# Financing Companies In Low Interest Rate Periods Using Royalty Compensated Bank Guarantees ©

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Taking advantage of currently low levels of bank loan interest has been a challenge to business owners, because banks have become increasingly averse to credit risk as a result of interest rate levels.

Therefore, an opportunity has been created for business owners to use relatively modest royalties as the payment to royalty investors who have the ability to provide collateralized bank guarantees that favor the business owner's company.

The reason that the percentage of revenues is lower than would otherwise be the case is that the investor continues to receive income and possible appreciation benefits in the pledged collateral for the bank loan, and the company will be larger and hopefully stronger upon repayment of the loan.

Of course, the guarantor must approve the terms of the loan being guaranteed as to interest rate, maturity and most importantly the company's assets, which the bank will also require as collateral for the loan. The bank will transfer these assets to the guarantor if the loan is called and the guarantee is activated. The bank will call upon the guarantee for whatever amount is still due on the loan before making any attempt to use or sell the assets pledged by the company.

Therefore, the royalty investor guaranteeing the royalty issuer's bank loan must be comfortable that the company's revenue growth potential will occur, even or perhaps because of a company reorganization, should that take place. The reorganization would likely require the use, if not outright ownership, of the assets the former loan guarantor holds. The royalty investor then will be able to negotiate either the sale or use of the necessary assets. Most likely the full cost of the guarantor's asset acquisition will be received and then, without having any capital risk, the modest royalty will be acceptable to all parties.

**The basic point is that a company can acquire a range of assets and services, including credit, credit substitution and capital, using a percentage of its revenues for an agreed period -- a royalty.**

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