Joe Clar & Sons, Inc.
Machinery and Equipment Appraisers

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THE APPRAISER

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Machinery and Equipment Appraisers

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AMEA

Association Machinery and Equipment Appraisers

EAANM

Equipment Appraisers Association of North America

REGULATION RUMORED AFTER ANDERSON

Since the Arthur Anderson situation, there is focus on prevention measures to protect the public as well as the institutions from another ENRON event. The word around Washington from the OCC is to tighten up on financial portfolios.

Clyde D. Batavia

The greatest lesson being learned from Enron is that loan making decisions based on cash flow or receivables is not as risk free as once thought. Overnight the cash flow dried up, leaving nothing but the company's assets and receivables on which to grasp.

It is a known fact that the ability to convert receivables to cash has a very high percentage rate of failure, leaving the hard assets to recapture any loss.

The discovery by the regulators of not properly securing assets with a certified appraisal has been un-nerving. Understanding that it is much easier and less costly for the client not to have an asset appraisal is under investigation by the OCC. There may be a lack of fiduciary responsibility by the lenders, as well as an undue liability to shareholders and clients.

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THE MAKING OF AN APPRAISER

The question often arises, "How does one become an appraiser and expert witness?" It is not a profession that causes one to wake up one day and say, "I want to be an appraiser." Most individuals in this field transition into it from a business where they obtained individual knowledge of values through purchasing and selling equipment, machinery, and other items.

Joe Clar & Sons is a wealth of expertise in appraising. Our family business spans four generations with 82 years in existence and hands on experience.

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You Get What You Pay For

In these challenging economic times, everyone is concerned with where their dollars are being spent. This, without a doubt, puts pressure on loan officers who require their clients have a current appraisal.

When times are good and companies are busy, no one much minds the cost of appraisals. Times are different now!

I have seen in the last few months banks accepting appraisals from non-certified appraisers. Who is kidding who? There is only one reason this is happening, COST!

If the economy should turn downward, and the appraisal values are found incorrect, not only will there be explaining to do, but you will find it necessary for a certified appraiser to give you values for the liquidation.

Avoid being dollar wise and pound foolish! Make sure you and your client are getting a true appraisal. There is a reason quality **costs!**

Remember: You Get What You Pay For!

Appraisals: Desktop vs. On-Site

The question and decision quandary that often surfaces is which type of appraisal is needed.

It is a known fact that "Desktop" appraisals are less costly than "On-site." First of all a "desktop" is not an appraisal, but an educated **opinion** of value based on information provided by either the bank or the client. The appraiser will have no tangible knowledge regarding condition of the asset.

The "on-site" appraisal is exactly what it says—the appraiser goes on site to conduct the appraisal. This ensures that all items being appraised are accounted for and present. It also provides security as to condition and care of the assets.

I did an "on-site" appraisal some months back for a bank that had made loan for over $3 million. Upon conducting my appraisal, I discovered that 10 of the truck tractors were missing the engines. Needless to say, this did not make for a happy bank.

There are trade offs, and your appraiser can help you make the right decision based on your needs .

Regulation Rumored After Anderson…(Cont'd)

It appears that the regulators are going to ask for a complete portfolio to back up loans. It is becoming necessary to know what the orderly liquidation value of assets are, since hard assets are one thing that can be converted into cash to pay off a default.

The distaste, unfortunately, is that asset-base appraising costs significantly higher than most real estate appraisals. Yet, isn't it better to know exactly what your collateral is worth prior to making a loan than finding yourself explaining the short coming?

Many ask why banks and other lending institutions are not requiring certified appraisals to support the assets in the portfolios. Now that we have witnessed how quickly cash flow can disappear, there is pressure among the regulators to act before there is a problem.

Be prepared and take preventative action by placing more emphasis on fixed assets when making loans to protect yourself and the client.

Thinking Out of the Box

Recently I received an email from a good friend, and I passed it on to several other friends as I thought it of value. The amount of feedback surprised me. Perhaps it's the tough economic times we are experiencing, or maybe people are a bit more cynical since 9-11. Either way, here is a little food for thought:

Picture yourself driving along in your car on a wild, stormy night. You pass by a bus stop, and you see three people waiting for the bus:

1. An old woman who looks as if she is about to die.
2. An old friend who once saved your life.
3. The perfect man (or woman) you have been dreaming about.

