

Helping churches and other local community organizations assist expanding local businesses using royalties[®]

Arthur Lipper

Would you believe that once upon a time there was a wealthy member of a church who wanted to help with more than just a single donation. The wise benefactor was addressing the issue of “easier versus better”. If the benefactor just wrote a check for a one-time donation that was easier, but if a process of helping local businesses expand, while assisting the church to a growing degree, over a longer period, could be developed that would be better.

Establishing a royalty income fund for the church seemed to be a really good idea. If a one-time donation was made the funds would likely just be used for the present administrative and other immediate needs of the church, whereas a royalty income fund would provide the church with growing income over a long period of time and help the community’s expanding businesses.

The manager of the church’s royalty income fund would be able to buy an agreed percentage of the revenue of the expanding business for an agreed amount and period. Royalties could only be bought from successful local companies, which needed the money for expansion. The royalty issuing companies would have already proven themselves to be successful as salvation was the business of the church and not the fund.

The terms of the royalty as negotiated by the fund manager and the business owner would be assisted by using the website calculator www.REXRoyalties.com and more information was available at www.Royalties.Website

The amount of royalty to be bought should probably not exceed 50% of the present revenues and the period probably be 20 years. However, the royalties should be redeemable on terms negotiated as a part of the deal. The intent of the fund manager should be to structure royalties so that if the business was successful in achieving at least conservative revenue projections an Internal Rate of Return (IRR) of more than 15% was achieved.

The fund could either reinvest the returns or pay them to the church. The manager should want to have a diversified portfolio of royalty issuer obligations and ideally not have more than 5% of the fund invested in any single business once the assets of the fund were fully deployed.

Of course, other donations to be used in the fund would be welcomed by the church as the larger the fund the more good it could do for both the local businesses, the community and the church.

It would be natural for members of the church to frequent and favor the businesses paying royalties to the church's fund.

We and other organizations would be pleased to train those appointed to manage royalty income funds and assist in their formation.

The bottom line is that a church administered royalty income fund would prove to be an excellent investment of effort as well as money due to the synergy of benefits created. The expanding business owners would be able to retain their ownership while having the funds to expand. They would employ more people, pay greater taxes and serve more people. The community always benefits when successful businesses expand. Finally, the church would have a continuing and growing flow of revenue.

As churches usually invest their excess funds in securities there should be no issue of the church managing a royalty income fund and therefore being "in business" as the royalty owner never has an ownership in a business or has the right to vote or influence managers of the business (as they can in the case of equity ownership).

Of course, a royalty income fund would have similar benefits for towns, communities, hospitals, institutions of learning and all groups seeking increasing income over longer periods while helping the royalty issuers.

It is win/win and all that is needed is an informed and visionary benefactor and a little bit of help from those of us understanding why royalties are the better way of both investing in and financing of privately owned companies.

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