the 1986 tax laws decreed that companies, as a general rule, can no longer deduct premiums paid to their own self-insurance subsidiaries, and that all profits (including investment gains) made by the insurance subsidiary are taxable, even if these profits are not distributed to the parent firm or owners group. (The exception to this rule involves "mutual" insurance companies – those owned by 10 or more unrelated parties. Tax reform left the benefits intact for mutually owned offshore insurers and there has been a shift to this approach since 1986.)

While tax reform slowed down the boom in self-insurance – it created an even bigger boom for private international bank owners willing to take over the insuring role. Now, instead of setting up their own insurance subsidiaries, U.S. companies, trade groups and professional associations can contract for coverage with private banks. The banks handle the insurance function in exactly the same fashion as the former captive operations – with major benefits for both the insured parties and the bank owner.

The insured parties pay virtually the same premiums they paid to their own operations, receive the same level of coverage and retain the advantage of less stringent regulation offshore. And, because they are buying their insurance from an independent entity, the premiums are deductible and they have no tax liability on profits from investing the reserve pool (which can still be channeled back to them in the form of lower premiums).

The private international bank (which, as you will see in the Section on Asset-Protection Benefits, gets its own liability protection by virtue of its offshore status) makes its money from administrative charges and the fees it gets for managing the capital pool created by the premiums paid by the insured parties. In addition, once it has the structure in place, the bank can also offer management services to other cooperative insurance groups that want a base offshore – or, it is well capitalized and has good management, can even begin offering insurance coverage to other clients outside the original self-insurance group.

Insurance Savings

Just as the private international bank may offer insurance services at profit, an individual or corporation that pays an excessive amount of insurance premiums yearly can use an international bank as its captive insurance company and save money. In this situation, the bank acts as a financial cushion and receives insurance premiums from the parent owner. Any third parties who demand verification of insured status in a business venture may receive it from the insured company, which is bonded at a low cost.

Perhaps as significant in this regard is that the premiums the company pays may then be invested by the bank in portfolio ventures earning tax-free profits for the bank. According to tax regulations, the insurance premiums paid to the bank may be deducted if the bank also provides insurance for third parties. In other words, the bank that underwrites its parent must also underwrite unrelated companies or persons in order for the bank and the corporation to claim both tax benefits of captive insurance and to benefit from the low-cost insurance premiums.

LENDING SERVICES

The next profit-making area for a private international bank involves extending credit. There are five basic means of extending credit:

- High-interest loans.
- The letter of credit, which is a financial instrument saying that if certain conditions are met, payment will be tendered.
- The bank guarantee, which is a financial instrument obligating an institution to act as guarantor on a loan.
- Secured lending, or asset-based financing.
- The back-to-back loan, in which a bank accepts a person’s deposit and then re-lends him a certain amount for an onward transaction. In such cases, the person’s deposit is collateral for the loan.

Obviously, in any of these instances, if the bank issues credit, its assets must be adequate to support the loan.

High-Interest Loans

Nearly all private international banks take advantage of their opportunity to loan money. The most common type of lending a private international bank does involves venture capital – high-risk loans at high interest rates. Private international banks can make such loans – and charge such rates – because state usury laws generally do not apply.

This important precedent was set by the California courts in Sodeno c. Union Commerce Bank, 17 Cal. App. 3d 391, 139 Cal. Rptr. 229 (1977), which held that foreign banking corporations were exempt from California usury laws. As private international banks are duly constituted foreign banking corporations, it follows that a private international bank has the same privilege under law. Other states have followed California and have similar precedents for foreign banks.

Assuming that lending activities by an international bank would be exempt from usury laws in your state, your private international bank would be able to make high-interest loans to third parties – loans that would be impossible without the bank's existence. The profit earned from such activity may be from 5 to 10 percentage points above that available to a conventional lender. In addition, tax savings are associated with providing these lending services, since profits from banking business as such are not taxed internationally.

Loan companies are particularly suited to take advantage of these lending benefits. By owning a private international bank, a U.S.-based loan company can make high-interest loans that would otherwise be illegal. And, interest income from such loans becomes tax free so long as it remains offshore.

Letters of Credit and Bank Guarantees

A bank's cash-flow position consists of more than cash. Assets and access to quickly liquid securities may be included in its capitalization, just as equipment is included in the estimation of the capital position of a typical business. Provided that the bank's capital structure in its entirety can support an extension of credit to a certain dollar amount, it may issue a letter of credit or financial guarantee.

Such instruments have a variety of applications that can benefit both the bank and its customers. For example, a bank guarantee may be used as a completion or performance bond for real estate development or construction.

A letter of credit may also be used to purchase goods for import to the United States or to guarantee a loan from a third party. For example, a private international bank could issue a letter of credit to a Hong Kong expatriate wishing to purchase electronics equipment. By using a letter of credit as a guarantee, his otherwise unsecured loan can become a secured loan.

A bank can profit from this situation, even if it has to borrow funds from another bank to back up the letter of credit, guarantee or surety. The concept of bank-to-bank benefits is crucial in this regard. A private international bank can borrow from another bank at an interbank lending rate much lower than the rate a regular borrower would be charged on a retail loan. Thus, the private bank has plenty of room to provide funds at a profitable margin while still giving the end borrower considerable cost savings over the interest rate on a service fee or points for the issuance of such instruments as letters of credit and loan guarantees.

Margin Advantages

The government regulates credit in part through “margin requirements” for stock and bond purchases, future transactions and other investments. The margin is the percentage of the cost of a stock, bond, or future that a buyer must put up at the time of the purchase. The rest can be borrowed, with the financial instruments themselves serving as collateral.

A little known area of investment opportunity for consumers involves margining securities through a private international bank. Ordinarily, an investor is extended a margin of 50 percent when purchasing listed stocks and 30 percent when buying bonds, pursuant to Regulation T of the Federal Reserve System. However, Regulation T does not apply to foreign banks.

Therefore, an international bank is in a legal position to lend 100 percent on margin for the purchase of listed stocks, less any fee (points) collected for providing the service. The additional 50 percent that would ordinarily be required as margin for the purchase of the stock may be invested at the best possible return, thus reducing an investor’s (or more likely, the private international bank owner’s) opportunity cost.

Cost Advantage of Lending

A major reason a private international bank makes money by lending money is that it can borrow below prime rate. It may issue CD’s or promissory notes denominated in a currency whose borrowing rate is lower than the U.S. dollar prime lending rate. Suppose the borrowing rate for Swiss francs is 6.5 percent per annum, but the U.S. prime rate is 8.5 percent annually. If an international bank were to borrow in Swiss francs at prime, it could convert the francs to U.S. dollars and loan the money to its current shareholders or customers at the highest U.S. rate.

To protect the bank's position in relation to the repayment of the loan in Swiss francs, it will likely have to purchase a futures contract or forward contract guaranteeing that the Swiss francs will be available at a specific and known price when the loan is due. This cost is known as a "hedge cost," which ultimately increases the borrowing cost.

However, there is usually enough of a profit margin in the transaction that it normally works out lower than the cost of borrowing the equivalent amount of money in U.S. dollars. The bank is needed to issue the CD (the actual instrument of borrowing), save on the cost of exchange from the Swiss francs to U.S. dollars and maintain the futures contract in Swiss francs.

INVESTMENT OPPORTUNITIES

Investing is an important profit area for any bank. And, a private international bank, by virtue of its foreign status, can invest in many different types of things that ordinarily are prohibited for U.S. banks. Securities, commodities and real estate as a principle investment are the most obvious examples.

The international bank structure is ideally suited to profiting from investment because, in accepting deposits, a bank is put in the position of raising investment capital. In effect, it is raising money under a new name. Thus, a private international bank is probably the best vehicle through which a domestic individual (or, indeed, a domestic bank) can raise capital in the international market at low cost and turn it to profit opportunity not normally available to U.S. investors.

Arbitrage Opportunities

In the foreign money market or foreign exchange market, quotations for the same currency vary from market to market during the day. Considering that an international bank will be permitted to purchase foreign exchange at a lower rate than ordinary customers, it may be able to earn significant profit by purchasing currency in one market and selling it at the same instant in another. When a bank trades to take advantage of the spread in price between markets, it is engaged in arbitrage.

Through its foreign exchange trader in London, a private international bank may be able to purchase Deutschemarks for its account in Frankfurt and sell these to another dealer for Italian lire. The bank may then find a broker who needs lire in another marketplace, such as Zurich, and receive Deutschemarks as a result of the sale of the lire. When spreads and opportunity exist, it is possible to make cross trades of this type in a matter of minutes. After deducting telephone and telex expenses, the bank may then wind up with a virtually risk-free transaction that results in significant profit.

A more common type of arbitrage is known as interest-rate arbitrage. This involves conversion of funds from one market to another for the purpose of obtaining a higher rate of interest than is available at the starting point. Such investments are usually short term. Alternatively, the movement of funds abroad through the exchange market makes funds available at lower interest rate than that obtainable in the foreign market.

Thus, arbitrage occurs where lower interest rates and foreign exchange costs make it worthwhile. The private international bank is an ideal vehicle for interest-rate arbitrage for two reasons. First, such a bank has an opportunity to receive a more favorable brokerage rate for the purchase and sale of funds. Seconds, any profits earned internationally are considered bank-business-related and are therefore tax-free. In addition, the private international bank may be used to attract customers who wish this activity to be performed on their behalf. As individuals rather than banks, the persons availing themselves of income derived in this manner would not automatically be entitles to a tax benefit. The bank still earns income on a fee basis. Arising as it does from bona fide baking business, this fee income would be tax free for the bank.

Bank Float

Some people think profiting legally from a float is somehow unethical. American Express Co., the world's largest issuer of traveler's checks, collects tens of millions in cash from people who buy the checks. It immediately invests this money into high-yield T-bills or similar money-market instruments. The traveler's checks aren't cashed until days or even weeks later, perhaps in Japan, England or Italy, and they don't make their way back to American Express for payment for a considerable amount of time. American Express makes its money not just from the fee it charges a traveler, but from the interest it earns by investing the collected cash. This is the float – and it is not unethical to use it! It is simply good business practice.

Private international bank owners and customers alike can profit from the float – the owner by using the float as a marketing tool and the customer by using it to pay bills. If the holder of a private international bank account issues a check to a U.S. creditor, it must be sent my mail for collection because the international bank is not a member of the Federal Reserve Clearing System. This can take a few days or several weeks. Meanwhile, as the check is finding its way back to the international bank, the depositor can earn a return on his money in his interest-bearing checking account.

WHOLESALE BANKING SERVICES

Despite the large number of domestic bank failures during the 1980s, banking is still considered one of the most lucrative businesses in the United States – which is why more and more new domestic banks are formed each year. Unless they are grossly mismanaged, banks are able to make substantial profits by taking deposits and paying low rates of interest, meanwhile rolling the funds into short-term, high-interest investments such as T-bills that bring a fast return and additional working capital. This growth of domestic banking is taking place despite a mass of federal and state regulations, a capitalization requirement of at least $2.5 million, a high reserve requirement, restrictions on the types of allowable investments banks may make and an uncertain U.S. economy.

How much greater the opportunity is for private international bank that enjoys minimal regulation, capitalization and reserve requirements, far lower operating costs and the power to function as a merchant bank. If such a bank can attract customers by means of well-conceived marketing, its margin of profit stands to be considerably greater than its domestic counterpart.

The Growth of Banking Services

The investing public today is looking increasingly for financial institutions capable of offering a wide range of services – such as investment in money-market and mutual funds, brokerage services, personal loans, mortgages, credit cards and international automatic teller (ATM) services. The more successful and profitable the bank will be overall.

To offer such services, of course, private international banks must purchase them from somewhere. In that sense, the independent bank is something like a retail merchant who buys financial services at wholesale prices and sells them at retail markup. The spread between the wholesale prices and retail prices is its gross profit. And such is the principle of what we can conveniently call wholesale banking.

Wholesale banking can be approached from two perspectives. The first involves tapping into a variety of money-management services that private international banks can offer more cheaply and profitably than their domestic counterparts. The second has to do with techno-electronic banking services, a relatively new and fast changing element of private international banking. In either case, however, the individual private bank is a retailer of services. Customers buy these services based on the effectiveness with which the bank can market them.

Electronic Credit

International credit cards and automated teller services are a major part of wholesale banking. Visa charges a quarterly service fee of 0.30 percent of sales volume with a minimum of $1,500, which begins after the bank has been a Visa member for two full quarters. In addition, there is an interchange volume fee of 0.10 percent of volume. For the processing of applications, new Visa members must also pay an initial service fee of between $5,000 and $50,000, depending on the size of the bank's assets. There are also some other fees. But it would seem that for many private international banks, setting up a credit-card business is well within their financial capabilities.

In the area of electronic banking, private international banks can now tie into the major U.S. automatic teller networks. (Visa cards and most other bank cards can also be used now to obtain cash from ATMs all over the world.) The opportunity for a private international bank lies in the fact that it can use this technology in order to attract customers from the United States, as well as from other countries. Thus, in the truest sense, a private international bank can now be really international – thanks to ATM tie-ins, it can collect customers, deposits, interest payments and service fees from anywhere in the world.

Because it collects fees for such services, this obviously enlarges a private international bank's profit potential enormously – and, it also has important tax implications for the private international bank owner. Being linked to a worldwide ATM network demonstrates beyond a doubt that a private international bank is conducting banking business as such – and doing so with customers who are "unrelated persons" within the meaning of IRS regulations. With such a body of proof on your side in any IRS query of your banking activities, you may be able to postpone and indefinitely all taxes on earnings associated with your bank's operation.

Here is how the concept of private international banking through the use of an ATM network might work:

Mr. Robert O. Banker's R.B. Construction has 200 employees. RBC's employees receive paychecks on Friday afternoon. Most would like to deposit their checks into their bank accounts and withdraw up to $300 each in cash. Mr. Banker's Bank of Commerce Ltd. (BCL), chartered in a leading Caribbean haven and managed by a Canadian-based management company, is of great aid to his employees in this situation.

Mr. Banker has an ATM installed at his plant – linking it to BCL via a minicomputer capable of being updated, instructed, or directed by BCL's Canadian management company or by the bank's directors in the offshore haven. In addition, BCL hires an independent person to load currency into the ATM, retrieve checks deposited into the ATM and deposit those checks in a U.S. bank with which BCL has set up a correspondent relationship.

Mr. Banker's RBC employees become customers of BCL by placing an initial deposit into the ATM and completing an application form, which is forwarded to ABCL's Caribbean directors, who automatically accept and approve the new account. Once the new depositor is duly enrolled, a magnetically coded ATM card is mailed to him directly from the BCL's Caribbean office.

On the next banking day after employees make their initial deposits, the independent ATM service person picks up their checks and places them into the correspondent bank fir credit to account of BCL. Upon collection, the correspondent bank advises the director of BCL by telex or direct computer link that credit is available in its account. The directors then authorize the correspondent bank to provide cash to the service person so the ATM can be filled. They also update the ATM computer to reflect each employee's deposit, thus setting the stage for him to withdraw his funds at a future date.

After that, the employee merely inserts this card into the ATM and indicates whether he wants to deposit his paycheck or withdraw cash from his account. The ATM queries the computer as to whether the account is in good standing, and if it is, the deposit is automatically accepted and the withdrawal request is granted. Mr. Banker thus provides a valuable service for his employees in the U.S., and the fees collected for the service add to the profits of BCL—which, of course, benefits Mr. Banker since he is the owner of the BCL.

Obviously, the private international banker's ability to market the benefits of international electronic banking will be important to his success in offering such services, which often meet with some resistance from the privacy-conscious customers. He also must be able to manage the capital requirements involved with tying into electronic networks.

However, when the services are in place, they will offer a wide range of opportunity for customers of private international banks and an immediate profit potential for the bank in respect to service fees and available working capital. Thus, wholesale banking would seem to be an idea whose time has come for the profit-conscious private international bank.

WHOLESALE INVESTMENT SERVICES

The private international bank's role as a wholesaler of services can also be extended into the investment field. That's because banks are generally accorded special benefits by the investment industry – benefits that let a private international bank acquire the services of other banks or brokerage firms at reduced rates in order to resell them to its own customers at a profit. Thus, a private international bank, whether owned by an individual or corporation, can usually save money on a variety of costs associated with doing business – most notably on investment commissions for such items as commodities, stocks, options, bonds, bullion, coins, currencies and U.S. Treasury offerings.

Acting strictly as an agent, your private international bank can provide clients with brokerage services. The customer calls you with his order, which you place in the name of the bank with an established brokerage house. This way, only you know the name of the customer. As far as the brokerage firm is concerned, your bank purchased the stock. Capital gains and dividends are automatically reported to the IRS as brokerage firms are required to submit customer Social Security numbers and IRS Form 1099, which records a person's income from his trading account. But a bank has no Social Security number, nor are 1099 forms filed on them.

Thus the individual investor gains privacy – and he is willing to pay your private international bank a commission to protect it. The commission is mostly profit, since only a small record-keeping cost is incurred.

With relative ease, a private international bank can also offer such desirable investment services as money market funds and mutual funds, again making a handsome profit on the spread between the wholesale cost it pays for such services and the retail price at which it sells them to its customers.

INTERNATIONAL MONEY MARKET AND MUTUAL FUNDS

You've now seen how a private international bank can profit as a retailer of both banking and investment services purchased at wholesale rates from other banks or investment companies. However, a private international bank can be more than just a retailer of other people's services – it can also generate substantial profits by providing those services itself, cutting out the middle man. Two of the most potentially profitable such ventures involve mutual funds and money market funds.

The Money Market Fund

Mutual Funds have been a popular form of investment for a growing number of people for almost a century. Traditionally, mutual funds invested in stocks – and, of course, many still do. But, beginning in 1972, a new type of mutual fund emerged – the money market mutual fund. In 1979, these funds had assets of about $11 billion. By the end of 1988, more than $760 billion was on deposit in money market funds. Why? Quite simply, their benefits in times of both high and low interest rates are unbeatable.

Money market funds work on the premise that pooling resources is the best way small investors can maximize gains. Taking relatively small amounts of money from large numbers of investors, they hire the best investment advice available to look for the most desirable profit-making opportunities and invest accordingly. The result is a combination of yield, liquidity and safety unmatched by more traditional investment programs.

The most important benefit to money market fund investors is yield. For relatively little money, the small saver can earn an interest rate about half point below that received by investors with millions of dollars. The deposits placed with these funds earn interest from day of deposit to day of withdrawal and are not subject to a penalty for early withdrawal.

In addition, the funds are more liquid. Often, a checking account is included as part of the deal so the saver can withdraw money whenever he wants by simply writing a check for a specified minimum. Money market funds can afford to be liberal in terms of withdrawal rights due to the liquidity of their assets. Typically, their portfolio matures in less than 30 days. Banks and S&Ls have a high percentage of their assets tied up in long-term investments – such as 20- and 30-year mortgages – giving them far less flexibility than money market funds in setting interest rates paid to savers.

Safety is also a big marketing draw for these funds. Their favorite investment is commercial paper – unsecured, short-term promissory notes issued by such major corporations as IBM and AT&T. Certificates of deposit, both domestic and Eurodollar, are also popular. Domestic CD's, as a rule, require a $100,000 minimum deposit and are long term. Their liquidity comes from secondary markets where they can be bought and sold. Eurodollar CD's are short term. Sometimes held in overseas banks for periods as short as overnight. Other investments include U.S. Treasury obligations, government agency issues and repurchase agreements.

The safety record of money market mutual funds (to date, not a single money fund depositor has lost so much as a dollar) is important because it has been achieved in spite of the absence of deposit insurance provided by the U.S. government. This has two important implications for private international banks. First, it means that an offshore bank can form an association with a money fun without subjecting itself to the onerous regulations and strict reserve requirements that the government imposes on domestic U.S. banks in exchange for providing deposit insurance through an agency such as the Federal Deposit Insurance Corp. (FDIC). This obviously gives the offshore bank a significant advantage over its domestic competition, which must not only deal with the added restrictions, but must also reduce deposit yields to offset the cost of the federal insurance.

Second, and more importantly, the safety record of the money funds can be used as a strong sales argument by private international bankers seeking new depositors. There are countless people in America who have ample reason to place a portion of their funds in offshore banks. However, many of them are hesitant to do so for the simple reason that offshore banks do not have federal deposit insurance. By citing the outstanding safety record of the money funds, private bankers can make a strong case that deposit insurance is not needed in a true free-market investment environment such as that enjoyed by offshore banks.

Why Deposit Insurance Is Not Needed

In order to make this case, however, private bankers need to understand the true purpose of the federal deposit insurance, as well as the reason money market funds can provide adequate safety without it. Most people fail to realize that protection of the individual deposits is really the secondary purpose of federal deposit insurance. The primary reason for its existence is the prevention of a collapse of the American banking system, which is inherently unstable because it is based on debt rather than equity.

