

The Hidden Value of Your Art Collection During Economic Uncertainty

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A recent [Wall Street Journal headline](#) called 2020 a “bad year for art” but likely a “good year for art-backed loans. According to the article,” “Bankers are standing by to lend the world’s billionaires some cash, using their art collections for collateral.”

Bloomberg ran a similar article earlier in the COVID-19 pandemic, [saying](#) that the

“business of providing credit against Picassos and Warhols is expanding even as the art market grinds to a halt.”

Despite the uptick in attention, art financing has been popular for a number of years. There are many lenders in the field, including major private banks, and depending on a variety of factors, they provide short or long-term loans of up to 50 percent of the value of the art.

But determining the value of the art can be challenging and values may not have increased since the time of purchase. To determine the value, lenders will typically look at the work itself, its condition, and comparable sales. They will almost certainly want to inspect the art to make sure that the owner’s claims about condition are substantiated. Art, particularly contemporary art, can be very delicate. Consequently, it might have been damaged during transportation, even during the transportation from the gallery or auction house where the current owner purchased the piece to his or her home.

And there are other considerations as well.

For example, the lender must be satisfied with the location where the artwork is held. In extreme cases the lender may say that it must be stored in their facility – for example, if there have been previous insurance losses in the location where the art is normally kept.

There is also the issue of title, as checking for clear ownership of an artwork can be slightly more problematic than, for instance, ensuring clear ownership of a house. The lender will look at the artwork’s provenance – the documentation that authenticates the art piece, outlining details like the work’s creator, history, and appraisal value. Without sufficient provenance, it can be challenging to ascertain if a work is genuine, even if the artwork was purchased from a gallery. And even with this documentation, there are instances when a piece turns out to be fraudulent or has a reclamation claim against it because the piece was stolen at some point during its past. Ownership must be watertight.

With these considerations in mind, art collectors should consider taking advantage of the liquidity that their collection offers by using it as collateral. For more

information or to explore opportunities related to an art collection, contact your Anchin Relationship Partner or Anchin Private Client's Gary Castle at gary.castle@anchin.com.