

## YOUR ART COLLECTION AS LOAN COLLATERAL

Use the art you own to borrow the funds you need—all without a single work leaving your walls

By John Arena

*Fine art is a powerful financial asset that may be considered as part of your overall wealth management strategy such as using your collection as collateral to gain liquidity for other financial opportunities.*

### ART AND LIQUIDITY

As a fine art collector, you no doubt have a very clear sense of what drew you to each piece in your collection. You may even be able to talk in depth on the personal history and creative influences of the artists whose works you own. Yet if you are like many collectors, you may only vaguely be aware that you can use art as collateral for a loan. By borrowing against your artwork, you may create liquidity to take advantage of a broad range of financial opportunities. You might think about:

- Acquiring additional artwork
- Financing business goals
- Taking advantage of other opportunities

As a client of U.S. Trust, you have access to a qualified team of credit specialists who can help you borrow against your art collection while you maintain possession of every piece.

### Your collection

Deep aesthetic interest and passion may be your main motivations for buying fine art. Yet your collection may be valuable in financial as well as emotional terms. You are no doubt aware of how the individual pieces have changed in value over time. Indeed, if recent auctions of major artworks are anything to go by, we are in a period of increasing activity in art markets.\*

### ABOUT THE AUTHOR

John Arena is a Senior Credit Executive in GWIM's Credit & Banking Group.

See last page for important information.

Recent appreciation in the art market may favorably affect the potential collateral value of your collection.

While there are collectors who have ready access to liquidity, we have found that others tend to be fully invested most, if not all, of the time. They often have little money available to focus on other opportunities and must consider liquidity when the opportunity arises. A fine art loan may be an effective way to generate the cash, which can be used to fulfill other goals.

### **Approval process**

The process of borrowing is straightforward. Your U.S. Trust® advisor, in tandem with a credit specialist, will assess your overall financial profile to help identify opportunities for you to borrow against your art. A proposal will then be provided to you outlining a borrowing structure for your consideration.

From there a professional appraiser will be engaged to determine the value of your collection that will be used for borrowing. The loan amount is generally limited to 50% of the appraised value. Because the value of art fluctuates, the art used as collateral will be appraised annually, while remaining on your walls.

The loan, once approved, will be documented and closed with all the requisite information such as bill of sale, insurance certificates, appraisal and so forth. The funds will then be disbursed so you may execute against your opportunity.

Not every collector and collection qualifies for art lending from U.S. Trust. Typically, a borrower must have a collection with an overall value of \$10 million or more. Also, collections usually must have diversified holdings among artists and time periods, although we have selectively made art loans based on one particularly strong piece of art. Our customary proposition is to lend against a diversified collection rather than one piece of art.

### **Loan advantages**

You might use the funds to acquire additional artwork or to take advantage of another opportunity. Borrowing against a potentially appreciating asset (like a lot of fine art, recently) for other assets which may also appreciate can have financial advantages such as positive leverage to achieve asset diversification. What you may pay in interest on an art-related loan is generally less than the fees for an unsecured loan.

Such loans can also be preferable to selling artwork at an inopportune time — for example, when you are exhibiting your collection. You may also have a deep aesthetic or emotional connection to certain pieces and would not wish to put them up for auction. On top of that, with a loan rather than a sale, you may avoid having to deal with taxes on art sales, which are not afforded the same favorable tax treatment as other asset classes.

You maintain ownership of the collateralized artwork and usually will still be able to display the pieces as you normally would. They can hang on your walls or, with appropriate insurance, guarantees and other agreements in place, may be lent for display in a gallery or museum.

## Next steps

If you think it's time to use your art collection to create liquidity, speak with your private client advisor and/or one of our credit specialists. U.S. Trust credit specialists have a broad knowledge of artists and their work, as well as the financial and business aspects of the art world. They can draw upon relationships with several major auction houses and independent appraisers to help you value your personal collection and identify pieces that may be suitable as collateral for a loan or line of credit.

To learn more about how to create liquidity via your collection, please visit [ustrust.com/art](https://ustrust.com/art).

### FINE ART LENDING AT U.S. TRUST

General guidelines include:

- Appropriate for: Art collectors with an internationally recognized collection valued at \$10 million or more.
- Loan amount: No minimum loan size. (\$3 million+ loan size preferred)
- Facility types: Renewable lines of credit.
- Pricing: Floating rate based on LIBOR.

### YOUR ART COLLECTION AS LEGACY

It's important to determine what role art will play as part of your portfolio of assets while you are alive. But it's just as critical to consider what you would like to see happen to your collectibles when you are gone. Preparing for that now can safeguard the legacy of your collection in the future. U.S. Trust has special expertise and resources in this area, and we can help clients who appreciate and collect art to navigate financial and estate planning issues so they can reap the most benefits from their collections. Talk to your advisor about our companion article, *Worth Knowing: Your Art Collection and Legacy Planning*.

\* Source: The European Fine Art Foundation (TEFAF) Art Market Report 2015.

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