**Stupidly Simple.**

**A common lower ground for global capital fixed income formation.**

**You can fix *either* the nominal interest rate or the real interest rate, but *not both*.**

*īNominal = ĩBusiness Risk + ĩExpected Inflation + ĩInflation Risk Premium + ĩRisk-Free Real*

So, *in fixing the nominal rate* (on the left-hand-side) the *risk-free real return* is used to fix the *nominal rate,* but the *realized real return* becomes a variable that changes as the realized inflation rate changes:

*ĩRealized Real = īNominal - ĩRealized Inflation*

RRM financing fixes the *real* (purchasing power) *interest rate* and the *real* payments. The *real interest rate* is set equal to the sum of two economic variables:

*īReal = ĩBusiness Risk + ĩRisk-Free Real*

Fixing the *real interest rate* makes the *realized nominal return* a variable that changes as the realized inflation rate changes:

*ĩRealized Nominal = īReal + ĩRealized Inflation*

The nominal rate is now a variable, but this does not create a floating rate loan.

The loan is still a fixed rate loan but *with fixed payments that are now fixed in purchasing power.* The fixed real payments are matched to the expected real income, reducing default risk and the business risk premium. Inflation risk is eliminated for everyone, except for possible effects of the agreed-upon adjustment period.

This economic principle follows from simple algebra and it is true regardless of whether you are a borrower or a lender, and it holds in the market-clearing and pricing process.

RRM *is not just* fixed real rate financing…. It is fixed real financing with three STABLE AND KNOWN interdependent components; namely, (1) the fixed real rate, (2) the fixed real payments, and (c) the fixed real amortization schedule. \* Does not have to be amortizing.

The RRM process calculates the nominal interest payments, nominal principal payments and remaining nominal balances that are required for purposes of financial reporting and the calculation of income tax liabilities.

*Researching for a simple/common lower ground global application, this change in basic assumptions (starting in real and calculating the equivalent nominal amounts) is what has my attention. A means to shift the efficient frontier to the right and upward. To increase the credit scores of all participants. To free up cash flow. To match known real payments to expected real incomes. I believe this method to be applicable to sovereigns, supra-nationals, political subdivisions, corporations, and individuals. My next post will be with a primer developed for some basic spreadsheets. I believe one will be able to build their own worksheets/tests from the information. Or if you would like a copy of what I work with, I will send it to you. These spreadsheets do not contain any hidden formulas or intellectual property.*

*Brian*

*www.realreturnmethodologies.com*