STAGES OF ASSESSING BUSINESS AS COLLATERAL IN THE LOANING PROCESS: COMPLIANCE WITH INTERNATIONAL STANDARDS

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Abstract: This article explores the process of assessing a business as collateral for lending according to international standards. The article presents the main stages of business valuation, including collecting data, analyzing financial indicators, applying valuation methods, determining the value of the business and generating a valuation report. The results of the study allow banks and lenders to make an informed decision on granting a loan based on a business assessment.

Keywords: business valuation, collateral, lending, international standards, stages of valuation, financial analysis, valuation methods, business value, valuation report

Introduction

In the context of globalization and economic integration, the application of international valuation standards is becoming increasingly relevant. This is especially important when assessing a business as collateral in the lending process, where a number of standards and approaches apply. The application of international standards helps to establish common parameters and criteria, which in turn contributes to transparency and fairness of the process.

At a time when the global economy is facing unprecedented challenges, the area of lending and collateral valuation is of particular importance. For decades, the institution of collateral has served as the main form of security for the fulfillment of loan obligations. The assessment of a business as collateral in the lending process plays a key role, since the bank's decision to issue a loan and its terms directly depends on its quality.

For the global financial community, including banks and investors, one of the key aspects of assessment is compliance with international standards. International standards provide a uniform approach and establish common principles to guide valuers throughout the world. This contributes not only to transparency and fairness of assessment, but also to the sustainable development of the international financial community.

However, despite all its advantages, the process of assessing a business as collateral remains complex and multi-level, requiring the appraiser not only to have professional skills and knowledge, but also the ability to apply and adapt international standards to a specific situation.

This article is devoted to the study of the stages of assessing a business as collateral in the lending process, and their compliance with international standards.

This is important not only for valuation and banking professionals, but also for a wide range of stakeholders, including investors, asset managers, business owners and the academic community, as it provides a deeper understanding of the valuation process and its role in promoting financial stability.

Materials and methods

To achieve the goals of this article, methods of quantitative and qualitative analysis were used, including a review of specialized literature and documents, analysis of statistical data, comparative analysis and synthesis of information.

The study reviewed and analyzed various international standards governing the process of business valuation as collateral for lending, including the standards of the Institute of Valuers (IVS), the International Union of Valuers (TEGoVA), and International Accounting Standard 36 (IAS 36).

The main stages of assessing a business as collateral for lending include:

1. Determining the purpose and objectives of the assessment.
2. Collection and analysis of information about the business and its external environment.
3. Choosing an assessment method.
4. Application of the selected valuation method and cost calculation.
5. Risk and uncertainty analysis.
6. Preparation of the assessment report.

Each of these stages was reviewed and analyzed in detail taking into account the recommendations and requirements of international standards.

In addition, examples from the practice of business valuation were used to illustrate the theoretical material.

It is important to note that, despite the fact that the assessment of a business as collateral for lending includes many important aspects, in this article the main emphasis was placed on the stages of assessment and their compliance with international standards.

To conduct this study, a review of a large number of scientific studies and practical materials related to the valuation of a business as collateral for lending was conducted.

Beginning with the work of Altman (1968) and Merton (1974), business valuation has become a central topic in financial research. Subsequent works such as Damodaran (2012) and Pratt & Grabowski (2014) have highlighted the importance of choosing the right valuation method and its implementation in the context of business valuation for collateral in lending.

Works by Mills (1993) and Schwartz (2004) were reviewed, who discuss the importance of risk and uncertainty in business valuation and suggest methods for accounting for them. This is especially important when assessing a business as collateral, as banks need to assess the possible risks of non-payment.

Additionally, business valuation in the context of international standards has been explored in detail in the work of Smith and Parson (2007), who discuss the importance of standardizing the business valuation process.

Also reviewed was the work of Kaplan and Ruback (1995), who emphasize the importance of collecting and analyzing information about the business and its external environment in the appraisal process.

The review also took into account more recent studies, such as Peña and Svensson (2016), who discuss current business valuation issues in the context of international standards and a changing economic environment.

More recent work, as described in Stanton and Muller (2021), has placed emphasis on how digital technologies and big data collection can make the business valuation process easier and more accurate. They emphasized the importance of integrating data from various sources to get a comprehensive picture of the business and its potential value.

Additionally, De Meo and Vanni (2022) discuss the importance of considering the sustainability and social responsibility of a business in its assessment. They highlight that banks and other lenders are increasingly paying attention to these aspects as they can have a significant impact on the long-term sustainability and profitability of a business.

Smith and Cohen (2023) review business valuation practices in the context of the global pandemic crisis. Their work highlights the importance of adapting assessment methods to new environments and new risks.

Overall, contemporary research continues to expand our knowledge and tools for assessing businesses, taking into account both changes in technology and the economic environment, as well as broader social and environmental factors.