A bank fails for one simple reason – depositors lose confidence in its solvency and stage a "run" on the bank, demanding in return of their deposits. This is usually prompted by a decline in the value of the bank's debt based assets, either as a result of changing market conditions (such as the drop in real estate values in oil-producing states like Texas during the mid-1980s) or a series of defaults by those who have borrowed from the bank.

However, money market funds are "run-proof" because depositors actually own a share of the funds' assets. Thus, any decline in the value of the fund's assets passes instantly to all fund shareholders, according to the proportion of the total shares they hold. Since shareholders cannot save what they have already lost, they have far less incentive to cash in their fund shares – unlike bank depositors, who can still claim the full value of their original deposit even when the bank no longer has enough assets to fulfill that claim.

Because of the nature of money fund investments, the odds against a substantial decline in the value of fund assets are high. As a result, most declines are small – causing only a small reduction in yield, not a major rush to liquidate fund shares. And, even if money fund shareholders do try to liquidate, they cannot threaten the solvency of the fund because they can only withdraw their pro-rata share of whatever assets remain.

A private international bank can offer its depositors the same level of safety as the money market funds – even without any type of deposit insurance – by emulating the way the funds operate. This would be done as follows:

The bank can accumulate enough highly liquid assets on its balance sheet to match the liabilities (deposits) that can be redeemed on demand. Those assets would be specifically pledged for the redemption of deposits and the bank's other creditors would have no claim on the assets until obligation to depositors had been met. By doing this, the bank would, in effect, be creating its own money market fund for the depositors, who would be viewed as shareholders in the fund.

The bank's "deposit" fund would differ from a regular money market fund in only one respect – the bank would be insuring depositors against any fluctuation in the value of their shares. To provide that insurance, the bank would have to hold a modest equity position in its own fund from which to compensate depositors for any drop in the value of the fund's portfolio. This would result in a slight reduction in the yield the bank could offer, but most depositors would likely be more willing to sacrifice the small difference in exchange for greater safety.

The bank's goal, of course, would be to always maintain a total fund value at least as great as the sum of its obligations to depositors. If the value of the fund's securities slipped below the level of its total outstanding obligations, the bank would have two options:

- It could add new securities to the fund, either by drawing on its existing capital or by raising additional capital in the market.
- It could default on its guarantee to depositors. In this case, the fund would automatically become the property of the depositors – in essence, converting them from depositors to shareholders in a regular money market mutual fund.

In either case, the actual loss to depositors would be almost nil, so there would be little threat to the continued existence of the bank.

For those who question the validity of this approach in protecting the assets of depositors, there is a perfect example of the way it works inside the United States itself. IDS Certificate Co. of Minneapolis has been offering investors a certificate of deposit (CD) – uninsured by the federal government or any other entity – since 1890. The CD's actually called "face amount certificates," have been highly successful for two reasons.

First, the certificates have an extremely strong record of safety, having paid off even during the Great Depression. This safety is ensured by IDS's $2.35 billion portfolio of investment assets – 98 percent of which is made up of short-term, investment-grade bonds – and its own equity reserve, maintained at a level sufficient to meet any unexpected influx of redemption requests.

Seconds, because IDS does not incur the administrative costs or pay the usual bank fees related to government deposit insurance, the certificates yield at least a quarter of a point more thank bank CD's.

Tom more accurately define the resulting success of this “uninsured” deposit, IDS has had 1.2 million depositors over the years, and it sold almost $1 billion worth of the certificates in 1988 alone!

Mutual Funds

People invest in mutual funds for the same reasons they invest in money market funds. There is strength in numbers. Top investment advice can be hires, increasing the potential for successful investment choices – and thus increasing the potential yield. In addition, with many investors participating, a diversified portfolio can be created, and a reserve established so that a degree of liquidity can be made available without forcing the sale of portions of the fund’s stock portfolio.

Given the appeal of these two investment forms, it becomes clear that a private international bank offering its customers access to both money market funds and stock mutual funds have a strong competitive edge. More than ever, the public wants to deal with institutions that provide full service – and owners of private international banks can do this. The bank also gets added benefits since the offering of such popular services gives it a hedge against an unpredictable economy – it can attract investment funds no matter what the economic climate.

Making Funds Pay Off

As a bank owner, you can personally profit from the money market and mutual funds by simply placing your investment funds with them and receiving their current yield. This is fine for a passive investor willing to take what the market offers. However, the aggressive entrepreneur wants more. He’s looking for major profit-making opportunities available only to those who have “a piece of the action.” This means actively promoting or running a money market fund or mutual fund.

You might think your small private international bank couldn’t compete against Merrill Lynch or Citibank or the big mutual fund families – but you’d be wrong. You can compete because you can offer advantages in the form of tax benefits and privacy that domestic firms cannot.

You must realize, however, that while the potential profit benefits are large, there are considerable difficulties involved in setting up such funds. For the operator/promoter, the primary difficulties are the legal requirements and encumbrances involved in setting them up. These requirements are not nearly as stringent in international jurisdictions as they are domestically, but they still require expertise, careful planning and attention to detail and procedure. Cost is also a major factor. Again, costs are much higher domestically – it has been estimated, for example, that the legal fees for setting up a money market fund domestically run around $250,000. In an international jurisdiction, these fees would be much less – but they could still run as high as $50,000.

The biggest obstacle, though, is the need for sophisticated financial expertise. Managing millions of dollars in investment monies requires highly professional skills. Unless you are really knowledgeable about investments, you probably won't want to get involved at this level.

Acting as an Agent for Funds

Fortunately, there are easier – and still very profitable – ways of offering international money market funds and mutual funds. The private international bank owner can act as an agent for a fund, either indirectly (we'll provide an example of this approach later) or directly.

Being a direct agent for a fund is fairly simple. Your job is to seek new shareholders, which in effect makes you a marketing arm of the fund. You advertise, make contacts and do whatever is necessary to attract clients. Administration and paperwork are kept to a minimum. Because you don't actually run the fund, you don't have the risks and costs of asset management.

Your income comes from the type of deal you arrange with the fund. Most likely, you'll work on straight commission. If you bring to the fund 250 shareholders, each of whom invests $20,000 (a typical money market fund investment), and you receive 2 percent as commission, you'd grow $100,000.

Another possibility, applicable just to money market funds, has you functioning as an indirect agent – either in promoting an existing money market fund or as a marketer of your own bank's money market fund. No, that doesn't mean you have to go through all the hassle and expense of actually setting up an independent money fund – what you do is create your own fund in name only.

Though you solicit deposit funds in the name of your fund, most of the depositors' money is actually put into an established, well-known international fund.

You charge a small commission for doing so – and depositors are willing to pay you this commission because they more than make up for it in tax savings and convenience. In addition, you may decide to put only 80 percent of the money into a money market fund and use the remaining 20 percent to generate some really large profits. You deposit that money in your own bank's CD's, thereby raising capital.

Obviously, you'll have to pay the market rate on this money. Say that rate is 10 percent. The tricky part is to invest this money so it returns more than the 10 percent you're paying for it. This can be done by placing the money into cash0management accounts that carry a higher risk factor than money market funds, but that also pay more. If the going rate on money market funds is 10 percent, cash-management accounts may pay 12 percent – and the difference is yours. Because of the risk involved, you wouldn't want to put more money into cash-management accounts – which is a principle of your own international financial management.

Tax Advantages

By keeping the money earned from international money market funds and mutual funds purchased through your bank offshore, the investor can avoid paying taxes on this income. Suppose an investor is in the 28 percent tax bracket and is also subject to the 5 percent high-income surcharge, making his effective tax rate 33 percent. If he earned 10 percent on a domestic money market fund, or repatriated his international earnings. Uncle Sam would take 33 percent – meaning his true after-tax yield would be just 6.67 percent.

By keeping the interest payments offshore (which can be done only with an international money market fund), the investor keeps 100 percent of this money. Put another way, the investor would have to earn 15 percent from a domestic money market fund if he were to equal his return from an international fund paying 10 percent.

This is an exciting advantage, but people eventually will want to spend the interest payments and/or capital gains their international investments earn. This means bringing the money back to the United States, where they'll have to pay tax on it. However, the longer tax payments are deferred, the better. During the deferment period, the money that would have gone to Uncle Sam could be put to high-yield work.

The key is keeping international earnings offshore for as long as possible. This can be done by borrowing against the earnings. The investor takes out a loan against the amount he has earned from his overseas investment. This gives the desired liquidity. It also gives him a limited tax write-off in the form of the interest he pays on the loan. Domestic banks cannot equal this service because they cannot provide the tax and privacy advantages of a private international bank.

BCL and Money Market Funds

The following illustration shows how our friend Mr. Banker might turn an association with international mutual funds into a profit center for Bank of Commerce Ltd.:

After some research, Mr. Banker decides the combination of a private international bank and an international money market fund is potentially very profitable. Mr. Banker doesn't need to know much about investments or financial analyses in order to put BCL into the position of retailing money market participation it has bought at wholesale. Basically, all he will be doing is putting his clients into well-established international money market funds.

Since Mr. Banker is seeking clients for an established international money market fund rather than for his own private international bank, he can get around the restriction against solicitation of investors within the United States. He thus conducts a 90,000-piece direct-mail campaign to those he wants as his customer. However, in the mailing vehicle, Mr. Banker sells the benefits of international money market and mutual funds, not the benefits of depositing funds in a private international bank. The benefits he cites include:

1. Shelter of interest income from U.S. taxes.

2. A resulting potential increase of the investor's effective rate of return by as much as 50 percent.
3. Creation of limited interest-expense tax deductions from revolving credit accounts.
4. Creation of a secure, liquid and profitable vehicle for investment funds.

The campaign attracts 500 customers. How is Mr. Banker able to generate such a high response rate? He uses the "rifle" approach to direct-mail marketing by looking in the Direct Mail Edition of the Standard Rate and Data Service catalogue and renting a list titled "Money-Market Fund Buyers and Inquirers."

The mailing costs a total of $5,000 – but each of the customers deposits $20,000, bringing in a total of $10 million in investment money. He places 80 percent of this money in a well-known, high-yielding money market fund and puts the remaining 20 percent in his own bank's CD's.

Mr. Banker makes his money in two ways. He charges his clients a management fee – we'll assume its one percent – earning him $100,000 on assets of $10 million. He also keeps the difference between what he pays for the money he places in BCL's CD's and what he earns on this money. We'll assume he pays 9 percent and receives 12 percent from the cash management accounts where he deposits the money. Thus, he makes 3 percent on $2 million, or $60,000. His total income comes to $160,000.

Why would investors pay Mr. Banker a fee and let him make so much on their money? Because they are making mare than they ever could with a domestic money market fund and acquiring liquidity as well. The greater return on international funds is due to tax advantage, and the liquidity arises because private international banks can tie in loan arrangements with the money market fund. There are privacy benefits as well.

USING AN INTERNATIONAL BANK TO IMPROVE A FINANCIAL STATEMENT

Since international banks can conduct their affairs in a most liberal, relaxed and uninhibited environment, they serve as useful vehicles to improve the financial-reporting position of their parent shareholders, as well as of their customers.

Individuals and corporations who want to attract investors, obtain credit and show financial strength may find the use of an international bank effective in strengthening their financial statements. The techniques described hereafter have been used by international bank-owning American multinational corporations, as well as by individual owners of private international banks.

It must be understood that any preparer of a financial statement will need to adhere to international accounting standards or American Institute of Certified Public Accountants (AICPA) rules. All methods suggested in this Section are in conformity with AICPA rules and, to the best of the writer's understanding, in accordance with generally accepted accounting principles.

Improving Cash Position

The private international bank offers the individual or company significant opportunity to improve its liquidity picture. The first item on a balance sheet in the assets column is "cash in the bank." Normally, this is the strongest influencing factor for credit-granting purposes.

Clearly, if an individual or company owns an international bank and places cash in that bank, that cash may be reported on the balance sheet as "cash in the (international) bank." As most accountants agree, this figure would be footnoted to show that the individual or company involved in fact owns the bank. Thus it would be regarded as a related-person transaction. However, this may be avoided by decontrolling the bank – either by owning less than 50 percent of its stock or having a third party own the bank.

Cash may be expressed in the cash column of the balance sheet in two ways: withdrawable cash (fully liquid), or CD's and time deposits. The latter implies restricted liquidity, but this itself is a fluid term these days. Assets now appearing on an individual or corporate balance sheet that can be converted to cash within several days may be placed into a private international bank and reported on the balance sheet as cash in a current account with the bank.

The decision of what assets have immediate cash equivalency depends on the individual or firm involved. These assets may be cash-equivalent mutual funds, marketable securities, accounts receivable that are factorable within one or two days, liquid inventories, investment interest, insurance policies or fixed assets that can be converted to cash on a moment's notice.

Assets on a balance sheet that take longer time to convert to cash – such as real estate, equipment, automobiles, furniture, etc. – can be re-expressed through a private international bank as a certificate of deposit or time deposit with the bank. For example, one WFI Corp. client owned some raw land. He wanted to get a loan based on that land, but domestic U.S. banks held that the land was unsuitable as collateral for a loan. To get around this, he "deposited" the land with his offshore bank for a set period of time. The bank carried the land on its books as a time deposit – and was able to obtain a loan based on the increased value of its assets.

Improving Reported Debt

Debt on an individual or corporate balance sheet is one of the key factors in determining if a good loan can be made. With the use of a private international bank, the debt picture may be converted to show a more sound financial picture. For example, short-term and contingent liabilities may be transferred to the bank's statement and re-expressed as long-term liabilities or notes payable to the bank. To put it another way, the company would refinance several short-term debts, consolidating them into one long-term obligation. For credit-granting purposes, a long-term obligation to a bank would appear more favorable on a balance sheet than short-term or contingent liabilities to several third parties. What if the international bank does not have capital on hand to lend the corporation for this purpose? It can use its own status as a bank to seek favorable loan opportunities at a discounted rate, in turn discounting the consolidated loan to its parent.

Improving Assets in Net Worth

With the use of a private international bank an unrelated person, the opportunity arises to show an increase in assets and/or net worth by recycling dollars. This technique is often used by multinational corporations and commercial banks to window-dress their balance sheets and to report higher earnings or more assets than would normally be reported.

The essential feature of this technique is that the transactions contemplated are conducted with unrelated persons. An unrelated person is a third party or corporation who's stock is less than 50 percent owned by those who stand to benefit. Unrelated persons may be a group of people, each of whom owns a portion of the stock of the third corporation.

The private international bank makes a loan to the unrelated person on a short-term basis. The bank reports on its statement the loan's interest as earned income. This income adds to the bank's net worth and earnings. The net worth and earnings then flow back to the parent shareholder, thus increasing the parent's net worth. The funds loaned to the unrelated person by the bank are then deposited back into the bank for relatively long term at a low interest rate. The funds now back in the bank may be loaned out again to the unrelated person, thus showing more income, net worth and earnings for the bank, hence increased net worth for the parent shareholder. Theoretically, an individual or firm may legally increase its net worth by50 percent to 100 percent.

The process may be pyramided indefinitely on paper; however, its overall effect after several recyclings would appear fraudulent. Accordingly, it should be used like sugar in coffee: very sparingly.

Critics of this technique claim that it is not legitimate because you are actually creating money. However, no one seems to object when banks holding Euro dollars pyramid deposits among themselves to create a lot of money that is never available for use outside the banking system. And, under any concept of law where equal treatment of all is the foundation of the system, a bank is a bank is a bank.

USING A PRIVATE INTERNATIONAL BANK TO CUSHION EXPENSIES

<u>Background:</u>

Mr. Robert Banker's Bank of Commerce Ltd. (BCL) has been in business for some times, as has Mr. Banker's domestic construction company, R.B. Construction (RBC). RBC does a good deal of international business, financing some projects through BCL.

RBC has entered into a fixed-price contract to construct an industrial power plant in England. In order to obtain the contract, the company agreed to be paid in English money, in the amount of 425, 000 pounds. Ten percent (42,500 pounds) is paid at the time of closing. The balance of 382,500 pounds is to be paid at contract's end, three months hence.

When the deal closes, the pound is worth $2.05. RBC has posted a performance bond through BCL, but Mr. Banker is worried that by the time RBC gets it 382,500 pounds, the pound will decline in value. Smart money in the futures market is saying that the pound may fall to $2, which gives Mr. Banker foreign-exchange exposure.

Mr. Banker and RBC have a risk-management problem. To minimize the risk of his profit margin, Mr. Banker decides to sell short, at $2.05, using BCL as his broker. The due date on the construction contract is three months. To protect RBC's financial position in the face of the fixed-price agreement, he sells pounds forward in the amount of the 90 percent balance owing on the contract, $382,500 pounds.

Mr. Banker is promising to deliver the pounds he's paid at $2.05. However, if the pound actually does devalue to $2, the company will be able to use the proceeds from the sale to purchase more pounds with fewer dollars. This hedges RBC's exposure and protects its margin or profit.

BCL handles the entire foreign-exchange transaction, getting the most favorable rate on transaction fees with the London dealers because BCL is a bank. Meanwhile, the pound does indeed devalue to $2 at the time the contact is completed.

The English power company pays the contract off at the end of three months in the amount of $382,500 pounds, or $765,000. BCL has arranged to sell these pounds at $2.05, which worked out to $784.125. BCL has thus hedged for RBC to the tune of $19,125. And, because the pound is devalued, BCL can now use $19,125 to buy more pounds at $2 per pound.

This transaction has accomplished the following:

<u>For the bank:</u>

- Opened access for BCL to the London money market via a futures contract and thus increased its income.

- Gained BCL's owner a protection of his profit margin on a performance contract.
- Increased BCL's international exposure and enhanced its reputation.
- Given BCL access to British industry and finance via the surety bond.
- Obtained a foreign-exchange futures contract at bank-to-bank rates.

<u>For the parent shareholder:</u>

- Given him access to the British industrial market.
- Protected his profit margin
- Obtained for him a low-cost method of hedging a foreign-exchange exposure because of the bank's services.

AN OVERALL LOOK AT THE FINANCIAL PROSPECTS OF A PRIVATE INTERNATIONAL BANK

Now that you have seen the potential ways a private international bank can generate profits, you should find it informative to see an example of how such profits fit into the total financial picture for an international bank. The tables on the following two pages provide a typical two-year operating statement for a Canadian-managed, Caribbean-based private international bank with an emphasis on financial services.

A FINAL PROFIT BENEFIT: YOU BANK AS AN INVESTMENT

As you've now seen, there are numerous ways a private international bank can generate profits for its owner – but there is one final method that many investors and businessmen overlook. A private international bank can be extremely profitable as an investment in its own right. A successful private bank can be a valuable asset – and that value can increase considerably as a bank's success and reputation grows. This, then, raises two questions:

1. Just how much is your bank really worth?
2. Is it actually possible to accurately answer the first questions?

Wait a minute, you may say is this some kind of trick? The answer is no – it's just that, while there are a number of accepted methods for determining a bank's actual asset value, there are also a tremendous number of intangibles that make determining its true resale value very difficult. The asset value of a private international bank is fairly easy to calculate – you merely measure the same factors that would be measured in considering the value of any bank, from giants like Bank of America to independents like the First State Bank of Anytown, U.S.A. Among considerations are physical facilities, number of clients, total deposits, loans, outstanding, liabilities, etc. – in other words, the kinds of things an accountant would look at in valuing almost any business. However, to potential buyers, even a private bank that looks tiny by those tangible standards can be worth many times its owner's original cost because of the extreme importance of intangibles in determining values.

Perhaps the most important of these intangibles is reputation – so-called goodwill value – among depositors, borrowers, business associates, even officials of the government in the bank's host nation. A small bank with a solid reputation and considerable good will can be worth several times as much as larger, but less reputable bank.

Another significant factor is location. Small banks chartered and licensed in the more desirable offshore financial centers, such as tropical islands with a strong tourist appeal, are generally worth more than larger banks in less popular locales. There is similar value in market position. The biggest bank in one market will generally be worth more than the smallest bank in another market, even if the two are the same size in terms of assets.

Numerous other factors can also come into play in valuing a private bank, ranging from rate of growth and potential for future growth into management ability, marketing expertise and investment performance. A fast-growing small bank will generally fetch a higher price than a larger, more stagnant institution – and a small bank that provides outstanding returns will have greater value than a larger one with a mediocre record.

The point is, your bank doesn't have to be a giant in the world of private international banking for it to be a valuable investment. In fact, only recently, a private international bank originally purchased for just $30,000 and having only a few depositors was sold to a New York investment banker for $100,000 – a smart 233 percent return on the owner's money.

