

## Collateral Considerations

Type of Collateral	Questions to Consider
<p><b>Residential/commercial real estate</b></p> <p><i>Reasonable liquidation value =</i></p> <p><i>60-70% of value</i></p>	<ul style="list-style-type: none"> <li>• Who owns the property?</li> <li>• Would losing this property have a significant effect on the borrower (psychological value of property)?</li> <li>• Are property values in the district increasing or declining?</li> <li>• What is the condition of the property? Has the property recently been renovated?</li> </ul>
<p><b>Equipment</b></p> <p><i>Reasonable liquidation value =</i></p> <p><i>40-50% of value</i></p>	<ul style="list-style-type: none"> <li>• Who legally owns the equipment?</li> <li>• How old is it? Is it in good condition?</li> <li>• Would there be a market for the equipment if the financial institution had to sell it? (Typically, the more specialized the equipment, the more difficult it is to find a buyer.)</li> <li>• How important is the equipment to the borrower's operations (psychological value of property)? Is it integral to the borrower's operations or a piece of equipment that is no longer used?</li> <li>• How difficult is it for the equipment to be moved?</li> </ul>
<p><b>Vehicles</b></p> <p><i>Reasonable liquidation value =</i></p> <p><i>30-40% of value</i></p>	<ul style="list-style-type: none"> <li>• Who legally owns the vehicle?</li> <li>• How old is it? Is it in good condition?</li> <li>• How important is the equipment to the borrower's operations (psychological value of property)?</li> <li>• Can/should the vehicle be locked during the term of the loan?</li> <li>• Will there be insurance for the vehicle if the borrower will continue to use it?</li> </ul>
<p><b>Inventory</b></p> <p><i>Reasonable liquidation value =</i></p> <p><i>0-10% of value — raw materials and work in progress</i></p> <p><i>50-60% of value — finished products</i></p>	<ul style="list-style-type: none"> <li>• What is the average level of inventory that the business typically maintains?</li> <li>• How important is the inventory to the borrower's operations (psychological value)? Is this inventory that the borrower doesn't expect to sell?</li> <li>• Should the inventory be locked?</li> <li>• What is the shelf life of the inventory? Is there a risk of obsolescence during loan term?</li> <li>• How difficult would it be for the financial institution to sell this inventory?</li> </ul>
<p><b>Accounts Receivables</b></p> <p><i>Reasonable liquidation value =</i></p> <p><i>50-60% of value</i></p>	<ul style="list-style-type: none"> <li>• Used only for borrowers with stable sales, credit functions and borrowers.</li> <li>• How difficult would it be for the financial institution to collect these receivables?</li> </ul>