

No Liberty for Dollar Makers Feds Seize Assets Of Private Barter Currency Marketers

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Federal officials conducted a multi-state raid of Liberty Services Inc. in November, seizing Liberty Dollar tokens, bank accounts, computers and all of the bullion used to back the company's Liberty Dollar notes.

It was the government's latest attempt to bust what purports to be "the second-most popular currency in America" after the Federal Reserve Note.

A 35-page affidavit sworn out Nov. 9 by FBI Special Agent Andrew F. Romagnuolo accuses Liberty Services and its directors of mail fraud, wire fraud, money laundering and conspiracy to violate federal statutes prohibiting the possession and issuance of coins or tokens that imitate the designs and devices of lawful money.

Liberty Services, aka The Liberty Dollar or NORFED—National Organization to Repeal the Federal Reserve Act—has issued an estimated \$21 million in the alternative barter scrip and tokens since 1998 and has promoted their use in trade for goods and services.

Popular among niche collectors and "hard-money" advocates desirous of a bullion-backed, "inflation-proof" currency, Liberty Dollars derive their name from the crowned female head imitative of the Statue of Liberty that appears on most of the .999-fine silver \$10- and \$20-denominat-ed pieces and .9999-fine gold \$1,000 pieces.

In recent months, the company also started marketing "Ron Paul Dollars" bearing the likeness of U.S. Rep. Ron Paul, a 72-year-old Texas libertarian who is seeking the Republican nomination for president. The Paul campaign has disavowed any affiliation with the \$1 copper, \$20 silver and \$1,000 gold tokens, which proclaim "GOLD STANDARD IN LEADERSHIP" above the candidate's image.

In August, Liberty Services chief Bernard von NotHaus, the company's self-described "monetary architect," occupied a prominent spot on the bourse floor at the American Numismatic Association's 2007 Milwaukee convention and issued a special ANA commemorative \$20 piece.

Liberty Dollars exist in electronic, paper and token form. Certificates denominated at \$1, \$5, \$10 and \$20 represent warrants for portions of Liberty Services' bullion supply, stored in the Idaho warehouse of the private mint that manufactures the tokens, Sunshine Minting.

Sunshine is the primary supplier of silver blanks to the United States Mint for Silver Eagle bullion coins.

Liberty Services' bullion stock at the Sunshine plant in Coeur d'Alene, Idaho, was impounded during the Nov. 14 raid. Also seized were bank accounts and assets at Liberty Services headquarters in Evansville, Indiana, and at the Asheville, North Carolina, home of William Kevin Innes, one of three members of Liberty Services' executive committee.

MULTI-LEVEL MARKETING SCHEME

To hear Bernard von NotHaus tell it, the United States economy is going to hell in a handbasket, and he's got the solution to protect you against a federal monetary system that's based entirely on smoke and mirrors.

"Your money has already lost 96 percent of its purchasing power since the Federal Reserve was created in 1913. With the accelerating rate of depreciation and the alarming rate of deficit spending by the government, your U.S. dollar is going to lose more purchasing power," Von NotHaus states on the Liberty Services Web site, LibertyDollar.org. The site continued to operate in late November despite the confiscation of company computers.

"Just as FedEx brought competition to the Post Office and it became incredibly successful, the Liberty Dollar emulates the same model by offering an inflation-proof currency," Von NotHaus continues. "Liberty Dollars are backed by silver. You can use the face value on the front like cash, or redeem it for silver as specified on the back [of the certificate]."

"When you hold the Liberty Dollar, you own silver. When you give this real money to someone as payment, they now own silver. Pretty neat, huh?"

To hear the FBI tell it, Liberty Services, alias NORFED, is the biggest threat to the United States since al-Qai-da, and if the U.S. economy is going to hell, it's because of conspiratorial organizations such as this.

"As the organization's name implies, the goal of NORFED is to undermine the United States government's financial systems by the issuance of a nongovernmental competing currency for the purpose of repealing the Federal Reserve and the Internal Revenue Code," Romagnuolo's affidavit states.

The Justice Department tends to frown upon organizations that try to overturn laws through other-than-legislative means.

But the affidavit isn't about philosophy. It accuses Liberty Services officials of a plain, old-fashioned swindle, based on the reports of a confidential witness (an unidentified Liberty Services insider) and three undercover FBI operatives who infiltrated the company beginning in August 2005.

Romagnuolo's affidavit describes "a multi-level marketing scheme" that works like this:

Liberty Services (hereafter NORFED, per the affidavit) causes one-ounce silver rounds to be struck, bearing a particular face value. It also prints warehouse receipts or "silver certificates" backed by a stored silver supply.

When NORFED started in October 1998, the spot price for an ounce of silver was \$5 and the one-ounce tokens were denominated at \$10. (Stated differently, a \$10 "coin" had \$5 worth of metal in it.)

