# The Art Market Adjusts: Banks loan consideration in times of market dips

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**CATEGORY:**
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We are witnessing major economic disruption internationally, with stock markets showing historic declines as investors react. Individuals are assessing risks and opportunities and may seek to increase liquidity to better position themselves in these volatile times. For those with unencumbered art, an art loan may provide that additional liquidity. On the flip side, it is important for those with existing art loans to take a closer look at the terms of their agreements. Terms relating to the timing of appraisals and events of default are of particular importance.

My colleague, Patricia Lee, addresses these bank loan liquidity opportunities and current art loan challenges in a discussion with Freya Stewart, CEO Art Finance and Group General Counsel of The Fine Art Group.

Diana Wierbicki
Global Head of Art Law

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**Patricia: Freya, you were featured in the March 16th Bloomberg article *Rich People Are Raising Cash From Their Art Collections,* as saying you are having a busy first quarter and that the last two weeks have seen an approximate two-fold increase in inquiries. What makes art loans an attractive option currently?**

**Freya:** As you say Patricia, we have seen a significant increase in requests in recent weeks, from both collectors and galleries, looking to monetize their art assets right now. A true real asset art loan (meaning a loan secured solely by art, without extensive borrower financial assets/liquidity tests) is very attractive for owners of high value art (and jewelry) because it's a very straightforward way of releasing capital in short order, at a time where access to fast liquidity is so valuable for many people.

We are funding margin calls, and providing capital buffers for clients who just want to know they have the liquidity should they need it in the coming weeks and months. Collectors who are buying art right now (and private sales are still occurring) are also keen not to tie-up so much of their own capital in acquisitions currently – so again some purchasing financing support makes good sense.

A loan secured by art only also doesn't interfere with any other financing arrangements and credit facilities that collectors may have in place.

**Patricia: What are the challenges you see as a lender in this unprecedented climate? Are you being more conservative with the works you are lending against right now?**

**Freya:** As a Lender we are of course reviewing our portfolio of loans, and assessing new loans very carefully. We have always been a prudent lender, only lending against works that our in-house team of art specialists know will hold value and have a robust secondary market for the duration of the loan. Looking back at how the art market responded to the most recent significant market disruption – the 2008/09 credit crisis – it was generally overheated Contemporary artists that did not fare so well, while the remainder of the market recovered remarkably quickly, within 12 months. We do not lend against such artists in any event, but there are a few Contemporary artists in our portfolio that we will not take further exposure to.

For new loans right now, we are also considering lending at 40% Loan-to-Value, rather than our usual 50% LTV.

For lenders who do not have very deep domain expertise, this environment will be challenging.

**Patricia: Given all of the restrictions on nonessential businesses and on travel, are there any logistical challenges that you see arising?**

**Freya:** Yes, I'm afraid the logistical challenges for us and our clients are increasing daily, but hopefully this will only be for a relatively short period. The real issue is access to storage facilities (either to inspect artworks already in the facilities or receive work into the facility). Viewings are generally possible on a longer lead time, but shipping is also very restricted currently. Today, most of the London fine art storage facilities largely closed their doors until further notice. Luckily, we had just moved some new collateral for a loan we are funding next week in time yesterday. At the time of writing, Swiss facilities appear to be open. Thankfully we have a dedicated, professional Registrar who handles all of this for us and our clients.

**Patricia: In the current environment, what do you see as the key distinctions between boutique fine art lenders such as yourself and the major banks and financial institutions who also offer art loans?**

**Freya:** I think the key distinction here is that we are still very much looking to lend to collectors and galleries – art financing is a core business for The Fine Art Group and we have a comprehensive understanding of both the art market and the art that we are lending against because art is our sole business. Traditional banks, for which art financing is not their core business, may have a more difficult time assessing art loan risks in this challenging environment.

Also, since we do not assess clients' assets under management or portfolio values as part of our loans, our borrowers are not susceptible to the same type of capital calls and revaluations that may occur with if their art loans are considered as part of a wider banking relationship, which can be the case for some other banks.

**Patricia: What do you see are the steps that borrowers under current art loans should be taking? Should they be considering whether the lenders will request reappraisals of their art and consider adding collateral?**

**Freya:** Borrowers should certainly expect to be receiving calls from their lenders, so that lenders can understand how the current situation is impacting them (in the short and longer-term, to the extent possible). Depending on the terms of their loan agreements, some lenders may be revaluing now; others who have valued prudently may be comfortable taking a longer-term view. In some circumstances, for example if you were looking to extend your loan right now, borrowers should definitely be prepared to deliver more collateral.

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