



The Art of Art Finance

Viola Raikhel-Bolot

Co-founder and Managing Director, 1858 Limited Art Advisory
27th Jun 2012



In these current times, art can be a good means of raising finance but go in with your eyes open.

Fueled by the lack of credit, art finance is becoming an increasingly sought after route for individuals to convert their art assets into cash. The growth demonstrated in the art market over the last decade has perpetuated art to be viewed as a viable asset class and hence the growth of a new type of finance, art finance.

The art lending, or art finance market as it is commonly referred to, is estimated to be worth around \$7 billion. As an organization, 1858 Ltd Art Advisory over the last 5 years has surveyed the market on behalf of its clients whom call upon us to assist them in arranging finance against their art assets.

The market is made up of private banks, institutional lenders and individual investors; each has specific criteria and varying fees that will not suit every borrower. For example, certain lenders will require assets under management whilst others will solely lend against the art. The relative interest rates also vary considerably, we have

come across lenders offering loans above 2% per month of the value of the loan (whom we tend not to work with and have been described by some as more of a high end pawn shop than a credible lender) while other lenders whom we favor for our clients will lend from 5% per year and do not require additional funds under management therefore it is a pure art backed loan. Most lenders will require a personal guarantee and in our experience, it is more straightforward to arrange loans where the art is personally owned by the collector rather than via an entity.

Clients should also be aware of the terms of the loan, most lenders will require the art work to be stored in a third party secure storage facility for the duration of the loan whilst others will allow the art work to be enjoyed and remain at the clients home, subject to the appropriate insurance coverage being in place.

The duration of the loan also plays a part in identifying a suitable lender. Whilst we work with lenders who offer loans from 1 to 15 years, it is also possible to obtain a loan for a shorter period of time but one should look closely at assessing if the cost of obtaining such a loan is the most economically viable way.

Borrowers should also be aware that lenders can charge arrangement fees and these must be considered as part of the overall cost of obtaining finance. In addition to this other fees include valuation, insurance and legal costs. Most of the fees can be rolled up into the advance or deducted from the advance, but interest usually is not rolled into the advance.

Managing Director of 1858 Ltd Art Advisory, Harvey Mendelson, helps HNW and UHNW clients obtain art finance says: "Clients are looking to borrow against art for a number of reasons, increasingly it is to raise liquidity for



property purposes, take advantage of investment opportunities and for acquiring works of art. By borrowing against art, clients do not have to pay the capital gains tax payable when selling and they can continue to enjoy the art they own whilst extracting liquidity. We have gradually witnessed an evolution in the art finance market and whilst lenders of last resort exist in all sectors, there are now more sensible lenders operating in the art market. Our role in the market is to help clients assess the viability of their collection to attract a loan, we then obtain a loan offer for our clients to decide if they wish to proceed."

If you are looking to consider borrowing against your art collection, make sure you receive advice and are aware of the pitfalls and benefits of obtaining finance against your cherished possessions.

Editor's note: to contact Viola, please call +44 207 590 3112, email: contact@1858ltd.com or visit the site at www.1858ltd.com