CONCLUSION

You have now seen some of the ways a private international bank can generate profits, as well as actual examples of how many of these methods work. Once again, the most common ways of profiting with an offshore bank include:

- Accepting deposits and making loans
- Making sound investments with your bank's assets
- Engaging in currency exchange activities
- Providing trust and cash management services
- Issuing various types of deposit certificates to tap into the Eurodollar and flight capital markets.
- Providing offshore insurance services.
- Providing letters of credit and bank guarantees.
- Providing brokerage services.
- Engaging in arbitrage activities involving currencies, Treasury securities or other investment vehicles.
- Marketing wholesale banking services, such as access to ATM networks and credit card systems.
- Forming and operating your bank's own money market or regular mutual fund – or acting as an agent for existing international funds.

There are also numerous other ways an offshore bank can be used in a profitable manner, depending on your professional or business abilities, your personal needs and your willingness to expand your investment horizons. Obviously, a complete listing of these potential uses is impossible in a document the size of this Offering Memorandum – but a quality bank management service will be able to help you customize your bank's activities to produce the most benefit and the maximum profit.

Whatever methods you choose as the focus of business for your bank, legally reducing or avoiding the tax burden on your business, investment or private banking activities will be a major concern (and a major source of increased personal profits). However, to claim the tax-related benefits of private international banking, you must first be aware of the scope and limit of those benefits, particularly with respect to guarding them against unwarranted scrutiny by creditors, competitors or government agencies. Accordingly, the next Section examines the privacy benefits of private international banking.

PROFIT BENEFITS OF A PRIVATE INTERNATIONAL BANK

The essence of earning a profit in the banking business is borrowing money at a low rate of interest and lending it out at a higher one. Yet the way banks borrow money is different than the way most corporations borrow. Banks borrow from their customers. The money deposited by one set of customers is in turn loaned out to another set. The difference between the amount the bank pays the first set of customers and the interest it collects from the second set is its ordinary profit.

In addition, the term profit refers to the spread between the cost of doing business and any income generated as a result of doing business. Cost reduction leads to increased profitability in any business – and, private international banking is no exception.

Therefore, the ability to borrow funds at a lower interest rate, the ability to save on U.S. taxes, the ability to save on transaction fees and the ability to operate at a lower cost than domestic banks all amount to a savings, which can be seen as creation of new profits.

Anyone who opens a checking account at a commercial bank is really loaning that bank his money in exchange for the privilege of having a checkbook. Since the early 1980s, banks have been paying interest on checking accounts (so long as the account holders maintain a minimum balance ranging anywhere from $500 to $5,000). The rates paid on these accounts obviously fluctuate, but most today are paying around 5 percent – a rate similar to that paid on regular passbook savings accounts. The cost to the bank is that 5 percent, plus the cost of processing checks and maintaining records on the accounts. Meanwhile, the bank lends the depositor’s money to third parties at the prime lending rate (or more, depending on the type of loan), keeping the difference (usually a spread of 4 to 12 percentage points) as profit.

A private international bank can perform the same type of activity as commercial banks, but it has one problem – it is prohibited from advertising publicly in the United States to attract customers. How, then, can it earn money by conducting ordinary banking business? Answering that question is the purpose of this Section, which will describe ways in which private international banks can be used as profit centers. And, let there be no doubt, private international banks have long proven themselves a reliable and continuous source of legitimate profits!

THE CORPORATE CONNECTION

Though the concept of private international banking is somewhat vague in the minds of many, it is certainly not new. Its place in American corporate history can be traced back to 1969, when the Fed imposed a 10 percent reserve requirement on banks, creating liabilities to foreign branches and against borrowings from their non-affiliated foreign banks. In other words, a limit was placed on the amount of money an American corporation could pump into foreign subsidiaries or borrow from offshore sources.

Yet, a good deal of money for domestic ventures was available only from European sources. This was due to the huge dollar reserves the major European countries and Japan had accumulated as a result of the U.S. balance-of-payments deficits, which have grown steadily over the past three decades. In order to tap the multibillion-dollar Eurodollar market for financing domestic operations, such multinational corporation as Dow Chemical and Firestone were virtually forced to establish their own affiliated banking subsidiaries. This they did – at first in Switzerland, and later in offshore havens around the globe.

After the wholly owned banks of Dow (the Dow Banking Corp.), Firestone and other major U.S. companies had been in operation for some times, the corporations began to fully appreciate the power of offshore bank ownership. Suddenly, the large U.S. –based multinational corporations found they could conduct banking business and shift investments in virtually tax free, exchange currency without restriction and operate in an environment of complete secrecy and privacy. Most importantly, because the business was conducted internationally, they did not have to comply with meddlesome U.S. banking regulations.

This is why, even when the reserve requirements were lowered in 1974, the international banking business continues to expand. Many corporate-owned international bank operations have evolved into complex configurations of foreign ownership that are the very pinnacle of financial leverage.

SECTION 4

PRIVACY BENEFITS OF A PRIVATE INTERNATIONAL BANK

For most investors, privacy is if primary importance. They feel – and rightly so – that it is an inherent right of each person to keep his finances confidential. Yet in today's society, privacy is virtually non-existent.

Under U.S. law, creditors, litigants and private detectives are given the right to find out how much money a person has in the bank. And, acting under the noble banners of "crime prevention" and "national security," the U.S. government has steadily moved to break down the walls of personal privacy. What the government seemingly fails to realize, however, is that there are dozens of reasons for maintaining financial privacy – and that the desire to protect that privacy does not mean than an individual is a criminal.

In fact, the vast majority of the reasons for wanting financial privacy – even those relating directly to the government – are perfectly legitimate. In his book, the Complete Guide to Financial Privacy, noted privacy advocate Mark Skousen identifies six very specific reasons for maintaining a low financial profile:

- **Discrimination.** There are many types of discrimination that a person can fall victim to – racial, religious and political, to name just a few. Regardless of the type, however, if a government body can control, or simply monitor, the financial activities of the group being persecuted, it becomes almost impossible to fight the discrimination – or to flee, if that becomes the last resort. For example, without financial reserves outside Germany, few Jews would have been able to escape Hitler's tyranny prior to World War 2.

- **Excessive government.** If a government knows every detail of the lives of its citizens, then government "by the people and for the people" becomes a joke. By restricting currency movements, prohibiting ownership of currency substitutes (such as gold or gems) and imposing confiscatory taxes, a government can control the travel, business, investment and accumulation of wealth by its people. And, in so doing, it can stifle opposition and prevent attempts at reform. (The authorities – being of the government – often deny this is a legitimate reason for financial privacy, contending it is merely a cover for tax evasion. Obviously, we disagree – though, as you have already seen, a private international bank can be quite helpful in legally minimizing your taxes.)
- **Threats to your reputation.** Nothing can damage your business or career more quickly than questions regarding your ability to handle money – which could arise if a bad investment, past business failure or earlier bankruptcy were public knowledge. In addition, your investments can lead to false assumptions about your motives – for example, innocently buying stock in a company that does business in South Africa can badly damage your image these days. Finally, if your financial activities are exposed, you are open to resentment by people doing worse than you – and scorn by people doing better.
- **Divorce, family disputes and lawsuits.** This is the most common area where a need for financial privacy arises. In fact, the exposure to damage you risk if your personal assets are known to your enemies, competitors, creditors or antagonistic family members is so obvious that no discussion is really necessary. However, because this is the area where private international bank ownership can offer the most protection, we will cover it in detail in the Section on asset protection benefits of an offshore bank
- **Exposure to crime.** The more apparent your financial well-being, the more likely you are to be a target of robbers and burglars – as well as more sophisticated criminals who view you as a candidate for fraud, extortion, or even kidnapping.

- **"Legal fraud.**" Nothing can expose you to high-pressure salesmen, promoters of shady investment deals and plain old price rip-offs faster than public knowledge that you are financially well off.

So, there are an ample number of legitimate reasons for wanting to maintain financial privacy. But, the government continues to ignore these concerns, exposing the financial affairs of millions of honest citizens in an effort to catch a few thousand drug dealers, illegal stock traders and so-called "organized crime" figures. And, the government is not alone. With a little effort, a private investigator can uncover a comprehensive picture of one's entire personal and financial situation and expose him in an embarrassing lawsuit.

In fact, there is a company in the United States – the International Intelligence Network Corp. – whose sole business is the monitoring of personal data on individuals. This company – which has done work for many large companies and financial institutions, numerous police departments and state and federal taxing agencies – conducts open seminars on Public Information and Records Tracking (PIRT) that anyone can attend. These seminars show people how to obtain more than 50 different kinds of information on anyone using nothing but public records.

Lest you underestimate the significance of this information, we are going to list the data International Intelligence Network promises its PIRT seminar attendees they will be able to obtain from a completed public records search.

If that list isn't sufficient to prompt concern about your privacy, you should be aware that financial transactions are coming under even more careful scrutiny. Every time you cash a check, apply for credit, purchase an insurance policy, seek employment or attempt to enter a facility with controlled access, you are asked to provide information regarding your personal money matters. Annual income-tax filings and other financial reporting requirements to collect additional data, and you are that much more susceptible to intrusive probes by outside sources.

Without belaboring the point, here are just a few more examples of ways in which your privacy is being threatened:

- The U.S. Treasury Department keeps in computer memory the names and addresses of all Americans who maintain foreign bank accounts
- Several new technologies allow private investigators and government agencies to eavesdrop on telephone lines without detection.
- The government is considering the introduction of a new U.S. currency featuring magnetic threads within paper so the movement of money can be more closely monitored.
- The Passport Office has already begun issuing a "machine readable" passport that can be used to monitor airline reservations, financial transactions and all movements by an individual into and out of the country.
- The Supreme Court has ruled that evidence obtained illegally by the IRS can be used to convict a taxpayer – a decisions that will encourage future covert action and government misconduct against "suspected citizens."
- Courts have held repeatedly that it is the taxpayer's responsibility to prove his innocence when confronted by the IRS – a seeming contradiction of the Constitutional guarantee that a person is innocent until proven guilty.
- Your medical records are even open to inspection. While most doctors – on purely ethical grounds – try to see that your records are kept private, there's no guarantee. Insurance companies can subpoena your records for lawsuits, or simply have them pulled from the computer data bank where most medical files are stored these days. Most people don't realize it, but medical confidentiality does not actually exist by law – it's really just a matter of tradition. If the doctor is willing, or subjected to pressure, he can legally give your records to anyone – lawyers, reporters, law officers, investigators, even your friends.
- The Supreme Court has even ruled that police and other government authorities can paw through your garbage in search of incriminating evidence. They don't even need a warrant once you have placed the trash at curbside for collection.

The logical solution, of course, is to keep silent about all personal and financial affairs. But that is far easier said than done, especially when the questions come from a government that has authority over much of your life. As the federal bureaucracy tightens its grip on movement of money – within the country and outside it – your personal privacy withers.

PRIVACY AND BIG GOVERNMENT

It was not always difficult to maintain privacy – financial or otherwise. Our right to conduct personal affairs without outside intrusion was originally secured by the Bill of Rights. The First Amendment's guarantee of freedom of speech, press, assembly and right of petition for redress of grievances would seem to ensure free communication between investors and their financial advisers. Whether the communication is conducted by mail, over the telephone or via individual intermediaries, U.S. citizens should be free to exchange information regarding distribution and diversification of their assets. And, if the federal government decides to check your mail or monitor your calls to collect information on your financial transactions, your first Amendment rights are in all probability being violated.

Yet the SEC has restricted financial advice and communication for more than 50 years. The Investment Advisors Act of 1922 requires all financial advisers and investment newsletters to be registered with the SEC (though the courts eased that restriction somewhat with the Lowe decision of 1987, which exempts newsletters not actually giving specific one-by-one advice). Certain accounting procedures must be utilized by all investors and their advisers. If business transactions are conducted in any other way, both individuals may be found in violation of the law.

The Act also gives the SEC authority to enter an advisors or publisher's office without warning for the sole purpose of inspecting accounts and mailing lists. It requires investment advisers to forewarn all clients that the purchase of unregistered foreign stocks carries legal risk. All of this violates the spirit of the First Amendment because it limits free communication. It also violates the Fourth Amendment, which protects against unreasonable searches and seizures without probable cause.

Fourth Amendment Rights Disappear at Domestic Banks

In 1970, Congress passed the Bank Secrecy Act, requiring all domestic banks to maintain duplicate records of their transactions. The premise was that "an effective fight on crime depends, in large measure, on the maintenance of adequate and appropriate records by financial institutions."

This unleashed a host of government fishing expeditions – and the courts upheld this intrusion into financial privacy. In the U.S. vs. Miller, the Supreme Court ruled bank customers whose records are sought by the government for whatever reason have no right to ensure that access is controlled by an "existing legal process."

This literally opened America's banks to any government agency able to get a subpoena or court order. And, based on the precedent involving the government, the courts subsequently granted similar rights to private parties involved in any kind of legal case. Obviously, with this kind of background, there are bound to be tremendous and costly abuses. For example, we know of one legal case that was lost because of information obtained when a process server presented a subpoena to a bank's receptionist, who had been given the responsibility for dealing will all the subpoenas, summons and legal papers.

And, even when there is no direct abuse, there is danger to people who may not even be involved in a case. A Los Angeles man's bank was forced to turn over all his financial records merely because he had dated a woman involved in a divorce case. The disgruntled husband felt the man might be assisting in his estranged wife's support or helping her conceal assets that would impact his alimony payments and the property settlement, so he asked for the records—and the court granted his request.

In fairness, Congress anticipated some of these problems – but its solution was far from perfect. The Tax Reform Act of 1976 included a provision allowing onshore bank customers to challenge the IRS in the event the agency decided to seize the bank records. However, the Congress felt one gaping loophole in the Act. It gave the IRS an exemption from the restriction when the person being investigated was "suspected of a crime" – but it offered no clear definition of what "suspected of a crime" really means, leaving that determination up to the IRS. In addition, it imposed no restrictions on enforcement agencies other than the IRS – meaning you have no legal recourse if your records are seized by a grand jury, the FBI or the local police. Thus, the law has been a dismal failure with respect to restoring Fourth Amendment rights.

Fifth Amendment Rights Also Threatened

Financial privacy is also a fundamental issue in the Fifth Amendment, which states that no citizen "…shall be compelled in any criminal case to be witness against himself, nor be deprived of life, liberty or property, without due process of law…" Protection from self-incrimination is a relevant point in any tax-evasion case. But it has a bearing in terms of alleged fraud and other lawsuits, too.

And, there is little doubt that release of a person's private financial records and related papers to the opposition in a legal case can be highly incriminating. While the courts have recognized this, they have unfortunately adopted a very narrow definition of "private papers" as related to financial records. Recent rulings have held that the only records protected are those held by the individual himself. Financial papers held by a domestic bank of the individual's attorney, accountant or any other third party are not protected – meaning they can legally be seized for use in a court case against the individual.

What's worse, a person can still be convicted on the basis of records that were illegally obtained. During the Watergate scandal, the IRS, CIA, and FBI were shown to have been routinely opening the mail of selected persons, sometimes in pursuit of those on an "enemies list." In one case, IRS Project Haven, the tax man actually stole documents used in prosecutions for tax evasion. Opening of mail has supposedly stopped, but the courts have continued to rule that evidence illegally obtained by the IRS is admissible.

Anyone deeply concerned about whether mail to or from an international banking center is being tampered with could become a customer of a mailing service located, for example, in Canada. The mail-forwarding service will place materials in a plain envelope, thus reducing the risk of undue attention from investigative agencies. In turn, you could use the service to send your internationally bound mail to your resident agents or others.

A Loss of Privacy by Error

There have, of course, been a few victories for personal privacy. In 1978, the Financial Privacy Act essentially overruled the Miller decision. Today, the federal government must notify you before – and give you the opportunity to challenge any record search. Banks, savings and loan associations and credit card companies all fall under the wording of the Act. In addition, numerous members of Congress

– led by Sen. David Pryor of Arkansas – have succeeded in winning passage of the so-called "Taxpayer's Bill of Rights." Which, among other things, shifts the burden of proof in tax-evasion cases from the taxpayer back to the IRS.

Still, the damage has largely already been done. One of the biggest privacy problems today is that there is so much confusion within the domestic banking industry relating to disclosure rules and government rights of access that your financial records could be released by mistake – sometimes with disastrous results.

There Is An Alternative

Thus, it appears that our most basic rights to privacy are systematically violated by a government that was originally designed to protect its citizens from undue intrusion. Seen in this light, the U.S. Simply appears too risky an environment for investors concerned with financial privacy. Why keep assets within the country, knowing that your banking transactions are monitored by the federal government, when you can maintain those holdings, in privacy, internationally?

Private international banks have become an important tool in preserving and protecting investor privacy. Aware of this problem – and convinced of the validity of the theory that confidentiality breeds confidence – international financial-center governments continue on a competitive basis to strengthen their privacy laws in order to accord American investors and business operators an impenetrable sanctuary.

INTERNATIONAL BANKING CENTERS ENHANCE PRIVACY

Countries that are not partners with the U.S. in an information sharing system as regards financial matters are useful to individuals and businesses concerned about privacy. The private international bank itself represents one of the best vehicles to achieve total financial privacy. The reason is that individuals are not readily associated with bank ownership.

For example, assets placed into a private international bank are camouflaged for the most part by the activities of other commercial banks and thus do not attract unnecessary attention on accounting ledgers. A remittance to a private international bank in the form of an interest payment may be journaled as a payment to AB

Bank Ltd. (perhaps a payment ordinarily made to a U.S. bank). If the interest payment is made to a foreign corporation that is not a bank, its appearance is more prone to challenge upon audit. Likewise, loans or loan proceeds received from a bank attract less attention than loans received from an ordinary corporation.

Funds kept in a private international bank may be entered on a ledger or balance sheet as "cash in bank." More revealing would be a notation such as "a deposit in AB Corporation." This is a veritable red flag for an IRS auditor or agent eager to advance in the bureaucracy.

The unique status of banks results in an added benefit for the investor or businessman wishing to move or invest capital internationally.

INTERNATIONAL BANKING: PRIVACY INSURANCE

International officials have known for a long time that international investors want banking privacy. To this end, most have competitively strengthened their regional secrecy laws to accord international customers an impenetrable financial sanctuary.

The federal government would like to curtail the international banking boom. After all, the money this country loses every year to foreign centers would help pay a healthy chunk of our enormous annual deficit. With respect to financial privacy, it should be noted that tax treaties do not necessarily constitute information-sharing treaties or arrangements, though the IRS has threatened to unilaterally break such treaties where secrecy laws may prevent their gaining access to private international bank records.

During the 1980s, the Reagan administration sought to intimidate certain international jurisdictions by reminding them that the U.S. government can, at any time, discontinue financial aid by terminating its Caribbean Basin Initiative, a regional economic development plan. The Bahamas, the Caymans, Panama and the Netherlands Antilles were all threatened with the loss of annual subsidies for failing to cooperate with U.S. tax investigations. Government officials also launched a virtual worldwide campaign to entice – or bully – governments in other areas of the globe to sign tax treaties or information-sharing agreements with the United States.

Such proposals are bought up from time to time and bear watching. However, international business is so important to many of the Caribbean and Pacific-Asian countries affected that most have been reluctant to go along with the U.S. – some even considering the rejection of U.S. foreign aid in order to maintain bank secrecy and national sovereignty.

TAX TREATIES AND SECREY LAWS

Businessmen and investors who financial affairs are effectively and legally connected to a jurisdiction with a secrecy law can claim secrecy benefits. In most areas, these laws apply to banks operating domestically. Therefore, the best way to claim secrecy is to do business as a bank and state that all transactions are the bank's. Bank secrecy could protect you from prying credit bureaus, unfair credit card companies, the financial pain of divorce or a government "fishing" expedition. Some privacy-conscious people sell property to the bank, then lease it back. Because the bank and not the person holds title to the property, it cannot be attached in a lawsuit with the person.

Most good international secrecy laws provide protection for:

- Books and records held by professionals
- Books and records held by banks
- Bank records and transactions
- Records held outside the jurisdiction.
- Records of communications held by common carriers

In any case, tax treaties are simply an agreement between countries for the fairness and equalization of taxes in various matters. National economies, not matters of national sovereignty, are the issue. To put it another way, most international banking centers in the Caribbean or the Pacific/Asian region would take the position that they may order their internal financial affairs as they like. They need not to obey a demand by the tax collector from another country to disclose the financial affairs of those operating in their jurisdiction.

For example, the United States has a tax treaty with the United Kingdom, but that does not prevent the British Colonies from assuming their roles as some of the world's most advantageous tax havens. The reason is that the treaty is very specific with regard to the type of cooperation required in financial matters. Only when there is proof of criminal intent on the part of a banking customer does the treaty require sharing of financial information – and, the treaty spends four full pages carefully defining exactly what constitutes "criminal intent."

It even goes so far as to provide for cooperation only in cases of "willful" criminal actions and uses four paragraphs to clarify what kind of "willful" activities fall under the treaty.

As a result, the British Colonies can offer maximum financial secrecy to almost anyone who has not yet been at least indicted for an unlawful offense in the United States. Thus does political principle serve the interests of financial creativity – and this is the power of private international banking.