Which one would you choose to offer a ride to, knowing that there could only be <u>one</u> passenger in your car?

THINK BEFORE CONTINUING TO READ FURTHER

You could pick up the older woman, because she is going to die and thus you should save her first; or you could take the old friend because he once saved your life, and this would be the perfect chance to pay him back. However, you may never be able to find your perfect dream lover again…

The candidate who was hired out of 200 applicants had no trouble coming up with his answer. He replied, " I would give the car keys to my old friend, and let him take the older woman to the hospital. I would stay behind and wait for the bus with the woman of my dreams." Indeed, it's time to "Think outside of the box."

Lately I have been hearing from the banking community on how tough it is to get new loans through. Those at the top are now cleaning up troubled loans and are not real hungry for new loans. This seems to be universal across the country. In fact, about the only new loans being made are in real estate.

The economy has again changed and the recovery may be far longer than expected. We have interest rates that have not been this low since the late 40's, and we're not the great industrial nation we once were! I viewed on the internet our government's statement that manufacturing capacity was at 75.1%, up from 74.8% the month before. Yet unemployment is on the rise. Businesses are still cutting jobs, and we have no way to tell if the increase in manufacturing capacity has anything to do with competitors closing their companies, thus increasing the capacity usage for those still in operation.

To overcome these negative factors, it's important to think outside of the box. Look to ways of writing new loans and protecting the portfolios. I see an area that is not utilized to its fullest extent. One thing remains <u>fact</u>: a company's assets are real and tangible. Those assets are easy to attach and liquidate, and the greatest tool bankers have to protect and secure their loans are good certified appraisals.

Unfortunately, due to the cost of appraisals, many bankers shy away from going this route, yet this is one of the most secure and risk-free collaterals a bank could possibly have in its portfolio.

It is time for the banking community to get bullish on "asset base loans." There is no reason to change your thinking if you have reputable certified appraisers doing the appraisals. Assets in my view are much more secure than receivables or cash flow. If for some reason the loan goes south, at least you know what you will be able to recover based on the value of the assets.

- Clyde D. Batavia, Publisher

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We now handle Nevada, Idaho, Utah, Oregon, Arizona and northern California from our regional location:

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The Making of an Appraiser (Cont'd)

Joe Clar & Sons started in 1920 in the scrap metal business, and in 1944 moved into purchasing and selling secondary equipment and machinery. Several years later the business expanded into the sale of new equipment.

As the years rolled on, lending institutions became more interested in the equipment and machinery market as a lending source. The need for values became necessary to support loans.

Mark Clar

In the early years there were no guidelines, rules, or associations for equipment appraisers. Financial institutions depended on companies in the business of purchasing and selling for appraised values. The need of banks and finance companies encouraged us into the business of "appraisals." Along with doing appraisals, it was natural to become an expert witness for attorneys and the court system. California being a litigious state, we honed our skills as experts in no time at all.

Without knowing where it would lead our company, Clyde Batavia got involved in the MDNA (Machinery Dealers National Association) and eventually served as its President. Along his ascent to the presidency he spent considerable time in Washington, D.C. MDNA has always been a source of information and reports for several government agencies, including the U.S. Treasury, Federal Reserve, State Department, and OSHA. During Mr. Batavia's time in Washington, he co-authored a paper on machinery depreciation for the Federal Reserve, met with the Assistant Secretary of the Treasury several times, held meetings with the State Department and the head of OSHA, attended meetings of the Small Business Legislative Council, and met with our previous President Bush at the White House on product liability legislation. This kind of experience is priceless in the appraisal business.

Watching the manufacturing base in the U.S. slowly disappearing, we felt it was time to evaluate where our industry was going and where we wanted to be. Realizing the growing requests for appraisals and expertise work, we made a decision to put our efforts into the appraisal business full-time. Our realm of appraisals has taken us from one end of the country to the other assessing aggregate, mining, aircraft, printing, foundry, surveying, metalworking, and food & chemical processing machinery & equipment.

The ability to constantly gather data and learn from experiences in purchasing and selling, then apply what is known in assessing values to assets, is "how an appraiser is made."