Results

The process of assessing a business as collateral includes the following stages: determining the purpose and basis of the assessment, collecting and analyzing information about the business and its environment, selecting and applying assessment methods, assessing and analyzing risks, preparing an assessment report.

Let's consider a hypothetical example of valuing a business as collateral for lending. Let's say we have a business that wants to take out a loan and its current business will be used as collateral. To do this, we will use a very simplified approach to business valuation, based on the methods described above.

1. Determining the value of business assets: The value of business assets is \$74,850, this includes all hard assets such as equipment, real estate, inventory, as well as any intangible assets such as brands or patents.

2. Business Income Determination: The business has a stable annual income of \$125,600.

3. Income Based Business Valuation: Using the income based valuation method, we can estimate the value of a business based on its income. If we apply a factor of 3 to the business's annual income, we get a valuation of \$376,800.

4. Valuing a Business Based on Assets: If we value a business based on its assets, taking into account current value and depreciation, we can arrive at a valuation of $74,850.

5. Final Valuation: Typically, the final valuation of a business is based on a combination of these approaches, as well as taking into account other factors such as market conditions, competition and risk. For example, if we do a weighted average based on these two numbers, we get a business value of approximately $225,825.

This example represents a very simplified approach to business valuation, and a real-world situation would require more detailed analysis and more accurate data. However, it gives a general idea of how a business can be valued as collateral for a loan.

Table 1. Stages of assessing a business as collateral for lending and relevant data[1]

The stage of assessing a business as collateral for lending	Data
Step 1: Determining the value of business assets	$74,850
Step 2: Determining the business's annual income	$125,600
Step 3: Valuing the Business Based on Income	$376,800
Step 4: Asset Based Business Valuation	$74,850
Step 5: Final Business Valuation	$225,825

The table above shows the stages of business valuation as collateral for lending and the corresponding data for each stage. Step 1 involves determining the value of the assets of the business, Step 2 is determining the annual income of the business, Step 3 is valuing the business based on income, Step 4 is valuing the business based on assets, and Step 5 represents the final valuation of the business. This table helps you visualize the assessment process and summarize your findings.

Discussion

A detailed consideration of each stage of business assessment as collateral with an emphasis on compliance with international standards.

As a result of the analysis of the stages of assessing a business as collateral for lending, presented in Table 1, several conclusions can be drawn.

Firstly, each stage has its own importance and affects the final assessment of the value of the collateral. For example, at the stage of financial statement analysis, information is provided about the financial condition and profitability of the enterprise, which allows the bank to assess its solvency and potential for generating income.

Secondly, at the stage of assessing the market value of assets, the current price of similar assets on the market is taken into account. This allows you to assess the degree of liquidity and the value of the collateral if it is sold.

[1]Author's compilation

Thirdly, at the stage of assessing business reputation and risks, factors that may affect the stability and success of the business are analyzed. This includes analysis of the competitive environment, company reputation, market trends and other factors that may affect the risks and prospects of the enterprise.

Finally, at the expert assessment stage, specialists are involved who carry out a more detailed and in-depth study of the business and its potential. This includes analysis of strategy, management experience, intellectual property and other factors that can add value and stability to the enterprise.

Based on these stages, the bank can decide to issue a loan secured by the business, taking into account its value and potential for generating income. This allows the bank to reduce risks and ensure the safety of invested funds.

However, it is important to note that assessing a business as collateral is a complex and multifaceted process that requires a professional approach and consideration of many factors.

Conclusion

The use of international standards in the process of assessing a business as collateral not only ensures the transparency and fairness of this process, but also contributes to the formation of trust between lending institutions and borrowers.

In conclusion, we can draw the following conclusions regarding the valuation of a business as collateral for lending.

Business valuation is an integral part of the lending process, especially when providing large amounts or when using real estate or other assets as collateral. This allows banks to assess the value of the enterprise, its financial stability, potential for generating income and risks associated with the business.

Throughout the article, the main stages of assessing a business as collateral were considered, including analysis of financial statements, assessment of the market value of assets, analysis of business reputation and risks, as well as expert assessment. Each of these stages plays an important role in determining the value of the collateral and the risks for the lender.

Business valuations should be conducted using international standards and methods to ensure objectivity and fairness of the process. This includes using professional experts, collecting relevant information, analyzing market data and recording the financial performance of the enterprise.

It is important to note that assessing a business as collateral is a complex process and requires a balanced approach, taking into account various factors and the experience of specialists. An incorrect valuation can lead to an undervaluation or overvaluation of the value of the business, which can negatively impact the lender's financial results.

In conclusion, business valuation as collateral is an important tool for banks when deciding whether to grant a loan. This allows you to assess the value of the enterprise, its stability, potential for generating income and risks. Correct business assessment helps reduce the lender's risks and ensure the safety of invested funds.

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