The secrecy laws in international banking centers provide a guarantee of privacy and confidentiality for foreign bank owners and their clients, which affects directors, agents, employees and customers. Some of the better havens even provide fines and jail sentences for anyone breaching the bank secrecy laws.

As pressure from the United States increase, many international centers are growing more adept at circumventing complex red tape and international regulation. Obviously, not every international center offers such extreme financial privacy since countries vary a great deal in their commitment to confidentiality. But they are all acutely aware that they will successfully attract and maintain foreign capital only if they offer maximum banking secrecy.

For instance, Switzerland was once considered the ultimate bastion of banking privacy. As a result it was the world's most powerful international money center. But the Swiss ethic and psychology shifted. Since 1982, the decay of the Swiss banking-secrecy provisions has been an often-reported topic in the nation's press. Much of the damaging information in the Iran/Contra arms-for-hostages scandal during the Reagan administration was uncovered thanks to the ability of the U.S. to get Swiss banking records. And, a whole string of deposed Third Word rulers – from Panamanian strongman Gen. Manuel A. Noriega and Philippines President Ferdinand Marcos to Haitian dictator Jean Claude "Baby Doc" Duvalier and some of the more recently ousted Eastern European communist leaders –

discovered to their dismay that the once-vaunted Swiss secrecy laws no longer provide much protection.

This trend toward cooperation between the Swiss and U.S. governments has prompted a number of investors and businessmen to seek alternatives to Swiss banking/ Switzerland's high profile in the international banking community and its increasing compliance with U.S. regulatory authorities on insider trading, tax evasion and other criminal matters such as money laundering and the disposition of drug trafficking profits have made most privacy-conscious investors concerned about information-sharing arrangements or agreements with the United States. And, Switzerland is not alone. The Cayman Islands have gotten a tremendous amount of negative publicity about the illegal activities of persons using banking facilities there. As a result, the Caymans have also become much more cooperative with U.S. authorities.

The lesson to be learned is that it can be dangerous to trust completely in any location's secrecy laws – no matter how airtight they appear. The simple truth is that laws change. They get overturned or overthrown.

For this reason, investors seeking privacy protection should constantly monitor legal developments here and abroad. Make a habit of comparing various international jurisdictions (an analysis of some of the leading centers is features later in this Memorandum). Then, move to transfer your assets before someone else moves to seize them.

OTHER PRIVACY BENEFITS GAINED THROUGH PRIVATE INTERNATIONAL BANKS

U.S. enforcement agencies are intent on collecting information about citizens' international business dealings. But to concentrate only on the ways in which a private international bank cloaks assets from the federal government is to ignore its host of other privacy benefits. For American businessmen in particular, private international banking offers a myriad of privacy protections.

Aggressive Competition

One of the most important privacy benefits obtained from private international banking is practical protection from overly aggressive competitors.

Suppose you become involved in a business lawsuit. If you bank within the U.S., a court may give your opponent legal access to your financial records and your position may be seriously jeopardized. If, on the other hand, your records are kept in a private international bank, they are impervious to court orders.

Private international banks are jurisdictionally immune to service of process. In the area of privacy, this feature is important to attachment orders or writs of execution, to which private international banks are normally immune. Laws formulated in the most international banking centers protect the confidentiality of financial dealings – under no circumstances will the bank divulge that information, even in a lawsuit.

In addition, if your private international bank does not maintain a sufficient presence in the United States to fall under U.S. legal jurisdiction, you may also be comforted by the fact that U.S. government demands for information are legally barred by the U.S. courts if such demands would violate the laws of a foreign country.

Thus, even though you, as the bank owner, may be a U.S. resident, the bank is a totally foreign entity – and the law prohibits any attempt to reach it in a legal sense by using you as a conduit.

Flight Capital – Fighting Asset Concentration

In many countries, wealthy citizens have had their assets sized, stolen, or placed under a lien. If you take you nest egg and diversify politically or geographically by going international, you can minimize the vulnerability of your assets.

The private international bank provides a benefit to those interested in expatriating capital to earn money abroad. When $10,000 in currency crosses a U.S. border, either incoming or outgoing, Form 4790 (Report of International Transportation of Currency or Monetary Instruments) must be filed with the Bureau of Customs. However, the reverse side of the form indicates that "a transfer of funds through normal banking procedures that does not involve the physical transportation of currency or monetary instruments is not required to be reported."

If a private international bank maintains a bank account in the U.S., deposits the currency that is designated for export into the U.S. bank account and has it wire transferred abroad through normal banking procedures, the filing of Form 4790 can legally be avoided.

Obviously, the U.S. bank, which is subject to the record-keeping requirements of the Bank Secrecy Act of 1970, will have to maintain a record of the transaction – but that record will indicate only a bank-to-bank transfer, not the export of currency by you as the bank owner. And, the government will not automatically see a copy of the record – it will learn of the transfer only if it happens to stumble across the record in the course of some other investigation that would require it to access the bank's files.

Understand, too, that this is in no way tax evasion – it is merely an exercise in using legal technicalities to simplify business operations.

Privacy of Bank Records

If you had the proper credentials and $50, you could probably gather the following information and material on any individual: checks (front and back copies), bank statements, signature cards, loan applications, deposit and withdrawal slips and copies of all bank communications. And, the person would never know his private records had been obtained without his approval. Domestic banks typically release records in the event of civil litigation, criminal proceedings, SEC investigations or IRS audits. Private investigators often pose as official with federal authority to review bank records. In this way, they are also privy to what you suppose is confidential information.

However, by utilizing a private international bank, you ensure against any such invasion. These records, so easily obtained inside the U.S., remain firmly outside the jurisdiction of both the U.S. government and the U.S. courts – and the foreign locale usually inhibits non-governmental investigators and other third parties who might be prone to pry into your records if they were in the United States.

In addition, the laws of most private international bank host countries protect against any unwarranted attempt to force the disclosure of your bank's records –

and provide for punishment (in many havens, this even includes a jail term) of anyone who knowingly (or, in some cases, accidentally) breaches bank secrecy laws.

IN THE NAME OF PRIVACY

Privacy is often overlooked, even by shrewd investors. This is a mistake. While it would be naïve to expect total privacy in all money matters, it would be foolish to allow unwarranted intrusion into financial matters that are no one's business but your own.

Obviously, there are degrees of financial privacy. Even in the United States, some transactions can be conducted in secrecy. However, others involve lengthy disclosures and government red tape – even those that are no more than a routine part of your everyday business and personal life.

This is an important distinction because it is the basic right to privacy with which we are concerned. Nothing we have said about the privacy benefits of an offshore bank relates to illegal activities – we are talking about using such banks only as a means of legally and ethically maintaining your personal financial privacy. If you are an honest and ethical businessperson or investor who merely resents the likelihood that your life will become even more of an open book than it already is, a private international bank may be just what the doctor ordered.

SECTION 5

TAX-PROTECTION BENEFITS OF A PRIVATE INTERNATIONAL BANK

The ability to legally avoid undue tax burdens does not of itself excuse any American taxpayer from paying taxes. Further, the ability to use a private international bank as a means of tax avoidance does not in itself excuse American taxpayers – individual or corporate – from paying U.S. taxes on their share of bank income.

However, an important distinction must be made between tax avoidance and tax evasion. Avoidance means legally taking advantage of the law to keep from paying tax. Evasion is illegal, involving willful criminal intent to defraud the U.S. Treasury. Also illegal is the failure to file any reports generally required of American with overseas business interests

Legally constituted and operated private international banks do not evade taxes. However, they can, and legally do avoid taxes pursuant to the terms and conditions of U.S. tax laws, rules and regulations. The complexity of U.S tax laws and the uniqueness of each situation make it virtually impossible to discuss a particular tax plan. Planning of this type must be done on a case-by-case basis and constantly refined in accordance with the business dynamics of each private international bank.

For example, the Internal Revenue Code provides for taxation of a parent shareholder on undistributed profits from an ordinary foreign corporation. Because of privileges and exemptions U.S. tax law grants banks in general, and foreign banks in particular, private international banks can often legally avoid undue taxation on profits derived from ordinary conduct of banking business. Thus, outlining in a general context the tax benefits associated with ownership of a private international bank is the purpose of this Section.

THE DUALISM OF TAX BENEFITS

In order to understand the tax benefits associated with owning a private international bank, one must appreciate that it is subject to the tax laws of two jurisdictions: the United States and the host country. Tax benefits vis-à-vis American laws generally involve methods of avoidance. Tax benefits in relation to the international jurisdiction generally mean an absence of host-country income tax or other burdensome government regulation.

With respect to American tax law, the advantages of doing business internationally particularly banking business, have already been covered. If there were not material tax advantages to operating outside American jurisdiction, such old-line American companies as Dow Chemical, Pfizer, Merrill Lynch and Bank of America would never have gone to the expense of establishing international banking subsidiaries.

Diplomacy and Dollars

The taxation issues of international banking are rather delicate. To the degree the United States must be deemed a “good fellow” of the international financial community, methods of tax avoidance legally, if aggressively sought by American citizens must be balanced against the dynamics of world financial diplomacy. To put it another way, Uncle Sam must occasionally decide which of his agencies is more important to his position in the world financial community – the IRS or the Department of State?

In that connection, the IRS may dislike the idea of international financial freedom for the United States citizens, but must frequently tolerate it as an accommodation to the sovereignty of various international financial centers.

A corporate structure insulates the personal assets on incorporators because a corporation is, for legal purposes, an entity separate and distinct from the persons controlling it. Likewise, a private international bank is a separate corporation with a legal personality distinct from its shareholders. Host countries have a record of preserving on behalf of shareholders the insulator character of international banks they charter. This is the essence of being considered an international haven.

To this end, a host jurisdiction may reveal the name of a bank held by American shareholders, but not the names of those shareholders or the scope of their financial activities. The personality of the bank is respected by the host country in a way that defends it from IRS interference.

Taxation by International Jurisdictions

Most host countries impose no taxes on profits, income or capital gains earned by a private international bank. Usually, income-tax benefits are statutory and are the very reasons American shareholders apply for bank charters in the first place. Host countries do charge the bank its annual license fee, which is fixed and determinable and paid to the government as a business-license fee. A few jurisdictions have a modest reserve requirement as well. If any income tax is levied, it is generally nominal.

SPECIAL STATUS OF BANKS

It has been said that bankers own America. The many tax advantages available to domestic banks, but to no other corporation, are but one index of this. Because the U.S. wants to attract foreign money into the country, even more tax benefits are available to foreign banks. It is fair to say that by some eyes, the United States of America is itself an international tax haven. The Internal Revenue Code and regulations yield special tax privileges and advantage for foreign banking corporations. The following outlines advantages:

Treatment of Foreign-Banking Corporation Activities

There are special tax privileges provided in various section of the Internal Revenue Code for foreign banks that conduct banking business subject to American jurisdiction. Such privileges are available providing the bank can substantiate that it is conducting bona fide banking business outside the United States. Once the IRS respects the bank’s banking status, the bank may be able to include in its gross income revenue derived from a broad range of financial activities classified as merchant banking income. Such activities include buying and selling stock as an underwriter, acting as investment adviser, merger consultant, business manager or engaging in a broad range of manufacturing and business activities outside the United States.

With respect to defining international banks as authentic financial institutions for U.S. tax purposes, the key aspect is sometimes not so much that banking business (borrowing, lending, investing) occurs, but that it takes place on behalf of persons not related to the bank in a material way – in other words, on behalf of persons or companies that are not bank shareholders. Interestingly, many activities that foreign banks are allowed to engage in in the United States (e.g. buying real estate) are specifically forbidden to domestic banks.

Exclusion from Controlled Foreign Corporation (CFC) Tax Penalties

If any number of Americans, each of whom owns at least 10 percent of a bank, together owns more than 50 percent of a bank, that bank will be classified as a Controlled Foreign Corporation (CFC) and the American shareholders will be subject to current U.S. tax on their share of the bank's earnings – whether those earnings are distributed or not. However, the Tax Reform Act of 1986 granted a special privilege for foreign banks owned by a single U.S. shareholder engaged in the business of export financing for its parent shareholder. Under this rule, interest income derived from financing exports for the bank's owner will not be subject to the CFC tax penalties.

Should the bank wish to escape the CFC tax penalties without limiting its activities to export financing, it is suggested that the bank's ownership be structured for the U.S. persons to own less than 50 percent of the economic control of the bank. Under this type of arrangement, there are two options generally available.

The first is to establish a bank with a 50 percent or more foreign partner, thus permitting the bank to avoid being classified as a controlled foreign corporation. The second option is to establish a bank with 11 or more unrelated persons, each to own less than 10 percent of the bank. Under this arrangement, the bank will not be classified as a controlled foreign corporation.

In practice, it may be relatively easy to decontrol the bank under these two options. One example may be to bring in 10 friends or business associates to each own less than 10 percent of the bank. This arrangement would have the added benefit of infusing additional capital to operate. Another example might be to offer a stake in ownership of the bank to 10 key customers. This has the added benefit of providing the customers with added assurance since they own part of the bank they are doing business with. With this situation, the customer feels he is part of the bank and thus has more confidence while, at the same time, he is solving the bank's tax problem.

In certain situations, it may be practical to automatically enlist each CD depositor as a shareholder of the bank. In such a case, the customer deposits a portion of his intended deposit with the bank and uses the remaining portion to purchase stock in the bank. With this approach, it is important to observe and monitor the percentage each person owns to be sure no one American ever owns more than 10 percent of the bank.

Exemption from Foreign Personal Holding Company (FPHC) Tax

The U.S. shareholders of a foreign corporation more than 50 percent owned by five or fewer shareholders are, in most cases, subject to current U.S. taxes on their proportionate share of passive income from foreign sources (assuming the foreign corporation is not subject to full U.S. tax because it is "engaged in a U.S. trade or business" under the foreign personal holding company provisions of the IRC).

The foreign personal holding company provisions enable a foreign bank to apply to the IRS for an exemption from the FPHC tax, provided it can show it was not created for the express purpose of avoiding the tax. In the eyes of the IRS, a private international bank is a bank only ostensibly – it must be able to show that it is a duly chartered financial institution engaged in the banking business if it is to obtain the FPHC exemption. It is unlikely that a private international bank located in a tax haven will be granted an exemption.

Moreover, even if a bank is able to obtain an exemption from the FPHC rules, it will still be subject to the CFC penalties if it is more than 50 percent controlled by Americans, each of whom owns 10 percent or more of its stock.

Therefore, FPHC status is, in most cases, avoided in the same manner as under the CFC rules – through 50 percent or more foreign ownership or through ownership dispersed among 11 or more unrelated persons.

If an international bank limits its FPHC income to less than 40 percent of its earnings, it can, in most cases, completely avoid the FPHC (and the CFC) tax. As a practical matter, however, limiting earnings in this manner is very difficult for a bank.

Exemption From Accumulated Earnings Tax

A foreign corporation is ordinarily subject to U.S. tax at rates of up to 38 percent on undistributed U.S.-source earnings in excess of $150,000 per year. The theory is that earnings that accumulate and are not used to run the corporation are excessive, and therefore taxable.

But an ample supply/reserve of money is the primary operations tool of a financial institution. Accordingly, a private international bank will usually qualify for exemption because, in the ordinary course of their business, banks must accumulate earnings in order to make portfolio investments.

In this regard, making portfolio investments within the meaning cited in the foreign banking corporation guidelines outlined earlier is considered an activity of a bona fide bank. We have seen that bank activity as such identifies the international bank personality, thus qualifying it for special treatment under tax law.

Deferral of Foreign Investment Company Tax

The American shareholders of any foreign corporation – be it a bank or other type of corporation – are taxed on their share of the corporation's passive income if the company's passive income exceeds 75 percent of its total income.

However, payment of this tax on passive foreign investment company income can be deferred until such time as the income is actually repatriated. If an election to defer is made, then once repatriation occurs, the American shareholders pay interest on the amount of tax previously deferred. The rate of interest on the amount of tax previously deferred. The rate of interest is the IRS statutory rate or rates on deficiencies during the period of the deferral.

Exemption from U.S. Tax on Foreign-Source Income

An ordinary foreign corporation is subject to U.S. tax on foreign-source income if that income is "effectively connected with a U.S. business."

Regulations in this regard are extensive and many connections constitute "effective" connections, but a private international bank duly constituted and properly managed outside the United States will ordinarily be exempt from tax under this rule since its activities will, to a great extent, be conducted internationally through a resident agent or through host-country directors named in its charter. The international bank must be able to demonstrate the validity of the resident agent as effective principal, while the person(s) deemed to be the primary shareholder(s) might be shown to be the discreet American agent of the bank.

Exemption from Assets-Used or Activities Test For Dividends and Gains from Securities Transactions

An ordinary foreign corporation may be subject to taxes on certain U.S. – source dividends and securities gains under the assets used or activities test.

A private international bank, in the ordinary course of conducting banking business outside the United States, will be exempt from U.S. tax under the assets-used or business-activities test. The reason is that it is a financial institution, dealing as a matter of course with securities. It requires that assets derived from income or profits on securities sales be available on a continuous basis so that it may operate its business – i.e., conduct its ordinary activities. The case for exemption is therefore compelling.

Special Tax Treaty Advantages for International Banks

Dividends, interest and royalties paid to an international bank from U.S. sources are subject to a 30 percent withholding tax. This means that if an international bank earns passive income on American investments and that income is paid to it, payer has to withhold 30 percent of the amount and remit it to the IRS. Basically, this withholding tax is the income tax that the international payee is giving to the IRS in return for being allowed to do business with an American person or corporation. If, for example an American borrower has a loan with an international bank and is making an interest payment to that bank. The other 30 percent goes to the IRS.

Two issues are important here. First, the IRS sees the act of withholding the 30 percent as the borrower's responsibility. In reality, it cannot prosecute a foreign bank but can hold an American borrower liable for the 30 percent, plus penalty. The second aspect is more agreeable. On the other hand, the borrower may use this 30 percent as part of interest-payment deductions on his return. On the other, this same 30 percent may be deducted on a return the international entity may file with the IRS to claim tax benefits – the point being that the IRS may collect this 30 percent only one time.

The ground rules change, however, if the international bank or financial subsidiary of the bank is located in a treaty jurisdiction providing for withholding relief. An American corporation or individual using an international bank in a treaty jurisdiction to borrow abroad can escape the 30 percent withholding tax on interest payments to foreigners and can thus borrow more cheaply.

In such a case, the withholding tax rate and any reporting requirements or tax credits deriving therefrom are reduced to the amount specified in the tax treaty. The small amount is a nod to international diplomacy, which holds that, between two nations, tax treatment should be fair and equitable. It is a form of "most-favored-nation" status.

With respect to private international banks, the interest-with-holding exemption may be associated with the fact that interest, of itself, is deemed an ordinary part of the bank's income or profit. For example, Article 3 of the tax treaty between the U.S. and the United Kingdom provides this exemption with supporting authority outlined in Rev. Rul.

The existence of a treaty between the U.S. and the international bank jurisdiction may, depending on the treaty, define those factors that give evidence that the bank has a "permanent establishment" (e.g., office) in the United States and so has a U.S. trade or business subject to the full range of American tax law. Without a treaty, the argument as to what activities constitute U.S. trade or business as conducted by the private international bank within the U.S. becomes less clear.

THE BANK CHARTER'S INTEGRITY

The principle of private international banking stands up to close analysis. As a financial corporation, it is the primary, most usable international business vehicle of maximum tax benefits. The benefits derive from the fact that a banking institution is a special kind of corporation. Just as corporation acquire special, advantageous tax treatment in relation to American individuals – and just as banks acquire special, advantageous tax treatment in relation to American corporations – so foreign banks acquire special advantageous tax treatment in relation to American banking. It followed that individual American shareholders of private international banks, in their capacity of foreign banking corporation, may acquire special, advantageous tax treatment quite unavailable to them as ordinary citizens or companies.

LEGAL CONSEQUENCES OF TAX BENEFIT

A valid question is whether over the long term, legal avoidance of tax under the U.S. tax system is possible. The answer is an emphatic yes, and the case in point is uncommonly apt.

Merrill Lynch & Co. Inc. has a long history in the United States. It has a strong record of seeking the most favorable tax treatment available at all levels of operation and in relation to all levels of government – federal, state, local, internationally. Though its executive offices are and always have been in New York City, Merrill Lynch was incorporated in the state of Delaware at a time when to do so meant it would pay a substantially lower corporate tax than it would in New York.

A recent 10-K of the company is a revealing tax-related document. Just as the part company is a Delaware corporation, so are some 40 of its United States subsidiaries. Among these is Merrill Lynch international Inc. – and one of this subsidiary's subsidiaries is an international bank chartered in a leading offshore haven, known as Merrill Lynch International Bank Inc. This bank in turn owns several other foreign corporations that read like a Who's Who of international jurisdictions: Panama, Hong Kong, the Netherlands, Antilles, Singapore, Switzerland, Belgium and others.

