

Bitcoin Forum

Economy => Economics => Topic started by: wobber on December 28, 2010, 02:10:58 PM

Title: **Bitcoin Bank**

Post by: **wobber** on **December 28, 2010, 02:10:58 PM**

Did anyone think at this? How would a bank work? How could you loan bitcoins and get interest for them in an economy with just 21 milion BTC limit?

Title: **Re: Bitcoin Bank**

Post by: **davout** on **December 28, 2010, 02:27:18 PM**

Yes, a bitcoin bank would make money off of internal transfers transaction fees in my opinion, not on loans, future will tell :)

Title: **Re: Bitcoin Bank**

Post by: **nofuture** on **December 28, 2010, 02:30:10 PM**

Quote from: wobber on December 28, 2010, 02:10:58 PM

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Check out ripple.

Title: **Re: Bitcoin Bank**

Post by: **Cryptoman** on **December 28, 2010, 03:45:13 PM**

Quote from: wobber on December 28, 2010, 02:10:58 PM

Did anyone think at this? How would a bank work? How could you loan bitcoins and get interest for them in an economy with just 21 milion BTC limit?

Many people seem to be worried about losing their wallets, so I could see a bank as a trusted party to store bitcoins. They could also offer escrow services for people who wanted to enter into a transaction but did not trust each other. The beauty of starting a bank is that you don't need anyone's permission. ;D

Title: **Re: Bitcoin Bank**

Post by: **hugolp** on **December 28, 2010, 05:00:24 PM**

A bitcoin bank does not make sense. A financial market in bitcoin will be more like investment funds, where you lend your bitcoins and they invest them and receive interest on your investments.

Title: **Re: Bitcoin Bank**

Post by: **kiba** on **December 28, 2010, 05:02:27 PM**

Quote from: hugolp on December 28, 2010, 05:00:24 PM

A bitcoin bank does not make sense. A financial market in bitcoin will be more like investment funds, where you lend your bitcoins and they invest them and receive interest on your investments.

There will still be a need to loan emergency funds. The 1% interest rate will just be regarded as a very high interest rate. In return, the bank might keep some of your bitcoin stocks as collateral or something similar.

Title: **Re: Bitcoin Bank**

Post by: **ribuck** on **December 28, 2010, 06:12:00 PM**

I see people paying a small amount to a bitcoin bank in return for it guaranteeing to look after their coins safely. Something of 1% per year perhaps.

Earning interest by depositing your bitcoins in a bank is going to be unlikely while their value is rising and while there is not a big enough bitcoin economy for lending to be particularly profitable.

Title: **Re: Bitcoin Bank**

Post by: **jgarzik** on **December 28, 2010, 07:40:42 PM**

MyBitcoin.com is a de facto bitcoin bank. And it is clearly useful to many people.

Title: **Re: Bitcoin Bank**

Post by: **Sjalq** on **December 30, 2010, 12:47:45 AM**

Quote from: wobber on December 28, 2010, 02:10:58 PM

Did anyone think at this? How would a bank work? How could you loan bitcoins and get interest for them in an economy with just 21 milion BTC limit?

Banks do not lend out money, they create it from nothing and back it with loan contracts. The rest is simply semantics.

Private holders of BTC would lend out their own BTC at an interest they believe the borrower could pay. They would do this totally at their own risk, if the borrower could not pay, the lender would lose his money, a simple feature missing from the current system.

Someone might attempt to hold a set of BTCs and promise interest on those and loan them out or extend credit based on a separate accounting system that they control. (This is how gold became paper money btw) Since Bitcoin is basically an accounting and payment system that is already very convenient, I don't see why anyone would want to use an external service. This would also be very unstable and risky for the operator to do in the long run if they were extending significantly more BTC credit than they had reserves for.

Title: **Re: Bitcoin Bank**

Post by: **Hal** on **December 30, 2010, 01:38:40 AM**

Actually there is a very good reason for Bitcoin-backed banks to exist, issuing their own digital cash currency, redeemable for bitcoins. Bitcoin itself cannot scale to have every single financial transaction in the world be broadcast to everyone and included in the block chain. There needs to be a secondary level of payment systems which is lighter weight and more efficient. Likewise, the time needed for Bitcoin transactions to finalize will be impractical for medium to large value purchases.

Bitcoin backed banks will solve these problems. They can work like banks did before nationalization of currency. Different banks can have different policies, some more aggressive, some more conservative. Some would be fractional reserve while others may be 100% Bitcoin backed. Interest rates may vary. Cash from some banks may trade at a discount to that from others.

George Selgin has worked out the theory of competitive free banking in detail, and he argues that such a system would be stable, inflation resistant and self-regulating.

I believe this will be the ultimate fate of Bitcoin, to be the "high-powered money" that serves as a reserve currency for banks that issue their own digital cash. Most Bitcoin

transactions will occur between banks, to settle net transfers. Bitcoin transactions by private individuals will be as rare as... well, as Bitcoin based purchases are today.

Title: **Re: Bitcoin Bank**

Post by: **kiba** on **December 30, 2010, 02:30:19 AM**

Sir, why would my currency be anything other than bitcoin?

Mybitcoin is essentially like what you described, except it doesn't do the "own digital currency".

Title: **Re: Bitcoin Bank**

Post by: **MoonShadow** on **December 30, 2010, 02:44:52 AM**

Quote from: Hal on December 30, 2010, 01:38:40 AM

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It doesn't need to, as most daily transactions will be handled by sites similar to Mybitcoin.com. Everyone seems to follow this same learning curve.

Quote

There needs to be a secondary level of payment systems which is lighter weight and more efficient. Likewise, the time needed for Bitcoin transactions to finalize will be impractical for medium to large value purchases.

Are you serious? Have you ever bought a car from a dealer? How long did it take for your credit report to be checked and your car loan approved? Mine have always taken well over ten minutes, most about a half hour. Delays are not unusual for large ticket purchases. This is a non-issue.

Title: **Re: Bitcoin Bank**

Post by: **bitcool** on **December 30, 2010, 05:10:56 AM**

Quote from: Hal on December 30, 2010, 01:38:40 AM

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sounds like a fractional reserve system, one of the fiat money pitfall bitcoin claims it can avoid.

Title: **Re: Bitcoin Bank**

Post by: **bitcool** on **December 30, 2010, 05:11:59 AM**