

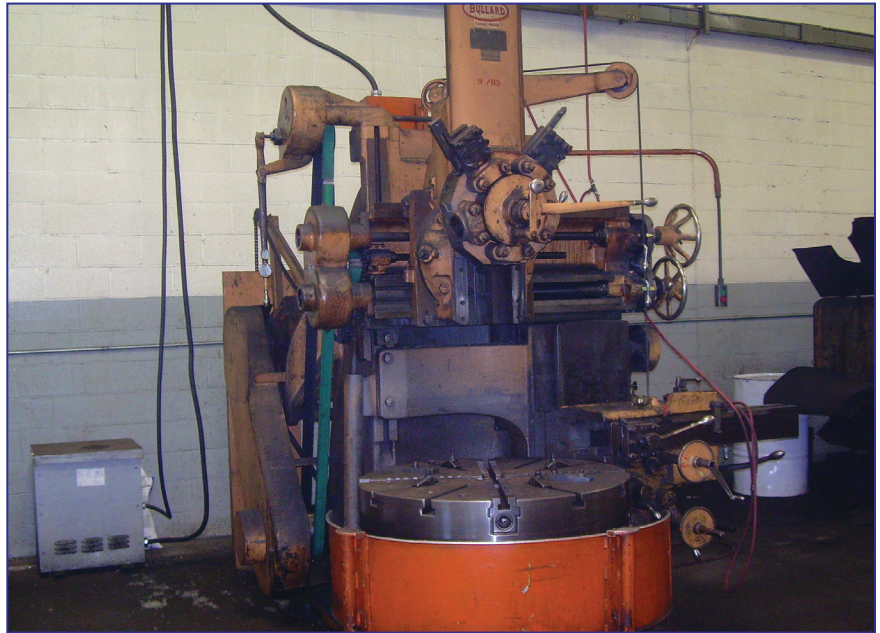
Help! My bank says I need an appraisal

By J. Brian O'Connell

Aside from buying junk food at the store, how often do you pay for something you don't think you need? At least you can pick your poison with junk food. This is not always the case when the bank tells you it is time for an appraisal. Oftentimes the lender chooses an appraiser from their "approved" list and engages them. Your input might be limited to paying the fee. The following guidelines are provided to make sure everyone involved has input throughout the process.

Why? You should have a clear understanding why your lender is requiring an appraisal. Is it a new relationship? A renewal? An annual review? Or have circumstances changed with respect to your borrowing needs? Has the market changed for the product you sell, or the equipment used to manufacture your goods? The answers can have an impact on who does the appraisal and the fee. Let's assume you are having an annual renewal and your credit needs have not changed. Your loan officer may be requesting a full appraisal when a desktop valuation will meet the bank's needs. Let's further assume that you have an insurance appraisal that is only a couple of years old. The insurance appraisal will not be acceptable to the bank. However, the appraisal firm that completed the insurance valuation may be qualified to perform a desktop valuation under a liquidation concept that meets the lender's needs and saves you a significant amount of money.

Who? Without exception, the appraiser should be accredited. One of the premier organizations for accreditation is the American Society of Appraisers. The senior designation is referred to as an ASA. If you are trying to use someone other than an appraiser on the bank's "approved" list, they will need a designation from a credible organization. The bank will try to insist that the appraiser must come from their list, but it is not uncommon to find appraisers who have similar if not better qualifications than the bank's recommendation. Recognize that it is impos-



sible for the bank to include every appraiser on their list. If you find a firm who you feel will protect your position and still meets the bank's standards you should negotiate for use of that firm. All the bank is looking for is an accurate valuation from a credible source. It is worth noting that you will have an uphill battle if you are trying to use an appraiser/equipment dealer who has recently sold you some equipment. From the lender's point of view, it would be difficult for the dealer to assign a liquidation value which reflects the appropriate discount from his sales price to you. The equipment dealer is too close to the transaction.

Inventory vs. equipment valuations: Generally speaking it is easier to find a qualified equipment appraiser than a qualified inventory appraiser. That is part of the reason equipment appraisals are less expensive than inventory valuations. Because of the abundance of research data available to machinery and equipment appraisers it is less time consuming to complete those valuations. Inventory valuations require more expertise and a thorough understanding of company systems and product movement

to arrive at a conclusion of value.

How much? This is usually the big motivator for business owners to get involved in the selection process. The first step is to determine if a "full" appraisal is necessary. Explore the possibilities of "desktop" or "walk-through" valuations. These alternatives can be significant cash savers. The next step is to make sure that you are not paying for a name. If you have a mid-size business you probably don't need an international appraisal firm. The overhead for these firms is passed along in the form of higher fees. Many times, lenders do not utilize a bidding process to secure a low fee for their customer. They simply call ABC firm and ask, "How much will it cost to appraise the equipment and/or inventory of my client?" If the lender is not willing to bid out the job, the business owner should offer to do it. Keep in mind who is paying for the appraisal. Bid the jobs to qualified firms both on and off the approved list.

Taking an active role in selecting your appraiser will minimize the chances of unwelcome surprises when the report is completed.



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