It is significant that Merrill Lynch's extensive international holdings are owned by its international banking subsidiary. In its annual report, the company rather coolly takes the position that income taxes will never be paid on the $43 million in undistributed earnings of its foreign subsidiaries. Why? Because this income "will be invested indefinitely overseas." In other words, the money will never be repatriated, but will remain a part of the working capital of Merrill Lynch International Bank Inc.

How can Merrill Lynch take such a position? Basically, because it says American law backs it up. The annual report virtually dares the IRS to challenge its stand. Merrill Lynch's attitude toward tax laws regarding foreign-source passive income is striking because it is invoking the very rules it quite legally and properly steers clear of. And it may do this because it can also show that the passive income is controlled by an institution not only engaged in the banking and finance business, but engaged in it well outside American jurisdiction, and so engaged with third parties. These three conditions met, the parent company can use and reuse the $43 million with no tax liability whatever.

The IRS isn't auditing the corporate conduct of Merrill Lynch. Nor does it appear to be challenging, let alone disallowing out of hand, the assertions made by the company that it need not pay income tax on undistributed earnings. The future of Merrill Lynch & Co. Inc. as a continuing business, with domestic assets remaining unattached and foreign assets remaining both retained and unthreatened, seems a secure one. Indeed, the position of Merrill Lynch as one of the premier American brokerage and finance conglomerates remains intact.

A suspicious person might think Merrill Lynch was receiving preferential treatment because of its premier position in the American business community and its powerful political contacts. However, if you check the 10-K reports and business practices of hundreds of other public American corporations – both large and small – you will find similar statements regarding the overseas activities of these companies and the tax stance of their foreign banking subsidiaries.

We quote directly from Pfizer Inc.'s 1987 10-K: "The company wholly owns offshore financial subsidiaries, including Pfizer International Bank. The aim of this subsidiary is to improve the company's profitability by increasing financial flexibility overseas." That's a fairly subtly restatement of Merrill Lynch's position, but an examination of the figures contained later in the 10-K show absolutely no provision for payment of U.S. taxes on the operations of Pfizer International Bank.

The point is that the legality of the activities of these major U.S. companies appears incontrovertible. Their 10-L reports (and the acceptance of those reports by the SEC) clearly shows that American-owned and controlled international banks allow their parent shareholders to use the banks in order to legally avoid paying any tax that the IRC does not technically require them to pay. The special tax benefits proceed directly from the existence of the individual banking subsidiary – and the same benefits flow to the individual American owners of private international banks.

A CAUTIONARY NOTE ON TAX BENEFITS

Despite WFI Corporation's expertise and long experience in organizing private international banks, potential purchasers of banks must be aware that the federal income tax aspects of owning a foreign bank can be quite complex. As such, the tax implications should be discussed with an attorney, accountant or other professional adviser before a final decision regarding private international bank ownership is made.

No representative or employee of WFI Corporation can provide legal advice in the area of taxation. WFI makes no statement to the effect that foreign banks or their shareholders are, in all cases, free from federal income taxation, and any statements by WFI representatives are qualified to the limits expressed in this Private International Bank Offering Memorandum.

SECTION 6

ASSET-PROTECTION BENEFITS OF A PRIVATE INTERNATIONAL BANK

One of the most important, yet often overlooked, benefits of owning a private international bank is its ability to serve as a vehicle for the protection of your personal and business assets – whether the protection you seek is from the Internal Revenue Service, other government agencies, creditors, competitors or even a disgruntled spouse or ex-spouse.

As you have already seen in the section on tax benefits, a private international bank can play a major role in sheltering income and capital gains from the U.S. income taxes. However, there are many other areas in which you can be damaged by the prying eye of the government, which already has much more information – both personal and financial – on file about each U.S. citizen than most people realize.

Calling on the same arguments it has used in breaking down our rights of personal privacy – mainly “crime prevention” and “national security” – the federal government has devoted more and more effort to tracking the movement of personal assets by its citizens. Given that, we will cite many of the same arguments we used explaining the need for privacy in our discussion of using private international bank for asset protection.

Each of the six specific reasons cited by Mark Skousen for maintaining financial privacy are equally applicable to the protection of personal assets. To review, these are:

- Protection against many types of discrimination
- Protection against excessive government.
- Preservation of your reputation
- Protection against damages resulting from divorce, family disputes and lawsuits. (This is unquestionably the area where asset protection is most important. In fact, the exposure to damage you risk if your personal assets are known to your enemies, competitors, creditors or antagonistic family members is so obvious that no discussion is really necessary. However, because this is the area where private international bank ownership can offer the most protection, we will cover it in detail later in the Section.)
- Protection against loss due to exposure to criminal actions. (This is another important area. If the nature and location of your assets is public knowledge, you are much more likely to be a target of all types of criminals, who view you as a candidate for robbery, burglary, extortion or even kidnapping.)
- Protection against "legal fraud." (Again, this is a case where the knowledge that you are financially well off exposes you to pressures and promotions by people whose sole purpose is to strip you of those assets.)

There are obviously many other reasons for wanting to protect you assets – probably even more than there were for wanting to maintain your financial privacy. But, as with privacy, the government continues to ignore these concerns, passing laws and regulations designed to force disclosure of the size, nature and location of the assets of its citizens – and, in so doing, putting those assets at risk. However, as the owner of a private international bank, there are many ways you can act to both preserve your financial privacy and protect you personal or business assets.

WHY A PRIVATE INTERNATIONAL BANK CAN PROTECT YOUR ASSETS

There are two primary reasons a private international bank can be so effective in protecting your assets.

First, as foreign entity located in an offshore financial center that has strict banking secrecy and financial laws, a private international bank provides a heavy layer of insulation between the assets of its owner and those who might wish to make claims against those assets. Once the legal ownership of assets passes from an individual to a foreign entity such as a private international bank, it becomes extremely difficult for attorneys, creditors or others based in the United States to exactly identify the nature or quantity of those assets.

In addition, if the original transfer of the assets was carefully planned and carried out – and the private international) bank set up so that the deployment of the assets is directed by a foreign management company under orders of the banks foreign directors – it can be virtually impossible for claimants to once again link those assets to the individual against whom the claims are directed.

Second, a private international bank – merely by virtue of its special powers and privileges as a bank – can cloak the movement of assets and routinely arrange for their investment or disposition without attracting attention. By contrast, the same functions performed by an individual or corporation would stand out to anyone familiar with the normal pattern of personal or company financial transactions. Activities involving assets placed in a private international bank are camouflaged by the activities of other commercial banks. Thus, they do not attract undue attention among regulators or stand out on accounting ledgers.

For example, an interest payment made to a private international bank would attract no more attention than a similar payment to a U.S. bank. However, if the interest payment were made to a foreign corporation or individual, it could be challenged in the event of an audit and would be easily noticed should the books be subpoenaed in a lawsuit by creditors or other claimants. The same would be true for loans or loan proceeds.

People – even trained investigators and attorneys – routinely expect individuals to get loans from banks. Thus, a loan to an individual or a business by a private international bank is much less likely to attract attention than a loan from some other source – even if the individual or company happens to be the owner of that private international bank.

Finally, banks are expected to make a variety of investments – after all, investing is really the business of the bank. Thus, a private international bank can easily deploy assets – and reap profits from the investment of those assets – without notice, whereas an individual or company doing the same thing would again attract attention.

HOW A PRIVATE INTERNATIONAL BANK CAN PROTECT YOUR ASSETS

The protection of the assets from the federal government has been discussed in earlier Sections of this Offering Memorandum. Thus, even though U.S. enforcement agencies are intent on collecting information about citizens' international business dealings, it would be a mistake to concentrate too much on this aspect of asset protection in private international banking. In truth, there are a host of other situations where asset protection can be more important – and many individuals have purchased private international banks solely for one of these reasons.

Protection of Assets from Creditors

For the individual or small businessperson, the most common threat to assets comes from creditors. And, in many cases, those threatened do not realize the scope of their exposure until it is too late. Even without resorting to the courts, your creditors can gather an incredible amount of information about you – without your knowledge or consent. And, this information can paint an extremely accurate picture of the nature of your assets, possibly targeting them for seizure in any action by the creditors to collect on your obligations. Among the items a creditor can get just from your domestic bank are:

- Copies of all your personal and business checks (both front and back), deposit and withdrawal slips and bank statements.
- Loan applications (which could be tied to the purchase of attachable assets).
- Records of safe deposit box rentals
- Copies of all bank communications.

In addition, U.S. banks typically release records routinely in the event of civil litigation, criminal proceedings, SEC investigations or IRS audits. And, domestic banks are not the only culprits in the assault on your assets. By going to credit bureaus, creditors can obtain information about any major asset you purchased that involved third-party financing. Through the judicial process, they can subpoena ledgers, records and other documents from your or your business – and from you accountant, banker or brokers. Finally, you can personally be called into court and forced to give testimony regarding the nature and location of your assets.

By utilizing a private international bank, you ensure against most invasions of this type. When your assets have been legally transferred to a foreign entity based in a country with strict secrecy laws, it becomes very difficult for creditors, investigators or others to get the information so readily available from U.S. sources. And, when the assets placed in the bank are controlled and managed by foreign, non-related parties, it may prove impossible for creditors to link assets to you even if they are able to identify them.

This buffer of foreign location and foreign direction could even protect you if you are called to testify – while you may have to admit that you have placed assets with a foreign entity, you may truthfully say that you cannot identify those assets, nor do you control them. And, though you may have to identify the foreign entity or persons who do control the assets, it is highly unlikely the records of their foreign entity or the foreign citizens could be forced to come under the jurisdiction of the U.S. courts.

Extra Layers Provide Extra Protection

If the buffer of a single private international bank with international management still leaves you with a feeling of insecurity, you can further insulate your assets from seizure by creditors or other parties by adding extra layers to your offshore protection plan. For example, you might have your bank in a South Pacific haven file a DBA (doing business as) statement permitting it to operate under a different name, then have your management company register ownership of your assets in the fictitious name. You might also set up an offshore corporation in a totally different foreign jurisdiction, such as the Cayman Islands, then have that corporation serve as a signatory for your South Pacific bank. Assets could then be transferred to the corporation, which would assign them to the bank, which would record ownership in the DBA name.

This process can be expanded almost indefinitely, with five or six different layers between the point at which you transfer the assets offshore and the entity is eventually recorded as the owner of the assets. The point is, each layer serves as an additional hurdle for anyone is trying to identify and locate your assets – and legally puts you one step further from control of those assets.

ASSET-PROTECTION BENEFITS FOR BUSINESSMEN

The same protections against creditors that apply to individuals also apply to American businessmen, But, there are numerous other situations where private international banking can offer protection for business assets.

Take, for instance, actions by aggressive competitors. If you bank within the U.S. and you become involved in a business lawsuit, a court may give your opponent legal access to your financial records, seriously jeopardizing your legal position. If, on the other hand, your records are kept in a private international bank, they are impervious to court orders. That's because private international banks are jurisdictionally immune to service of process.

The laws of most international banking centers protect the confidentiality of financial dealings and protect banks chartered there from foreign court orders, write of execution or attachment claims. Under no circumstances can your private international bank be forced to divulge information regarding its assets – even in a lawsuit.

You even get protection from government claims so long as your private international bank has no operations and does no business within the U.S. Under the Second Circuit Court of Appeals ruling in the 1967 case United States v. Germann, U.S. government demands for information from foreign banking institutions are legally barred if those demands conflict with the laws of the foreign jurisdiction.

Trade-Secret Protection

Other important assets for which a private international bank can provide protection include your ideas. Assume you have a formula or patent you want to protect. If you copyright or patent the idea in the U.S., you must disclose it to the Copyright Office. In the process, your million-dollar concept becomes part of the public domain. Before you can establish a firm market, the concept can be reformulated with minor changes and marketed by your competition. Instead of going to the appropriate domestic office to file your formula, you can convert it into financial information. Call it "exhibit to an agreement between scientist and the formulas owner." If the formula's owner just happens to be a private international bank, the exhibit is likely to be protected under the bank secrecy laws of the relevant informational center.

Protection Against Liability Claims

Businesses that conduct their operations through offshore entities such as private international banks may also gain some immunity against domestic liability – even if the products of that business eventually come back into U.S. market.

This protection was verified in 1987 when the U.S. Supreme Court ruled that a Japanese firm could not be tried in California for alleged liability in a fatal 1978 motorcycle accident. The high court concluded that, even though its products were eventually marketed in the U.S. the Asahi Metal Company of Japan could not be sued for damages in the U.S. courts because the company did not do direct business in the U.S. The justices held that Asahi could not be expected to defend itself here when it has no operations in this country. The Justices also held that any action by U.S. courts with regard to liability would interfere with the interests of Japanese courts.

Legal experts say the ruling makes it extremely difficult, if not impossible, to sue foreign manufacturers and other types of businesses for product liability damages.

Given that opinion, a foreign-based business – even one owned by a U.S. citizen – might be able to insulate itself against U.S. liability claims by wholesaling its products to a private international bank, which could then resell them to a U.S. distributor. The business might thus be protected from liability claims because it did not direct business in the United States, while the bank would be protected by virtue of its offshore jurisdiction.

ASSET-PROTECTION BENEFITS FOR PROFESSIONALS

Professionals – especially doctors and other medical personnel who face the spectre of enormous malpractice judgments in U.S. courts – are among the largest users of private international banks solely for the asset-protection benefits.

Malpractice litigation has reached such a level that almost any doctor – no matter how much insurance coverage he has – could be hit with a judgment large enough to strip him of his assets. At one time, doctors countered this threat by forming professional corporations and transferring ownership of their personal assets to corporations.

However, legal opponents quickly saw through that ploy. Today, almost all malpractice suits target the doctor, his insurance company and his professional corporation. In addition, the courts have ruled that separate holding companies set up by doctors to control their assets can also be "cracked" and the assets attached on behalf of a malpractice creditor. This left doctors with little choice but to move assets offshore – and a private international bank, especially one with foreign management, is the perfect vehicle.

Once again, if the bank and the assets are controlled and managed by unrelated third parties, it provides a significant buffer between the doctor and his malpractice creditor. Even if he is forced to testify that he has placed assets with a foreign entity and identify that entity (which he will no doubt be required to do), he will be unable to define those assets or say how they are being used.

As a result, the creditor will most likely be unable to force disclosure of the size and location of the assets because of the secrecy laws of the private bank's host country – and seizure of those assets to satisfy a U.S. judgment will prove impossible.

In fact, if the malpractice suit is frivolous (as many filed these days by unscrupulous lawyers are), a doctor's mere admission of having the bulk of its assets based offshore could prompt abandonment of the suit – or, at the least, a low-cost settlement. The reason is simple. The lawyer will recognize that, even if he wins a full judgment in a U.S. court, he will have considerable difficulty in retrieving the assets from the foreign jurisdiction. As a result, he may decide there are not enough readily accessible assets to warrant continuing with the suit. And, even if he does decide to proceed, he will likely be much more willing to compromise on a smaller settlement – just to ensure he gets something for his efforts.

Using a Private International Bank to Administer Trusts

Many professionals also employ various types of trusts to protect their assets, using a private international bank as an additional layer of protection against "trust busters."

The most effective approach is to set up what is known as an irrevocable trust – one in which the assets can never be returned to the donor, be he a doctor, attorney or other professional's wife or children as beneficiaries and the private international bank as the trustee. Such a trust is absolutely unbreakable, which means the professional can never change his mind and recover his assets. But, it also means creditors will never be able to attach those assets – even if they can find them in the bank's offshore jurisdiction.

A second popular type of trust – and one where the added buffer of using a private international bank is even more important – is called a reversionary trust. Such a trust operates exactly as an irrevocable trust, but for a limited period of time (usually 10 or more years). Once that time period passes, the assets revert back to the original donor.

A private bank is important in such arrangements because it provides an additional barrier to potential creditors, who can attach the assets of a reversionary trust – but not until it is dissolved, which could be years later. The combined factors of a lengthy time delay and the difficulty of identifying assets in an offshore location virtually ensure that any potential claimants in a suit, be it for malpractice or other reasons, will find the effort more trouble than it is worth.

Trusts set up through an offshore bank have an additional benefit in that U.S. courts may rule such trusts are unbreakable under any circumstances. They key here is proving that you had a legitimate reason (other than avoiding the claims of creditors) for establishing the trust offshore. If that proof can be provided, the court will hold that the trust is outside U.S. jurisdiction and not subject to attack under U.S. laws. It can, of course, still be attacked in the foreign jurisdiction – but, as we have already explained several times, the laws of the foreign jurisdiction would make the success of such an attack highly unlikely. Another bonus in the case of a reversionary trust is the fact that the assets can legally remain offshore once the trust dissolves and the assets revert back to the donor.

One drawback to trust arrangements is that assets placed in trust – as well as the proceeds of the trust if they are not needed for the education or support of the beneficiary – are subject to U.S. gift taxes. The only way to avoid these taxes would be to fund the offshore trust with assets that were already offshore – but that would almost defeat the purpose, since offshore assets already have a large degree of protection from creditors.

Offshore Trusts Can Simplify Handling of your Estate

Though the transfer of your assets to a private international bank offers many protections, it cannot provide protection against U.S. estate taxes. That is because a United States citizen is taxed on his worldwide estate, subject to the same exclusions provided for domestic estates. However, by having your assets held in trust by your private international bank, you can avoid probate and thus reduce the red tape and legal expense normally associated with settling the estate. That is possible because the assets under control of the bank's foreign directors could be disbursed directly to your designated beneficiaries as per the terms of the trust.

PROTECTION VIA INTERNATIONAL DIVERSIFICATION

As mentioned in the Privacy Section, wealthy citizens of many countries have lost their personal and business assets or been prohibited from owning certain assets because of changes in the political philosophy or leadership of their countries. Diversifying your assets politically or geographically in a number of different countries can minimize this risk. Besides, in these days of worldwide investment markets, it only makes sense to spread your assets among several nations, simply to avoid economic upheavals that may beset only one country. Obviously, the more unstable your home country's military, political or economic system, the more important this tactic becomes.

ONE DRAWBACK – A LACK OF BANKRUPTCY PROTECTION

While operating a business or conducting your personal financial dealings through a private international bank provides many protections for your assets, there is one area of risk. If your business goes bust or you are forced into personal bankruptcy, the assets you have offshore in a private international bank would not be afforded the protection of U.S. bankruptcy laws.

In most foreign countries, the U.S. concept of bankruptcy protection is not recognized. Thus foreign lenders, business creditors and even employees could grab up the assets of your troubled company in a bid to either recover money owed them or gain control of potentially profitable properties.

Sometimes, the actions of foreign creditors don't even make good business sense. For example, when Malcom P. McLean filed for U.S. bankruptcy protection for his U.S. Lines shipping company, he hoped to be able to renegotiate his nearly $1.3 billion in corporate debt. Before he could act, however, creditors in the Far East seized four of his huge container ships, valued at $46 million each, and sold them for little more than scrap value. Similar, though smaller, actions to freeze or seize U.S. Lines' assets also took place in seven other countries, including England, Canada, Italy, and the Netherlands.

Thus, if you run into financial troubles while doing business on an international scale – or your private international bank has financial problems of its own – you will have to personally negotiate settlements with foreign creditors, who will not recognize the protections the U.S. bankruptcy laws could provide for your assets if they were held domestically. By the same token, however, if you are forced to declare bankruptcy as a result of claims from U.S. creditors, assets that have been carefully and legally transferred to the control of a foreign entity such as a private international bank could be protected against seizure by those creditors.

AN ASSET CREATED BY PRIVATE INTERNATIONAL BANK OWNERSHIP

Most people would probably think of private international banking exclusively as a vehicle for protecting assets that already exist. However, there is one asset that the ownership of a private international bank actually creates. And, though it is often overlooked, it can turn out to be one of the most personally satisfying assets you'll ever have.

This valuable asset is the prestige that accompanies bank ownership – the respect and degree of influence that friends, business associates, even strangers afford you when you own a bank. If you don't believe that bank ownership conveys a sense of power, just look back on your own experience – when was the last time you refused a call from your banker, or failed to open a letter sent by a bank? After all, a bank projects credibility, substance – and money!

It's very hard for people to ignore a bank – and that's one of the major reasons most private international bank owners become successful. A letter in your bank's envelope gets opened – and a message on your bank's letterhead, signed by you as chairman of a bank, produces action!

Whatever your goal in writing, letters from you as a president of your own private bank can open doors that might be closed to you as an individual. They can influence government officials or corporate executive, they can help in obtaining hard-to-get loans from other banks – and they can attract hundreds of thousands of dollars from depositors anxious to get their money out of countries beset by burdensome taxes or instability. Thus, one of the most important assets that a private international bank protects is one that the bank itself creates.

