Industry Canada Industrie Canada

Bulletin

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Appraisal

(Reference: CSBF Guidelines, Section A, Item 5.3)

The Administration received a number of enquiries on the appraisal requirements such as: when is an appraisal needed, who can make an appraisal, and what type of appraisal is required.

When is an appraisal needed? It is always needed when the CSBF loan finances the purchase of an operating business (going concern), for example, the purchase of a corner store. The following are also deemed purchases of a going concern:

1) a franchisor operates a new franchise to start it up and determine sales;
2) a franchisor sells a "company" store;
3) a franchisee sells its franchise business to a new franchisee who is at arms length.

An appraisal is also required when the borrower purchases assets or services from a person who is not at arm's length, and when the borrower purchases the financed assets from the lender.

Who can perform an appraisal? The appraiser must be impartial and at arm's length with the borrower and also with the lender if the lender is selling the financed asset. In the case of franchises, the link between the franchisor and the franchisee - their contractual agreement, their respective powers over one another - lessens the objectivity normally expected in arm's length transactions.

The appraiser should also be a member of a professional association (e.g., appraisal for realty). If there is no professional association regulating the industry (e.g., equipment), the lender should resort to a qualified source, such as a supplier of similar equipment, an auctioneer or an expert in the field.

What type of appraisal is needed? The appraisal must reflect the fair market value, i.e., the price expected to be received by a willing seller from a willing buyer on the open market. Installation cost can be included in the appraised value.

Registration Form

(IC 664e (1999/03) lines 11 & 12)

Many registration forms have been returned to lenders without being processed because of errors in lines 11 (type of project being financed and 12 (number of years in business).

In line 11, the lender must determine the type of project being financed. The following will provide a clarification of terms used on the form:

Start-up: refers to the establishment of a new business. This excludes the purchase of a business already in operation. If you check off this box, do not check off any boxes in 11 a) or indicate a percentage in 11 b). Go to line 12 and check off the box **New**.

Expansion/Improvement: refers to an expansion or modernization project of an existing business owned by the borrower. If you check off this box do not check off any boxes in 11 a) or indicate a percentage in 11 b). Go to line 12 and check off the boxes **1 to 3 years** or **more than 3 years.** If the borrower purchased the business within the year, check off the box **1 to 3 years**.

Purchase of assets of a going concern: refers to a change in ownership, i.e., the purchase of an existing business in operation. All loans which include the purchase of an existing business <u>as well as</u> the expansion or improvement belong to this category. For the definition of a "going concern", please refer to the instructions provided with the registration form. If you check off "Purchase of assets of a going concern", you must check off the appropriate box in a) and, if required, indicate in box b) the portion of the loan to be used for expansion or improvement of the business. In line 12, check off the box **New.**

We invite you to send us your comments and suggestions to help make this bulletin a simple and informative document that meets your needs.

Small Business Loans Administration

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