NORFED then invites people with a minimum net worth of \$50,000 to pay \$2,500 to become Regional Currency Officers (RCOs). RCOs can buy Liberty Dollars at a discounted rate: the spot price of silver plus a \$1.50 "fabrication and overhead" fee. So, if the spot price of silver is \$5, the RCO pays \$6.50.

RCOs help recruit the next level of investor, the Liberty Dollar Associate, who joins for \$250. Associates can buy Liberty Dollars at whatever rate is set by the RCO. Per the affidavit, NORFED recommends splitting the difference between the RCO rate and the face value of the token. So if the RCO is paying \$6.50 for a \$10 piece, the Associate pays \$8.25.

Associates then recruit Member Merchants, and again the rate is to be split: If the Associate is paying \$8.25, the Merchant might pay \$9.12 per silver piece (or per \$10 of scrip). Merchants are encouraged to accept the tokens and certificates in trade, and to give them out as change for Federal Reserve Notes.

The affidavit states that two undercover FBI employees "joined NORFED as Liberty Dollar Associates, and one received a check for \$100 in United States currency, known by NORFED as Federal Reserve Notes (FRNs), as a referral fee for the other."

"The use of bank accounts and negotiable instruments which convert to United States currency demonstrates NORFED's willingness to use and profit from United States currency which NORFED describes as worthless," the affidavit states.

What happens when the spot price of silver climbs? Profit margins at each level—except the top, with its fixed fabrication fee—shrink until they approach zero, at which time NORFED declares a "move-up."

This happened once since 1998, when the 30-day moving average price of silver reached \$7.50. At that point, three levels of participants—RCOs, Associates and Merchants—were splitting a profit of just \$1 per ounce (\$10 face minus \$7.50 spot minus \$1.50 fabrication fee).

So NORFED revalued the currency. Rounds that previously bore a face value of \$10 now were issued with a \$20 face. One-dollar warehouse receipts that formerly stated "1/10 OUNCE" on the back now stated "1/20 OUNCE."

(When the spot price of silver topped \$10, holders of the older \$10 tokens weren't hurt because they were now worth more than \$10: They were worth the spot price of silver.)

With the move-up, NORFED and its various levels of investors really started raking in the "worthless" Federal Reserve Notes.

At \$8 spot and a \$20 face, NORFED doubled its "fabrication" fee from \$1.50 to \$3, selling \$8 worth of silver to RCOs for \$11. Associates paid \$15.50, or half the difference between \$11 and \$20.

The move-ups "create a period referred to in [NORFED's] training material as a 'windfall,'" the affidavit states.

Whether by design or by coincidence, the Feds stepped in just in time to thwart the next scheduled move-up from \$20 to \$50, set to occur when the 45-day moving average price of silver hit \$16. "Windfalls" at the various levels would have totaled \$34 per ounce.

WRONG SIDE OF THE LAW

Stripped to its fundamentals, Liberty Services has devised a tactic for selling silver, gold and other metals at a substantial premium.

The company's unique distribution methods net it a bigger profit from each ounce of metal than a bullion dealer would make by selling a comparable amount of silver, or foreign or domestic bullion coin, outright.

And what's wrong with that? What's wrong with everyone in the Liberty Services food chain making a profit commensurate with his investment?

Well, forgetting for the moment that the scheme involves alleged violations of currency issuance statutes, Liberty Services' marketing materials claim its Liberty Dollars are "100-percent backed by gold and silver."

"This e-currency is absolutely unique," Von NotHaus declares on the Web. "No other money offers 100-percent silver backing."

The federal affidavit says that's false advertising.

"Even under NORFED's own auditing standards," the affidavit states, "the [Liberty Dollar] currency is not '100-percent backed by silver' as advertised. A one-troy-ounce coin of the [Liberty Dollar] currency is currently minted as a \$20 denomination coin. The actual value of the ounce of silver is also the daily spot price of silver. As of Nov. 8, 2007 [when the spot price was \$15.34]

(PHOTO CAPTION) A \$1 certificate" from 2004 shows a value of 1110 ounce of silver on deposit in an Idaho warehouse. The following year, NORFED devalued its \$1 currency to 1120 ounce. This warehouse receipt states that it expires after 20 years; that the bearer must pay costs of storing and insuring the silver after five years; and that additional fees may be charged upon redemption.

(PHOTO CAPTION) On the Liberty Dollar Web site (Liberty Services.org), company CEO Bernard van NotHaus describes the Liberty Dollar as the "simple and profitable solution to the coming inflation."

(INSERTS): So the U.S. greenback is inflation-proof, too? A marketing brochure avers that the Liberty Dollar is somehow "inflation proof" even though it "circulates one-to-one with Federal Reserve Notes." Federal prosecutors say the claim that it is "100% value backed with gold & silver" is false.

A standard \$20 piece from 2005, when the "inflation proof" Liberty Dollar was devalued from \$10 to \$20.