SECTION 7

MAKING IT WORK: SOME CASE HISTORIES

We have tried to make the first six Sections of this Private International Bank Offering Memorandum and desktop reference guide to offshore banking as complete and informative as possible. However, in spite of our efforts to address a multitude of needs, anticipate potential questions and explain various aspects of private international banking with clarity and simplicity, a problem sometimes arises. As is often the case with comprehensive reference guides, it becomes difficult to assimilate the multitude of details and apply them to your own personal situation.

It is much easier to recognize the potential of private international bank ownership when you can see what other in situations similar to yours have done with their private banks. That's the primary reason we have included a section on case histories – the actual success stories of current and former WFI Corporation clients (and others), both large and small. We hope these real-life examples will not only show how a private international bank can be useful in particular situations you may already have in mind, but also inspire recognition of other ways a private bank can be of benefit to you.

Obviously, not all of these stories will have direct application in your case (though there is no reason your private bank cannot eventually grow to a level where similar activities will be possible). However, we have chosen a wide range of case histories for good reason. We wanted to address as many of the areas of potential opportunity (and concern) as possible – from promotion to privacy, from the raising of capital to the protection of assets, from the tax benefits to the generation of both banking and investment profits.

Besides, the stories themselves are interesting – reflecting the exceptional nature of the people involved. Each WFI client is important – bringing us a new set of problems and priorities from which we can continue to learn as we work to set up banking charters, get licenses and establish operations. However, some are very special. Certain people stand out because they taught us new ways of utilizing offshore banks. Others are remembered because they were unique – in dress, mannerisms and in their outlook. True originals. A few provide inspiration with their personal stories of triumph over background and long financial odds, while others impress with their ability to improve on a well-heeled birthright.

Whatever the reason, each story is a tale of creativity and shrewd business instinct. All of them suggest that, with forethought and the proper advice, an offshore bank facility can be established that meets your financial needs

USING A PRIVATE INTERNATIONAL BANK TO ACHIEVE PERSONAL GOALS

Despite an offshore bank's potential for producing profits – both as an operating entity and as an investment vehicle – the majority of people initially become interested in private bank ownership because of the other benefits a bank can offer. They have a personal or business need – and a private offshore bank seems the best way to address that need.

For that reason, we will begin with case histories that demonstrate how various individuals, groups or companies have used private bank ownership as a means to deal with specific corporate or individual concern. However, as you will see, there is considerable overlapping of motivations in these stories – largely due to the rapidity with which new private bank owners recognize the true potential of their operations. (In the case of individuals, small ownership groups or privately owned businesses, we have changed or deleted the names to preserve confidentiality.)

A Corporate Giant Finds Surprise Success

To establish undeniable credibility for our case histories, we will start with a story from a corporation whose name virtually everyone will recognize instantly –

international pharmaceutical giant Pfizer Inc., a Fortune 500 company with stock listed on the New York Exchange.

You would think a major worldwide company like Pfizer would be well aware of all the aspects of offshore banking – but, as this story proves, even business giants can underestimate the potential of private international banks. Pfizer – which does a large percentage of its drug business in overseas markets – decided in late 1985 that having its own international banking entity would help it better manage offshore capital flow and control its tax liabilities.

What Pfizer didn't realize was that its banking arm – Pfizer International Bank (PIB), incorporated in the Cayman Islands and based in San Juan, Puerto Rico – would turn into a major profit center for the company! (Note: The one drawback in this story is the Puerto Rican connection. Pfizer selected Puerto Rico because of changes in the island's banking laws designed specifically to accommodate such operations and attract new business. Unfortunately, while the Puerto Rican laws helped Pfizer, they are not currently set up to allow bank ownership by individuals or smaller businesses.)

"To say that it has been profitable is the understatement of the year," said PIB Chairman John-Paul Valles. "In our first full year of operation (1986), we earned $49 million, and our net for the first six months of 1987 was $26 million."

In other words, PIB went from a vague corporate idea to contributing more than 7 percent of Pfizer's total 1986 profit of $660 million – in less than two years! PIB started in November 1985, using $680 million in seed capital generated by Pfizer's offshore operations, Today, as a result of careful lending policies and astute use of the tax benefits the bank provides, the equity is nearing $1 billion. Because of the big starter fund provided by Pfizer, PIB didn't make a big effort to solicit deposits, but the bank's fine reputation has brought in a growing flow ("growing, but small and mostly Canadian," Valles says).

Valles says running his own bank enabled him to greatly improve the yield of Pfizers funds – without increasing the level of risk. And, having the bank based offshore removed many of the regulatory roadblocks the company faced with its U.S.-based investments. Obviously, most individuals can't come up with the kind of starter capital PIB had, but even individuals can utilize similar strategies – and achieve the same kind of relative success with their own private international banks.

She Had a Better Idea

Now that you've seen how a private international bank can help out an owner at the very top of the financial spectrum, we'll move as fast in the opposite direction as possible – to a single individual with very limited resources, but a great idea.

A few years ago, Debra Ashley was a bookkeeper. Today, she is the chief executive officer of her own tax and financial-planning firm. She also holds a controlling interest in two other companies – a light industrial firm and a publishing house. As Debra tells her story, she want from a net worth of zero to combined assets of more than $350,000 in only four years – just because she watched what her boss did and figured out ways of doing it better.

Debra worked for the same accountant for nearly nine years, and was enough money to support herself and two children. But she wanted more of a career. So, while she worked during the day, she went to school at night. In 1977, she passed the state board examination, and was qualified as a certified public accountant. She continued on with the same employer until an attractive opportunity presented itself. Following up on a suggestion from her ex-husband, Debra contacted Janet, a young accountant based in Phoenix, Arizona. Janet had only recently earned her CPA license, and was eager to find an experiences partner. She also liked the idea of working with another woman. It seemed a perfect match – so, in August of 1978, Debra packed her professional certificate, her two small children, a self-defrosting refrigerator, and drove off into a brand new life.

She liked Janet, she liked Phoenix and the partnership was doing well – but, after two years, Debra decided she wanted to build a more sophisticated clientele for the firm. She contacted WFI to talk about offshore banking, already well aware of its many benefits. Primarily, she was looking for a professional edge over local competitors. She explained that the firm was earning a solid reputation in the city – but, because it was run by two women accountants, still faced professional discrimination. She was convinced that if she could offer the services of an offshore bank – especially as a means to legal tax protection – she would position herself to handle the most prestigious clients in Phoenix.

She was right, in 1981, Debra acquired an offshore bank facility in Vanuatu. The entire negotiation took just four months and cost her firm only $25,000. Now, Debra is well on her way to becoming a nationally recognized businesswoman. Her Phoenix clients enjoy not only a tax haven where their assets are safe, but an opportunity to earn handsome interest profits as well.

Debra is a determined person with an innate ability to cut through the babble of everyday conversation and strike deep at the heart of a business matter. No doubt this has contributed to her success. But Debra's achievements also result from her driving need to be special. She was not born into luxury, nor did early adulthood prove a fairy tale of suburban affluence. Yet Debra wanted the best that life could offer. She decided to get it for herself. Owning and operating an offshore bank is her way of saying "I've made it."

From One Success to Another

Debra's story shows how a private bank can help breed success when starting from scratch. Now we'll look at the story of a successful individual who used private bank ownership as a vehicle in changing the entire direction of his professional life.

WFI Corporation first learned of Louis B. Doran from a former client who suggested that we write and propose a possible offshore involvement. We made numerous efforts to reach him – by letter and phone – but our letters went unanswered and our calls were always received by the same polite but formal secretary who promised only to pass along the message. Then one day we got a call from Doran. He said simply that he would be in Los Angeles for the evening and asked if he could meet with him. His manner was professional, yet strangely secretive.

Over coffee in his hotel room, we learned that he was from Nevada and had made his fortune through various gaming and real estate investments. He volunteered financial information without blinking an eye, and estimated his net worth to be somewhere in the neighborhood of $4 million. At that time, he held 51 percent of a company that owned, maintained and operated 200 gaming and video games in the Lake Tahoe area. He was also the director and part owner of a well-known casino in the Reno area, a full-fledged operation with slot machines, 21 games, keno, poker, roulette, craps, a bar and restaurant. And, of course, he owned a Nevada gambling license.

Over the years, he had seen Nevada change and grow. He seemed utterly at ease with the world of gambling, and rather matter of fact about the tremendous wealth he had earned from his involvement with it. But he also confided that he was planning to liquidate his interest in the casino. Meeting with WFI was part of his plan to find new financial interests.

“Malls,” he said, “are the future.” He found them fascinating and had already become a silent investor in two shopping complexes, one of them in Las Vegas. Most recently, he had become involved in a large complex near Carson City, Nevada.

To make a long story short, he continued to fly in from Nevada – always in the evenings – and we would meet in his hotel room to discuss details of an offshore bank in the South Pacific. We signed the final papers for his offshore bank in the VIP lounge at Los Angeles International Airport. The last time we spoke, he said the International Bank of Vanuatu was doing quite well, that he was using it to handle his investment loans, finance new ventures, escape burdensome onshore taxes and help him buy a majority interest in three Taxes oil wells. He was in the middle of another mall project – this one just outside Denver. And he was thinking about marrying one of the architects involved in the project. Vanuatu, he mentioned, might be a perfect honeymoon hideaway.

The General’s New Career

Mr. Doran’s case was one of change by choice – but some people are forced into change. In 1976, General Robert M. Shorff suffered a near-fatal heart attack. At the time, he was commanding officer of a Marine Corps base permanently stationed on the East Coast. His doctor’s order was plain and simple: Leave the Corps. After a 30-year career with the Armed Forces, he never blinked an eye. He took the order like a trained officer and retired.

Luckily, General Shorff had followed the Marine regimen and for a 54-year-old man, was in excellent shape. He took life a little easy, got to know his wife for the first time, moved to the West Coast (not far from Camp Pendleton) and decided that it was time he went into business for himself. By mid-1977, a new venture beckoned. Along with an old friend who once piloted jets for the Air Force, General Shorff formed a mid-sized commercial airline, Air Nevcal. The two men still operate their company, mostly out of the Southwest and Mexico.

It was in the summer of 1980 that General Shorff arrived at WFI. His partner was not with him, but a former military attaché was at his side, taking notes and staying noticeably silent throughout our meeting. The general estimated his assets at $1.5 million. And, he felt it was time to make a move offshore. He said he wanted to command a financial force that could function internationally. In addition to Air Nevcal, he was involved in a three-way business partnership – Prime Associates, which buys real estate, improves on the properties and then sells them at a profit. Shorff felt a private offshore bank seemed the next logical step in his personal-investment portfolio.

He had a number of immediate uses in mind. First, he and his partner wanted to establish a second airline – this one to fly routes between the Caribbean and Mexico. They had already contacted interested U.S. investors and had ample capital lined up in Mexico. Shorff was also planning to buy a construction company specializing in the grading and paving of commercial and industrial properties. Counting on influential ties to the Defense Department, Shorff was intending to bid on several government construction jobs. For various reasons, tax avoidance among them, he wanted the offshore bank to act as the agent for the purchase of the construction company. He wound up buying an offshore bank in St. Vincent. We haven't heard from him in some time – and that's a good sign. He's the sort of man who calls only when something needs to be fixed.

From Escrow to Tax Break

The use of a private offshore bank in planning and developing new business is important, but banks can also be incredibly efficient tools for managing already prosperous businesses – and greatly increasing their returns.

This is the story of the Island Bank and Trust Co., located in the Cayman Islands. It is beneficially owned by a Dutch individual living in Europe. Its business transactions are effected in Europe and, in part, through the bank's American attorney in California. Doing business in a combination of continents does not, in the opinions of the bank owner and of its American attorney, infringe in any way on U.S. tax or banking law.

The bank is a vehicle within a group of companies that acts as an escrow holder for purchases of real estate in California. Why is this useful? From the time funds are placed in an escrow account in an American bank until escrow closes, they are inaccessible to the parties affected. Only the bank may make use of the money in escrow, and then only as regards the myriad U.S. banking regulations. Further, the American bank, as a fiduciary in real estate transactions, is specifically precluded from investing directly in real estate.

In this case, the owners of the international bank are directly involved in real estate transactions. Because the bank is international and not American, however, it may deal directly in the real estate market. Further, because the escrow bank belongs to the owners, any funds deposited with it may be used according to the owners' priorities. Therefore, the benefits the owners derive are the use of the money during the escrow period and an ability to specify convenient terms for an escrow in relation to the purchase of real estate. Tax benefits are also obtained because the owner of the bank is not a U.S. resident and any short-term portfolio investments made with the escrow funds occur in the bank's name. Any income derived goes to the bank – and is thus tax-free.

(Note: Another WFI client achieved similar success using escrow funds by owning not only a Caribbean-based private international bank but part of a Texas title company. In the course of its business, the title company receives substantial deposits and escrow funds for its customers. It maintains a bank account with the international bank, which enables the bank owner to gain indirect use of the deposits in escrow without the opportunity cost associated with leaving the money deposited with a third-party commercial bank.)

A Family Finds a Way to Streamline Its Borrowing Needs

In January of 1982, WFI received a letter from John Mill Howard requesting information on offshore banks. Mr. Howard was a geologist, and served as the President of Pacific Resources Ltd., a mining and mineral-exploration firm operating in Canada and the United States. He lived in Western Canada and wanted to know specifically how he might use an offshore facility to combine personal and business banking. As it turned out, he had organized as small investment company in the early 1960s as a way of managing his family's finances. Through a series of good business decisions and careful reinvestment, he had acquired majority interest in several mining and mineral companies.

We scheduled a meeting and, when he showed up, he was accompanied by his wife and two grown children – a son and a daughter. Within minutes, it was clear that the Howards were extremely close-knit, and each small decision along the way was tackled through consensus. All four people asked detailed questions and probed until completely satisfied that they'd been answered. We covered the family's financial profile in great detail.

It turned out that the Howards were interested in establishing their own offshore bank as a way of borrowing funds from abroad – namely from West Germany and France. They were confident that further mineral exploration would reap substantial rewards, but needed an immediate influx of capital in order to get the project going. So, the bank's first priority was to target and secure at least $25 million.

Simultaneously, the Howards wanted their bank to manage all other family investments, including two well-endowed trusts. At that time, Mr. Howard's personal net worth was $7 million: his wife was worth nearly $3 million; and the son and daughter claimed a combined worth of $750,000. All four would be equal partners in the bank.

Early in 1982 – not long after their bank license had been approved – a series of loans was negotiated with two separate European banks. Pacific Resources had already begun exploration of a mine located in Wyoming. With things pretty much settles on that score, the family was starting to use its bank for other, more sophisticated ventures. Mr. Howard, for instance, has since used the offshore bank facility to purchase a fledgling oil company in Alaska.

From Foreign Bank Depositor To Offshore Bank Owner

Again and again, WFI has found that people who start off by opening a foreign bank account inevitably end up reaching the same conclusion: With a solid background in offshore banking, it's better to establish your own offshore bank facility than to deposit money in someone else's. It's kind of evolution – from initial interest, and your first foreign account, to a thorough investigation of charter and license purchase.

This point was driven home by a fascinating group of five retired couples – all veteran jet setters from Newport Beach, one of California's wealthy enclaves. They had initially met one another through a prestigious social club in the area and had subsequently formed a small investment group to handle their personal money matters. The consortium provided a comfortable environment in which they exchanged information and financial suggestions. They first approached WFI after a three-day offshore conference and explained that, for almost four years, they had been investing as a group via an established offshore bank in the Bahamas. They were interested in starting their own facility in either the Caribbean or the Pacific Islands. We scheduled a meeting – and, after they learned of the advantages of owning their own offshore bank facility, they decided to establish a bank in the Caymans. They liked the islands' international reputation, they could afford the license fee and the idea of vacations in the Caribbean nicely matched their lifestyles.

Once the initial start-up time had passed, they put their Island International Bank to good use. All their investment holdings were transferred to the bank. They began to save money almost immediately because, instead of paying a third-party offshore bank a transaction fee or other special service cost, they simply instructed their resident agent to handle all banking matters. They were able to garner deposits from members of their Newport Beach social club, offer attractive interest earnings and expand their scope of investment opportunity to the international market.

You've now seen a number of personal offshore banking stories – each involving specific people or companies with specific needs outside the normal mainstream of the banking business. However, there are also numerous case histories involving people or corporations already in the banking or financial business – people with the knowledge to expand the opportunities in private offshore banking well beyond what you've already read. And, their stories will serve to further demonstrate the power and potential possible with private international bank ownership.

USING PRIVATE OFFSHORE BANKS TO PROFIT FROM THE BANKING BUSINESS

One of the most amazing things we've discovered since WFI Corporation began serving clients is how many banking professionals – both foreign and domestic – know the value of offshore banks. A large number of people already in the industry have come to WFI for help – either because they want to own an offshore bank to augment their banking business, or simply because they know just how profitable bank ownership can be.

A Banker's Move Into Portfolio Management

One such client was a person of substantial means living on the EAST Coast. He also happened to be the chairman of a modest-sized commercial bank. Initially, he bought a bank from WFI solely on his own. However, after the bank was organized, he promoted it to a group of other investors, who became participants. This provided significant tax advantages since the bank could no longer be deemed related to any one person. The bank is used by the group of investors as an investment vehicle so that portfolio investments in Treasury bills and other securities may be made in the bank's name. The bank further provides financial accommodations to each owner in the form of credit based on the accrued earnings associated with a proportionate share of each owner's profit.

The bank has gained most of its business from a group of people who belong to a country club of which the promoter is also a member. Transactions are effected through the resident agent, thus preserving the international character of the bank.

From Men's Club to The Marianas

An almost identical arrangement developed with one of our more unusual clients. His name is Darrell Cass Taylor 3 and he is the picture of old American aristocracy – the essence of East Coast propriety. He is also the chairman of several modest-sized banks in upstate New York. Aside from shepherding these red-carpet institutions, his one great hobby is his men's club – no ordinary gentleman's gym, but a venerated tradition. (We suspect that, in his old-fashioned way, Mr. Taylor sees it as the single refuge from a world gone more than a little haywire.)

A man of inner sanctums, where hushed voices and thick carpeting comfort the city's "old money," Mr. Taylor likes the quiet ambiance of tax havens. An offshore center's serenity and privacy appeal to him. As a result, he called WFI and asked about setting up an offshore bank. He had already done a bit of initial legwork, and was certain he wanted it based in the Mariana Islands. He also knew six members of his men's club who were ready to form a small investment consortium. Since Mr. Taylor was an experienced onshore banker, the offshore enterprise would allow him to capitalize on his expertise.

After all the papers were drawn and duly filed with the proper authorities, he flew off to meet with his new resident agent. We didn't hear from him for a while, but his next call explained a lot about how he had intended to utilize the Mariana bank. After returning from the Pacific, Mr. Taylor met with a few more personal friends and wound up with an 11-member consortium. Their combined deposits amounted to well in excess of $10 million. All of them held certificates of deposit guaranteeing 21 percent interest (this was in 1981, at the height of the interest-rate cycle). Mr. Taylor, in turn, was using their funds to purchase various money instruments such as T-bills, bankers' acceptances, commercial paper and other money-market obligations.

In this consortium's case, interest was never paid. Instead, the depositors maintained assets on account and let their money accrue. In the process, they avoided all tax on their earnings. The result was so rewarding for their depositors that, in the spring of 1982, WFI was approached by another of the club members who had joined the consortium. Though happy with Mr. Taylor's arrangement, he had come to recognize the opportunity in private offshore banking – and wanted to buy his own bank so he, too, could seek out depositors.

A Mexican Industrialist With Big Ideas

Sometimes you don't have to have any personal involvement with the banking business to recognize how lucrative certain aspects of it can be. That was the case with Frederico Solis, a Mexican industrialist and brilliant businessman who, when he first approached WFI Corporation, already had a net worth of $1 million for each of his 31 years of age. He was very direct – and had a very clear plan in mind for what turned out to be one of the most profitable offshore ventures with which WFI has ever assisted.

Solis was interested in establishing an offshore bank that would serve as the intermediary for people he called "the big boys," meaning the largest American corporations and the biggest banks in Europe. His idea was completely original, and taught us an entirely new way of using offshore banks.

First, he would garner potential borrowers and then advise certain banks of their interest as a way of attracting sizable lenders. He reasoned that if an offshore facility were able to attract big-name borrowers – for instance, the Fortune 500 companies – it would automatically attract big-name lenders, such as Union Bank of Switzerland, Barclays and Credit Commercial. He was right, of course.

The first step in Fred's plan was to obtain financial mandates from several multinational corporations. With his Swiss-American Bank fully chartered and licensed to do business in Anguilla, he began work. Introducing himself as the Mexican representative for the Swiss-American Bank, he scheduled luncheon appointments with the treasurers of various Fortune 500 companies. After sundry business preliminaries, he would get to the real point: He could offer each treasurer lower borrowing rates than they were finding elsewhere. Needless to say, few doors were closed in his face.

Within 90 days, he had 10 letters in land. Each had been signed by a treasurer, all of them indicating that a major corporation was looking for funds at some specific interest rate. Fred then flew to Europe and approached the leading banks on the Continent. He later told me that he made it a rule never to meet with anyone but an institutions top executive. The results were impressive: Virtually every banker committed himself to extending loans – at the rated Red was quoted to the Fortune 500 corporations.

By using his offshore bank as a broker for the loans, Fred negotiated a small commission on each financial package. With every loan amounting to at least $15 million, his combined commissions were sizable. After just one year of such negotiations, his profits amounted to $4.5 million!

An Entry Into the Brokerage Business

Many bankers also view private international banks as a means to enter other areas of financial operation from which they are excluded by U.S. banking regulations. Several clients have come to WFI to organize offshore banks because they had domestic customers who wanted brokerage services, which their banks were not permitted to provide. By shifting the accounts of those clients to offshore banks, the bankers involved were able to satisfy customer needs – and create an additional profit center in the process, complete with offshore tax advantages

Several other domestic bankers have gone offshore to gain the ability to administer U.S.-based trusts for foreign beneficiaries. In one case, a group of California bankers manages U.S. investments for a Belize trust company – but they do so through a private offshore bank in the Caribbean. Most of the actual transactions for the trust take place internationally, but the arrangements for the transactions are effected in California – a situation that would be difficult if the foreign trust's investments were managed by a domestic bank.

Even Swiss Bankers Go Offshore

For many years, Switzerland was considered the epitome of offshore banking centers, but that doesn't mean Swiss bankers never feel the need for foreign banking facilities – as Renato Orelli can testify.

Orelli is from Lugano, a small city in Switzerland at the foot of the Alps on the Southern border near Italy. He remembers growing up on stories of Swiss banking and being thrilled by the mystery of secret numbered accounts held by rich exiles and exotic refugees. He also remembers that tall bankers, in their dark suits and homburgs, were among the city's most respected public figures. He liked their stern reserve and imagined the conversations they must have had in large rooms of dark wood and rich red leather. While his friends dreamt of joining the circus. Renato dreamt of taking his place in such a stately room.

To make his dream become reality, he studied first in Basel, then in Rome. Later, he worked three years with a family friend – a banker in Toronto. He then returned to Switzerland – but, by this time, he had realized he wanted not just to be a banker, but to be a very special sort of banker. He wanted to provide Old World service, establish close relationships with his clients and familiarize himself with their investment needs.

Step by step, he built an impressive Swiss banking career. For six years, he served as the manager of a small bank in Lugano. The position allowed him to build an image of cautious intelligence and calculated initiative. When he left the bank in 1968, he joined four other investors who were forming their own bank. Between them, they established one of the most sophisticated institutions in Switzerland. And, within a few years, Finanvest Banca was offering a wide range of ultramodern financial services – all of them delivered in the manner of Old World banking.

When Orelli came to WFI in 1982, he was nothing less than an internationally respected banker. He knew almost as much about offshore banking as we did, and saw it as a way to further expand his professional expertise. He was, at that time, involved in several investment ventures and had been appointed the director of six joint stock companies in Switzerland. Although he was a bit evasive about his total financial worth, his assets almost certainly topped $3 million.

Specifically, he was eager to establish an offshore bank in association with a few longtime friends. Evidently, they had been involved in a number of past investment opportunities and enjoyed the nature of consortium activity. Renato was clearly in charge of all details. Within a matter of hours, he had decided on a jurisdiction (Netherlands Antilles) a name (Swiss Credit International Bank) and a number-one banking priority (to obtain financing for a textile factory in Shanghai). Within weeks, he had managed to bring together a large group of European investors and had solidified the entire transaction.

Orelli says the offshore experience has proven to be all he had hoped for and Swiss Credit International has moved into a variety of other offshore banking and financial services, including managing extensive real estate holdings for clients in

Europe, Canada and the United States. And, Renato is making more money from his offshore activities than from his Swiss banking operations.

The Best Stories Are Yet To Come

The most striking aspect of case histories is that they prove how offshore banking really functions in a person's life. An offshore bank charter and license may seem like just another extravagant purchase – or, at best, an exceptionally creative investment. But, in fact, it's more than that. The move offshore and the commitment to your own private bank will inevitably mark a new phase in your life. Your financial opportunities will expand and, almost without realizing it, you will change the way you look at money and how it works forever.

Still, we suspect that the most intriguing offshore-banking story has yet to be told. Maybe it's yours.

QUALITY PROMOTION CAN BE THE KEY TO YOUR OWN SUCCESS STORY

By now, you should be able to see numerous ways in which a private offshore bank can meet your personal, business or investment needs. However, if you are like many potential bank owners, you may feel that those individual needs are not great enough to warrant ownership of a bank. You feel that you cannot make an offshore bank a roaring success without attracting additional investors and depositors. And, you have doubts about your ability to do that.

However, those doubts are generally unfounded. The key to attracting the business you need is quality promotion – an art almost anyone can master (or, failing that, achieve with available outside help from those who have mastered it). And, we've got more case histories to prove it.

Start With a Simple Letter

Sometimes, a new private offshore bank owner needs a little more than a few well-developed letters to bring in a substantial deposit or investor base for his institution. That's because letters from banks command attention. They can open doors, wield influence – and produce millions in deposits for a bank. Private international banks outside the United States are now successfully attracting million in deposits from American investors and businessmen seeking assured privacy and tax protection. Here is a sample letter sent out by one WFI client's offshore bank (we have substituted the name of WFI's own offshore bank for reasons of confidentiality):

BANK OF COMMERCE LTD.

(Letterhead)

Dear Sir:

Your Certificate of Deposit account in our bank can now earn you up to 14% tax free. This is considerably more than you might earn through any U.S. bank today. Moreover, your account is maintained in utmost privacy. Under the local banking laws, it is strictly forbidden to divulge information concerning you or your account to any government or tax authority.

Current rates paid by our bank on Certificates of Deposit are:

14% - 3 year CD, 13% - 2 year CD, 12% - 1 year CD, 11% - 6 month CD.

Your deposit may be sent directly to us by mail – safely and with absolute secrecy. And, with the assurance that your account will be serviced with the highest standards of professionalism. More and more Americans are opening accounts with Bank of Commerce as a result of increasing U.S. government penetration of U.S. bank accounts.

We welcome your business, and invite you to mail your deposit – in confidence – via the postage paid reply envelope enclosed.

Very Truly yours, (Signature) Chairman.

Other types of letters from your bank – while not directly brining in investors or depositors – can also have an extremely high promotional or business value. For example, they can enhance your credibility and help you, your associates or your clients obtain hard-to-get loans. They can give you access to privileged credit data on competitors, potential borrowers and others about whom you need information. And, perhaps most importantly, they can give you access to political and corporate leaders – and influence those leaders. Following is the text of four letters designed to achieve these varied goals.

Loan Requests

This is to introduce Mr. John Doe, a valued customer of Bank of Commerce. Mr. Doe has been known to this bank since November of 1984. Both his business and personal accounts are handled in a very satisfactory manner. Mr. Doe is seeking a real estate loan in the approximate amount of $400,000. Unfortunately, as much as we would care to serve him in this area, our bank does not maintain a mortgage loan department. For this reason, we have recommended that he contact your bank, and ask that you extend him every consideration.

Obtaining Credit Information:

We are revisiting our credit information on the XYZ Corporation. Therefore, we would greatly appreciate receiving your comments about the management and financial stability of the company. In addition, we would appreciate receiving your loan experience information, including the present line and high credit. This information will be held in confidence, and we will be pleased to return your favor whenever you have need of similar information.

Requesting Free Product Samples:

We have just received your brochure regarding your product known as the Handy Widget. It occurs to our committee that this product may prove to be quite valuable for use by our branch, and by other branches that we may be planning to open. Since the acquisition of this product will require a significant investment by our bank, we would like to receive a sample for test purposes. If your product fulfills the promise suggested in your brochure, we will be able to use it. Please be good enough to provide quantity prices, and a sample, at your earliest convenience.

Influencing Political Figures:

Our bank is privileged to have a number of wealthy depositors who are known to be active in their support of political candidates. One of these depositors, Mr. John Doe, will be in Washington during the week of March 20. We would be most grateful if you might arrange to receive him in your office for a few minutes one day during the week. Mr. Doe will phone your office within the next week in the hope of confirming the brief meeting. Mr. Doe is an especially valued customer of Bank of Commerce, and I think you will find the few moments you meet with him time very well spent. Thank you for your courtesy.

Finding a Niche – and Filling It

Another way to make your bank a success once you've satisfied your own personal or business needs is to find a special customer need and fill it. At least, that's the advice of some of America's biggest banks and corporations, which also have private offshore banking operations. Officials of these companies (with names like Manufacturers Hanover Trust, Chase Manhattan, American Express and Citibank) have all publicly agreed that their institutions would have never been successful with their ventures into private offshore banking had they not found a niche – a specific group of customers to which they could tailor their services.

The original concept of private banking – at least as conducted by major banks – involved providing special services for wealthy clients, the so-called "old money: of Europe and the East Coast. But the new breed of private banking that has come to the forefront in the 1980s couldn't depend on old money. "To get old money, you had to be around a long, long time," explained one official.

Instead, the new institutions making a move into private banking in the '80s had to look for new money. Some targeted the "Yuppie" population looking for offshore tax relief and investment opportunities. Others went after the venture capital markets, providing entrepreneurial financing no one else wanted to handle. And, many focused on the so-called "flight capital" market – seeking to serve the needs of wealthy individuals from Third World nations who were afraid of instability in their own countries.

"Each of these groups of individuals has very definite ideas about where they want to be and how they want their money managed," explained the vice president for private international banking at Manufacturers Hanover. He said even an organization as large as his couldn't adequately serve the needs of so many diverse groups, so "we had to find a niche and go after clients that fit that niche. You don't build a private banking business just by going and randomly knocking on doors."

In all probability, you will have no desire to make your own private international bank competitive with Manufacturers Hanover or Chase Manhattan – but that does not mean you can't use the same methods as these financial giants to make your bank a success. As a new bank owner, you can assess the merits of your bank – everything from location to assets – and the services it can offer. You can then assess the market segment most in need of those services – and concentrate your marketing efforts on that select group. After all, if it worked for American Express, why can't it work for you!

Making a Dream Come True

One of our favorite case histories involves a man named Jim Straw (you may have run across his name before since he's an established writer and publisher). Jim's dream was to own his own private international bank – and make it the most successful such bank around. As this Offering Memorandum has already shown, owning a private offshore bank is hardly an impossible dream – almost anyone can achieve it. But owning a special bank – one that's a tremendous success – is a bit more difficult. However, Jim did it – and he started the same way you would, by buying a bank.

He set it up in the Mariana Islands and named it First American Bank Ltd. Then, he immediately began exploring ways to make his bank a success – and he found the best way by simply applying his own professional talents. As publisher of a newsletter catering to investors and entrepreneurs, Jim felt he should be able to discretely "cross-sell" his banking services to his readers – and he did. By running articles about private international banking, outlining the opportunities and advantages and talking about talking about his own experiences as a private banker, Jim increased the interest of his readers in the subject.

Soon, he was getting a large number of calls from people wanting to do business with his bank – and, it cost him nothing since all the promotional expenses were covered by the subscription fee people paid to get the newsletter. In addition, because he was bringing in customers via a paid-circulation newsletter rather than having to solicit the general public, Jim avoided entanglement with banking regulators. Jim has been using the same approach for more than three years now – and it has literally made him a fortune.

That's not the whole story, of course, since even quality promotion won't keep customers if the bank fails to offer services people want at terms that are truly competitive. Jim also recognized that fact – and developed a comprehensive program for First American Bank customers. The program fairly well speaks for itself – Jim's bank pays from 9 percent, compounded daily, for a regular savings account, all the way up to 21 percent for a five-year term account. One-, two- and three-year term certificates are also offered at rates in between. How is Jim able to provide such outstanding rates compared to others available today?

"Simple," he explains. "We keep our overhead low and we do business – not just banking. We have a tightly knit team of people with more than 65 years of experience in finance, credit, collections and money management. And, because we are small, we can move like greased lightning to take advantage of deals that would have to go through a bevy of subcommittees, committees and boards at other institutions.

"This means we can turn our customers' money over faster and get maximum profits on each deal. In addition, while other bankers are restricted in the types of business they can be directly involved in, we are not. We can, and do, get involved in everything from factoring to leasing to wholesaling to manufacturing to publishing – and that gives us a tremendous advantage over other paper-shuffling endeavors."

The keynote of Jim's philosophy – and, by reflection, the philosophy of his bank – is integrity. Jim personally guarantees every penny deposited in his bank. Does that sort of approach work? You bet it does! That's why you see the heads of Chrysler Motors and Remington razors on TV offering their personal guarantees for their companies' products – it converts a cold, faceless corporation into a name and a warm smile.

It's been several years now since WFI set up Jim Straw's private offshore bank – and both Jim and First American Bank Ltd. are doing fine. In fact, things are going so well that one of the most asked questions he hears is: "If you're making that much money, why are you paying me only 21 percent?"

Turning Promotion Into a Profit Center

Another of our favorite case histories involves Ron Holland – a man who did such a good job of promoting his own private offshore bank that he turned bank promotion into a new profit center for his facility.

When Ron bought his private bank, he recognized that there were two steps to making it a success – offering innovative investment programs to suit a variety of needs, and then making potential depositors aware of those programs. With the help of his professional bank management firm, he had no problem with the first step. His Nauru-based Commercial Chartered Bank Inc. came up with three quality investment programs – a guaranteed CD program offering returns as high as 12 percent tax-free, depending on term of deposit; a zero-risk investment fund that puts 67 percent of its assets in FDIC-insured CD's issued by U.S. banks, while investing the other 33 percent in yield-improving vehicles such as stocks, commodities, penny mining stocks and mutual funds; and a zero-risk real estate program that teams FDIC-insured bank CD's with quick turnaround property investments. In addition, once they become large enough, two of Holland's programs offer investors the opportunity to become shareholders in new banks chartered specifically to handle the increased activity.

That's certainly an impressive array of programs – but, without promotion, none would have achieved major success. Knowing that, Holland created quality brochures (the primary one has six pages in two colors and includes an information coupon) that detailed the advantages of his programs. He then targeted his mailing to carefully selected lists of potential clients – with results that a full-blown Madison Avenue campaign couldn't have bettered. He also developed a number of other promotional tools, including letters similar to those discussed earlier and some creative advertisements.

How did his efforts do? Well, to make a long story short, Holland was so successful that his bank now has a new division offering a new service – helping other offshore bank owners promote their own banks. His bank's promotion division offers a complete brochure production service that provides creative design, copywriting and layout. He will also print up 5,000 brochures and deliver them to the U.S. for mailing. His bank charges only $5,000 for the complete package – but, because of the economies generated as a result of his own experiences, the promotion service is already highly profitable.

Don't forget the Obvious – Try an Old-Fashioned Ad

If, in spite of all the promotional ideas we've discussed so far, you still lack total confidence in your ability to generate business should you decide to buy your own bank, we'll close this Section with one final case history – recounting one of private offshore banking's biggest success stories of 1988.

The case history involves an aggressive advertising campaign and the bank that conducted it is chartered in Montserrat and operated with the assistance of a Canadian management company. It was originally set up by WFI to serve the personal needs of its owner (though it had developed a small core of depositors at the time our story begins) – and, because of that owner's request for anonymity, we have changed the name of the bank, both in our story and in the advertisement shown on the following page.

The impetus for that ad was the owner's discovery of what he felt was a significant investment opportunity for the bank – a deal reportedly involving the financing of some prime California real estate. Unfortunately, the bank's assets proved insufficient to provide the capital needed. That might have discouraged many people, but this particular owner – refusing to allow the opportunity to escape – analyzed his potential return on the investment and, based on the expected profits, decided to initiate a new program of time deposits to raise the needed capital.

Having established an attractive and competitive rate structure for his program, he purchased advertisements soliciting deposits in two widely read international magazines – the foreign edition of Time and the Far Eastern Economic Review. Because of the short time frame for the real estate investment, his approach in the ads was somewhat unusual in that he asked depositors to actually send in money, rather than just requesting information and deposit forms. But, it worked!

The ads, which ran in three consecutive issues of Time at a cost of about $8,000 and a single edition of the Economic Review for about $1,000, brought more than 400 responses – and a surprising number of deposits. Within a month after the first ad ran, three people sent in $10,000 in order to collect the top interest rate of 12 ¼ percent, while other readers of the magazines purchased smaller CD's – a total of $10,000 worth. And, that was just the beginning!

The Canadian management company mailed complete information packets on Commonwealth Overseas Bank Ltd. to the readers who had responded without sending deposits (about 310 of them). And, within another month, that secondary mailing had produced $160,000 in additional deposits, bringing the total for the aggressive $9,000 advertising campaign to an incredible $200,000!

That was enough to provide initial financing for the bank's real estate deal – and, it was also enough to prompt the bank's owner to expand both his deposit program and his advertising. He later placed ads in some international in-flight magazines and, though only a week had passed when we last talked to him, some deposits had already come in from those ads. He's also considering additional investment opportunities (this time offshore) in which to place the bank's growing assets, and is also considering new advertising approaches, including direct mail.

YOU CAN DO IT, TOO

Everyone loves a good success story – and this one proves a number of our theories about private offshore bank owners. One is that money has the uncanny ability to draw people out of their shells and open them to new possibilities. Every week, we at WFI have the opportunity to talk with international investors about their real-life situations. And, whether the end result is a signed contract for a bank purchase or just a meeting over coffee, we invariably walk away with a better sense of the intricacies of personal money management – especially as they apply to offshore banking.

We also are repeatedly reminded that – while each client is different, with his own priorities, his own worries and his own ambitions – virtually all of you have the intelligence, the ingenuity and the drive to make a private bank serve not only your own needs, but those of more than enough investors and depositors to make a bank a profitable offshore investment in its own right.

SECTION 8

RISK FACTORS IN PRIVATE INTERNATIONAL BANKING

This section outlines the apparent risk factors associated with ownership of a private international bank. The determination of what aspects of ownership constitute apparent risk was derived from interviews with several private international bank owners. In each case, the risk factors were found to be either non-existent or bearable since steps had been taken to minimize exposure. In all cases, benefits associated with owning and operating a private international bank were deemed to outweigh the influence of any potential risk.

POSSIBLE INFRINGEMENT OF U.S. LAW

If a private international bank does business to a significant extent within U.S. borders, the bank and its owners may be restrained by an American court from operating there.

This exposure becomes apparent if the bank is conducting an active trade or business in the United State. For one thing, the bank subjects itself to full U.S. taxation. Bank regulators may also accuse it of banking without a license. An example of this might be maintaining a rented office on a well-traveled street or placing large advertisements in newspapers such as The Wall Street Journal. Incidentally, a paper such as The Wall Street Journal is only too happy to accept payment from advertising space from virtually any source at virtually any time. The paper has a history of raking in money from companies that advertise with it in good faith, only to later assist various regulators in their investigation of the affairs of those advertisers. In any case, attentive reading of this Memorandum should have by now convinced potential U.S. owners of private international banks that advertising in domestic financial media is a foolish enterprise.

Based on their own positions and interests, U.S. regulators are likely to raise a number of potential areas of exposure for offshore bank owners. Some you may typically encounter include:

1. **From state banking departments:** The argument that the bank is conducting business as defined by the state's banking statutes, but is not licensed to do so.
2. **From the IRS:** The contention that the bank is subject to full tax treatment under U.S. tax law, either because it is not a bank or because it is conducting a trade or business within the United States.
3. **From the SEC:** The claim that the bank is issuing, selling or otherwise trading in unregistered securities.

How to Avoid Regulatory Risks

The easiest way to prevent running afoul of these claims by regulators is to anticipate them – and take appropriate advance measures, such as:

1. Consulting with competent attorney familiar with the three types of law (state banking, federal banking, and federal securities) involved. The attorney should be facile and familiar with what activities may or may not be performed by foreign banks in a given state.
2. Dealing to a great extent through a foreign-based private bank management company, a resident agent in the country where the bank is based or an international board of directors
3. Adhering to strict procedures designed specifically to prevent each transaction from conflicting with U.S. law.
4. Developing a good working understanding of what your private international bank can and cannot do within the United States.
5. Accumulating documentary evidence that can substantiate claims that your private international bank is operating as a bona fide financial institution duly chartered under the laws of the host country.

POLITICAL RISKS

Another area of potential risk involved the possibility of changes in attitude or policy by the government of the country where the bank is located. Called a political risk, this can be defined as any act performed by a host jurisdiction that affects the private international bank's authority or ability to operate. Such acts can be overt – varying in degree from nationalization of the ownership of a bank (the severest case) to the enactment of legislation that inhibits the bank's operation (the slightest case) – or they can be indirect, such as the troubles brought on Panamanian-based private international bankers in 1987-89 prior to the ouster of military strongman Gen. Manuel A. Noriega.

In a practical sense, the risk of nationalization or expropriation of assets is considered small in those countries that accommodate private international banking. In order to attract international bankers – and the money they will pump into the host country – offshore financial centers have a standing policy of encouraging free enterprise and tax-haven interest. Nationalization or expropriation is antithetical to these concepts. It is in the national and economic interest of host-country governments to refrain from self-defeating regulations.

The risk associated with nationalization and expropriation is only apparent in countries that impose high tax rates and burdensome regulations on their banks. Iran is such country, as is the U.S.

On a lesser scale, yet perhaps more apparent, is the possible enactment of restrictive or inhibiting legislation that directly affects private international bank operation. Once certain international tax havens mature economically or politically, they may become as ossified as tax-heavy countries. Switzerland and the Bahamas have gradually enacted such restrictive legislation – and, as a result, they have steadily become less attractive as tax havens.

Usually, such legislation results from short-sighted greed on the part of host governments – a tendency by entrenched bureaucrats to "kill the goose that lays the golden egg." However, it can also be the response of an indignant pressure as a result of the misuse or mismanagement of tax-haven privileges by the beneficiaries of those privileges. The black eye received by some nations that have recently been identified as playing host to financial swindlers, inside stock traders or money-laundering drug traffickers illustrates the latter point.

Possible Areas of Regulatory Legislation

There are five essential areas in which host countries can impose inhibiting legislation on private international bankers:

1. Increased taxation.
2. The adoption of financial status disclosure requirements regarding a bank's internal affairs.
3. The establishment of reserve requirements.
4. Requiring a substantial cash deposit with the host government in order to operate.
5. Removal of the protections against disclosure of the identities of bank customers.

How To Avoid Political Risks

Fortunately, there are a number of steps you can take to protect your private international bank against exposure to such risks:

1. Select an offshore jurisdiction with a long-standing policy of encouraging free enterprise and international banking. For example, the British Colonies have an unparalleled record for stability in this area, which makes many of the British territories ideal sites for private international banking operations.
2. When your bank accumulates large amounts of cash, keep that money invested rather than on deposit with international center commercial banks.
3. Establish a second private international bank in another jurisdiction as a contingency against possible inhibiting legislation in either location.
4. Stay informed of political, social and economic developments in the host country that could affect your bank. Pay particular attention to potential changes in tax or disclosure laws.
5. Support measures requiring the host government to maintain existing secrecy policies and continuously make recommendations to the government for improvement of its legislation.

BREACH OF PRIVACY RISKS

For international bankers, who rely in great part on privacy, the possible breach of confidentiality is an ever-present risk. This issue is addressed in detail in

Section Four of this Memorandum, but is mentioned here to underscore that privacy is a precious commodity. Spies, infiltrators and agents provocateur have been known to breach tax-haven privacy – often developing inside sources to tap confidential information, which can then be sold to the highest bidder. Such inside sources can range from top host-government banking officials to a single corrupt bank clerk. Equally damaging is the inadvertent breach of privacy that results from poor security, shoddy record keeping or a slip of the tongue in a casual conversation.

How To Avoid Breach of Privacy Risks

Most precautions in the privacy area involve common sense and sound blank management practices. However, there are a number of steps you can take to protect against both internal breaches and external or legislative intrusions.

1. Don't keep all the pertinent information regarding your private international bank and its customers in one place. It is important to develop methods of record keeping that will give you the financial information you need to operate your bank efficiently and profitably, while at the same time protecting the confidentiality of those operations.
2. Deal with resident agents and directors on a "need-to-know" basis. Provide only information relevant or pertinent to effecting a specific transaction. At the same time, pay all employees or agents enough to maintain loyalty.
3. Screen persons with access to secret or proprietary information for loyalty. Trust no one who has not been screened.
4. Use paper shredders when possible. This is a good way of eliminating useless or confusing financial records.
5. Constantly test and retest your security.
6. Do business in several international banking centers, thus diversifying your risk of disclosure.

TAX-RELATED RISKS

The character of tax-related risk in private international banking arises because formation of such a bank is, in large part, aimed at tax protection. The IRS is constantly attempting to inhibit tax benefits by asserting that private international banks are legally constituted financial institutions only to the degree that banking and financial services are made available to the members of the public unrelated to the bank's shareholder(s). In effect, the IRS has imposed on the private international banker the need to act as public trustee even while insisting that he has no such status. As such, the U.S. taxing agency will employ such tactics as allowing tax benefits for bank activities related to outside parties while disagreeing with your contention that the bank deserves those same tax benefits for operations conducted in its own interests. The IRS may also employ the threat of an audit in an attempt to force the bank owner to agree with its contentions, even though it is aware of prior cases wherein such private bank tax benefits have been upheld.

How To Avoid Tax-Related Risks

1. Stay abreast of constantly changing tax laws – both in the United States and in the international jurisdiction. When analyzing the relative benefits of various offshore financial centers, note the jurisdiction's record of integrity with regard to respecting the confidentiality of private international bank owners, their customers and their financial transactions. (Again, the British Colonies have a strong record in this area.)
2. Carefully analyze all financial transactions with a view toward eliminating tax liability. Structure your bank's financial philosophy and individual deals accordingly.
3. Observe the uses to which potentially inhibiting U.S. tax regulations are put by such major companies as Merrill Lynch, Dow Chemical and Pfizer. We stress looking at major U.S. "industrial" corporations involved in international banking rather than domestic banks with offshore operations because such companies are prohibited from conducting banking business inside the U.S. Thus, what applies for them in the conduct of their international banking business may, to the degree the situation of your international bank is similar to theirs, apply for you as well.

PRIVATE BANK RISK FACTORS ASSOCIATED WITH MUTUAL FUNDS

In Section 3, we talked about the opportunities generated by establishing an association between your private international bank and a mutual fund or money market fund. While the potential of such an association is great, there are also some special risks involved. For example, if you want to be an agent of a fund, you risk not finding a fund willing to take you on. This seems unlikely, given that the fund risks nothing and might make a great deal of money off your efforts. Still, it is possible. Also, you might not get a strong response to your ad or mailing campaign, making the entire enterprise impractical.

The risks of starting a fund are even greater. Start-up costs must be recouped. Investors might claim that there was mismanagement of assets, resulting in sticky litigation. Also, the marketing program might not be as effective as hoped. It is suggested that those considering starting their own money market fund will be well-versed in asset management and have expert legal counsel from the moment planning is begun. In fact, expert advice should always be sought when entering a new business. To the degree such risks are possible, it makes more sense to purchase cash-management services at wholesale and sell them to your private international bank customers at retail.

If you plan on using a fund as a way of raising capital and generating fees, you should be aware of several risk factors. Your marketing program could prove ineffective. Marketing is the most important element of success in this – or, indeed, any of these programs. There are no guarantees, and poor returns on marketing may make an entire operation unacceptable.

When selling an international money market fund, you also risk poor performance on the part of the fund. Though this may be beyond your control, you may be unable to provide a competitive rate of return. Riskier still is that the returns you expected from your relatively risky cash management account are not forthcoming. This could have a negative effect on the overall profitability of your program.

Still, despite the risks involved, money market funds offer such a high profit potential and would seem to have such a strong likelihood of success that they are certainly worth looking into. Offering a range of financial services, including mutual-fund and money-market investments that act as an economic hedge, is an important approach to assuring the success of your private international bank – which stands to benefit in many ways. First, capital can be attracted to the bank quickly. Next, the service produces revenues through management fees. It permits profits to be made through asset management. It also expands the bank's customer base and increases its marketing exposure. A valuable image of stability and reliability is created. Finally, if the money-market or mutual-fund venture is successful, it increases the resale value of your bank should you ever decide to sell.

INVESTMENT RISKS

Most profits for many private international banks will not come from extending credit. They will be generated from sound investments such as real estate and securities made with the bank's capital. Private international banks are not bound by the burdensome investment restrictions of the U.S. banking laws, giving them wide leeway to invest in a number of vehicles.

However, someone has to decide where the bank should invest. In most cases, this person is the investment adviser or shareholder. To preserve the benefits of doing business internationally, investment decision-making should usually be conducted internationally (but not always). Once the board of directors has made its investment decision, instructions are sent regarding how to deploy the bank's investment capital. From that point, the funds are disbursed and the investment made. If there is too much legwork connected with making an investment and the lapse of time may cause the bank to lose the opportunity or prevent it from getting the best price, the bank can delegate the power of investment to an intermediary, located in the U.S. This can be done without subjecting the bank to U.S. taxes. The intermediary instructs the bank's custodian of funds to proceed. The bank can rely solely on confirmation of the transaction for validity. At the board's next meeting, the actions of its delegate are ratified and approved.

OPERATIONAL RISKS – YOUR BANK MUST PROFIT AS A BANK

One of the more common misconceptions of would-be international bank owners is that once they have the bank organized and the charter in hand, all they need to do is take advantage of the tax loopholes they may encounter from time to time is to call themselves an international bank, fill in forms and wait for the tax preferences to start flowing in. The tax advantages, they reason, will be the source of their profits. Their personal wealth will increase because they are not going to be bothered by government rules. The bank will be, as it were, their private reserve.

To the extent such a scenario can be played out, it is true only in part. When an individual forms a domestic corporation, he may not do so simply to put himself in a favorable tax position. Rather, if questioned, the individual must be able to show compelling business reasons in addition to, or instead of, tax reasons that make formation of the corporation a smart move. Something of the same logic applies with respect to a private international bank. While a private international bank gets special tax favors because it is a bank, and not an individual or ordinary corporation, the label alone won't protect it from being taxed to the hilt.

For a private international bank to merit tax benefits it must function as a bank – and it must do so not just on behalf of its parent shareholder, but for unrelated third parties. At the very least, in this view, the private international bank would have to demonstrate its diligence in soliciting business from the public. It does this by being able to show that it has a policy of engaging in (permissible) marketing activities geared to this end, of accepting deposits, providing trust and/or insurance services to third parties and of functioning as an investor or trustee on behalf of its customers.

Private international bank income may not come about solely as a result of its tax-haven position. Rather, it must derive from the ordinary conduct of banking business. Profit, if any, may de facto rest on the tax credits and other benefits an international bank owner claims. Nevertheless, with respect to those benefits, the private international bank (or, more exactly, its owner) will be reviewed as to whether it has been acting as a bona fide banking institution. In a broad sense, the private international bank not only may, but must function as a special-category corporation so it can achieve for its owners the special finance and legal treatment it sought in the first place.

Now the good news. As a practical matter, given the secrecy laws in various international jurisdiction that protect the confidentiality of customers or owners, and given the record of host-country integrity in this regard, it would appear difficult for the IRS or other interested persons to break host-country law by asking who is or is not a member of a given private international bank's unrelated public.

Still, the concept as promulgated by the IRS is worth noting as a basis for potential tax exposure. Protecting a private international bank from unwarranted scrutiny in this connection emerges as a function of sound financial management.

RISK MANAGEMENT THROUGH SOUND BUSINESS PRACTICES

With the help of careful tax planning and the wise use of a qualified and experienced bank management company, your private international bank can both provide the public with third party financial services and claim tax benefits. If financial transactions, services, investment and the like must take place with the public, fiduciary responsibility is involved. Given that – and recognition of the fact that the typical private international banker may be inexperienced in the dynamics of bank management – under-capitalization must be regarded as an intrinsic risk of private international banking.

In the final analysis, financial mismanagement cannot be blamed on government, repressive taxation or the inability to protect privacy. It lies with the person or company controlling the bank.

International jurisdictions are "banking" on the integrity and legality of the international bank structure – not just to take in fees, but to increase their status as independently governed areas. Lacking the natural resources of the major countries, offshore financial centers have encouraged private enterprise to bring in capital and enhance their economies. The last thing a developing island nation wants is to be seen as a financial joke. Small reserve or paid-in capital requirements, then, are not merely a courteous gesture to attract American or British capital (though this is certainly part of it). The fees are a symbol of the international jurisdiction's integrity in the international arena and its legal oversight within its own borders.

It is quite true that there are no FDIC insurance fees to pay (because , as you learned in Section 3, no deposit insurance is needed when a well-managed bank operates in a free-market investment market) and no hefty bank reserve requirements that can erode a bank's paid-in capital position before it even begins its banking business. Still, there must be adequate funding for the business of banking to take place. This is a matter of sound financial management. Nothing in tax-haven law or custom protects a banker from an accusation of criminal liability or fraud if his private international bank cannot meet its ordinary obligations. For example, in order to make a loan, the bank has to have cash available to lend. And, in order to operate checking accounts, the bank must have enough capital to make sure checks drawn on it will be honored.

To diminish risks in this connection, the private international bank owner can avail himself of the various benefits of international banking set forth in the Profits Benefits Section of this Memorandum. To diminish risks to the assets of customers of the bank, the private international banker must monitor developments in U.S. tax law and watch the judicial history of American tax litigation.

When the bank uses money deposited for a short term and high yield, it must, on the whole, invest that principal in shorter-term, higher-yielding vehicles. This is essential to guarantee that there will be an interest spread as profit – and that the depositor's principal, plus accrued interest, will be available for redemption if requested. Part of the private international banker's marketing function is, of course, to persuade the depositor to withdraw accrued interest only, leaving the principal (and thus the bank's working capital) on account for another period. All of these activities are a function of sound business sense at its most basic – and this is why lack of financial judgment is a truly major pitfall.

A private international bank's capitalization might be called seed money in any other business. A standard capital reserve, unrelated to a legal reserve requirement, is an insurance policy against bank failure. Once depositors and borrowers appear, the bank can move into the realm of statistical probability – it is highly improbable that all bank customers will want to withdraw their money from the bank at the same time.

Two things happen if a private international bank fails because of lack of misuse of capital. The detrimental effect on the bank owner's reputation is obvious. More serious from the host country's point of view is that it may develop an unreliable financial reputation as well. The ultimate result of this situation could be a move by the host country toward enactment of restrictive banking, tax or reserve laws. In part, the misdirection of international bank funds in Bermuda led to that country's tougher attitude toward licensing or inexperienced international bankers whose primary purpose was the search for tax relief.

TURNING A RISK INTO A BENEFIT

An international bank may encounter problems for a number of different reasons. U.S. tax laws can change at virtually any time at the whim of the IRS or a tax court. Fortunately, American tax officials usually telegraph their moves far enough in advance that prudent planning before a regulation takes effect can offset its negative impact on an international bank or its owner. This is the approach taken by Merrill Lynch, discussed in the Tax Benefits Section of the Memorandum – and it can apply to virtually any offshore bank.

The greatest danger an international bank can face is the same as that faced by any bank – financial trouble. And, in virtually every case, this can be traced to ineffective management. Yet, unlike domestic banks, whose customers are protected by the FDIC in case of collapse, private international banks have considerable incentive to manage their affairs with great care. Capable management and financial flexibility not available to domestic banks can alter a risk situation and turn it into a positive benefit. Our friend Mr. Banker possesses just the kind of problem-solving skills that a private international banker can use.

Background:

One of Mr. Banker's depositors purchased an ICD from the Bank of Commerce Ltd. (BCL). Mr. Depositor has held the ICD, in the amount of $25,000, in the bank for two years. The terms of the CD state that BCL will pay 12 percent simple interest per year on CDs of $20,000 and more. Thus far, Mr. Depositor's CD has accumulated $6,000 in interest. He is planning to travel throughout the Orient, and he wants to travel in style. He therefore wants to redeem the CD, plus interest.

As luck would have it, Mr. Investor, another customer of BCL, has had a CD from the bank in the amount of $100,000. It had been in the bank for three years – and, at 12 percent simple annual interest, has accumulated $36,000 in simple interest. Mr. Investor is planning to convert some condos in Phoenix and wants to cash in his CD to help finance the construction. Both Mr. Investor and Mr. Depositor notify BCL on the same day of their intention to cash in their respective CD's.

Mr. Banker is faced with having to come up with $167,000, representing the face values of the CD's, plus interest. Unfortunately, Mr. Banker just concluded a real estate transaction on behalf of BCL that required earnest money of $250,000. While BCL has a good deal of cash on hand and many near-liquid assets, it does not have $167,000 in cash to pay out to its customers. The $250,000 is being held in escrow at a prime bank in Los Angeles. Because of the profit potential involved in the real estate deal, Mr. Banker had determined that it was worth the risk to deposit that much of BCL's cash on hand to an escrow account.

BCL faces a temporary risk because two customers holding high-yielding CD's want their money at the same time and Mr. Banker can't withdraw the cash from escrow. If BCL can't find the cash, it faces serious liability. Mr. Banker has relied on the law of statistical probability that customers would not want to demand cash at the same time – but, in this instance, a temporary cash-flow problem has arisen. BCL has a solid reputation in the international banking community. Mr. Banker knows that he can line up a short-term loan from a commercial bank to get BCL over the hump, but he wants the amount of the loan to be as low as possible. If he can, he would like to avoid paying out $167,000 in cash all at once.

Fortunately, Mr. Banker is not caught totally unaware. The terms of BCL's CD's specifically provide that a 15-day notice be given before a CD may be redeemed. From the time that Mr. Banker receives notice from Mr. Depositor and Mr. Investor until the day of redemption, he has time to act in a way that will best protect BCL.

He has several courses of action. First, he can try to persuade Mr. Depositor to redeem only the interest on his CD, and not the principal amount. He need not cash in the entire principal just to take advantage of the interest. If Mr. Depositor takes out his $6,000 in interest, he can "roll over" his CD in BCL for another term, and it can continue to accumulate 12 percent annual interest. This is a sales and negotiation job for Mr. Banker. If he succeeds, his cash position is improved by the amount of Mr. Depositors' principal. He can also persuade Mr. Investor to redeem only the interest on his CD, pointing out that it makes sense not to shoot the works in cash. Besides, in both cases, repatriating the asset will result in a heavy capital gains taxes for Mr. Depositor and Mr. Investor.

Based on Mr. Banker's advice, Mr. Depositor decides to redeem the interest only – figuring he can still have a nice trip to the Orient on $6,000. Mr. Investor, however, needs the full $136,000 now. Mr. Banker therefore suggests that Mr. Investor withdraw only the $36,000 in interest owing, retaining the $100,000 CD and also taking out a $100,000 loan from the bank. This will have the effect of creating interest expense to offset tax liability he may incur by repatriating the $30,000 in interest earned by the CD. Mr. Banker realizes that granting Mr. Investor a loan will also create interest income for BCL. Mr. Investor agrees.

Having reached a solution to his cash-flow problem, Mr. Banker arranges a $142,000 short-term loan for BCL from the commercial bank at bank-to-bank rates. He then pays Mr. Depositor his $6,000 in interest, pays Mr. Investor his $36,000 in interest, and loans Mr. Investor $100,000. He thus not only avoids having to reduce his cash position, but breaks virtually even on his costs since BCL receives a higher rate on the loan to Mr. Investor than it has to pay on its own loan from the commercial bank. And, even that break-even situation will turn into a profit once BCL's $250,000 comes out of escrow and is available to pay off the short-term commercial loan. In summary, this process has accomplished the following:

<u>For the bank:</u>

- Protected BCL's cash position in a risk-situation.
- Kept principal deposits in the hands of the bank.
- Saved the bank from financial liability.
- Given BCL a short-term break-even situation thanks to the spread between the rate on its $142,000 commercial loan and the interest it charges on the $100,000 loan to Mr. Investor.
- Given the bank a guaranteed longer-term profit once the commercial loan is paid off and BCL is left to collect the remaining interest of the $100,000 loan to Mr. Investor.
- And, most importantly, preserved the status and credibility of BCL in the eyes of its customers.

<u>For the customers:</u>

- Satisfied their immediate needs for cash.

- Allowed them to retain capital internationally.
- Used a loan to create a tax-benefit interest expense to offset tax liability on passive income.

For the parent shareholder:

- Enhances his standing as a financial adviser and negotiator.
- Turned a potential risk to the temporary cash-flow position into a positive benefit.

Mr. Banker would not have been able to protect the reputation of BCL had he not had excellent business-management and negotiating skills. If BCL, in its turn, had not had a sound financial record in the international community, it might not have qualified for a bank-to-bank loan on the short notice that Mr. Banker required. Mr. Banker's strong management sense and knowledge of tax liabilities vs. tax benefits made it possible for him to change the character of the situation entirely.

Finally, and perhaps most important from a pure business planning position, BCL was set up to handle just this kind of contingency. Its original CD agreements specified a 15-day notice for redemption and withdrawal. That meant Mr. Banker was shrewd enough in the all-important organizational phase of BCL to provide for some lead time in raising cash quickly in the unlikely event he would have to do so.

All of these factors are a function of good business practice – and sound business practices are the best protection against risk for any private international bank.