

How investors are using art collections to shore up cash

Report on Business July 7/17

BRENDA BOUW

You've heard of investors leveraging their homes or investment portfolios to shore up some extra cash, but what about their art collection?

Companies such as Sotheby's, specialty finance firms such as Art Finance Partners and some U.S. banks have been offering loans to international art collectors for years, but the alternative form of financing is just starting to gain traction here in Canada.

Toronto-based Lono Fine Asset Lending is said to be the first company of its kind in Canada to offer loans for art.

Lono, named after a Hawaiian god, opened for business earlier this year and provides loans for a range of investor needs. Examples include borrowers who need cash quickly to fund a child's U.S. college tuition, an unexpected tax hit or following a divorce settlement. Some may even use the art as leverage to buy more art.

"We are basically giving people the ability to turn their art asset into cash for whatever their need is, and we've seen everything," says Edward Schwartz, co-founder of Lono as well as an avid art collector.

Instead of selling a stock, borrowers can use art they've collected, or in some cases inherited, as collateral. It's a way for people with high-priced art to use what is often considered an illiquid asset and turn it into immediate cash, for a price.

Lono typically charges an interest rate of 1.85 per cent a month, or about 22.2 per cent a year,



Edward Schwartz is the co-founder of Lono Fine Asset Lending, a Toronto-based business that allows clients to leverage their fine art as collateral for loans. FRED LUM/THE GLOBE AND MAIL

similar to some credit-card rates.

"Unlike credit cards and other sources of debt that use daily or weekly compound interest calculations that can really add up quickly, our simple monthly interest calculation is easy to understand, transparent and much fairer for our clients," Mr. Schwartz says.

Loan rates can vary depending on size, term and quality of the piece. Terms are usually 12, 18 or 24 months. Lono offers loans for up to 50 per cent of the value of

a piece. For example, on a piece valued at \$100,000, Lono may offer a loan of up to \$50,000.

The art is appraised to help determine the loan value and then Lono uses professionals to move and store the piece. When the loan term is up, the piece is returned to the owner. The company says there have been no loan defaults, to date.

Sharon London Liss, president of the Art Dealers Association of Canada and a private dealer and appraiser, says, to her know-

ledge, Lono is the only company in Canada offering art financing. (The Globe contacted some of Canada's big banks, which confirmed they're not currently offering art financing.)

Ms. London Liss says Lono's owners have a lot of experience in the art world, which gives them an edge in the alternative financing market.

"[Lono] is a financial organization that is entirely involved with art financing [and] understands the market, as opposed to

a bank, which would generally not," Ms. London Liss says.

While using art as collateral is a good way for collectors to access cash quickly, Ms. London Liss warns of the risks.

"The collector must always remember that he or she has assigned at least a partial interest in that coveted piece," she says. "If the situation goes awry, the collector no longer has full title to that piece."

Paul Bain, a lawyer with Dickinson Wright in Toronto, whose practice includes clients in the art world, says advantages of using art as collateral include the instant liquidity, but also privacy for the collector.

"The art world is very discreet," says Mr. Bain, who has referred art collectors to Lono. "You're getting cash for something that's otherwise illiquid, and you get to keep the asset."

Mr. Schwartz shudders at any comparison of his business to a pawnshop.

"This is a simple loan business. We're a financial intermediary," says Mr. Schwartz, who is also a licensed financial and insurance adviser. Plus, he says, "a pawnshop transaction is much easier."

Mr. Schwartz, who co-founded the company with Peter Berczi, chief executive of Toronto-based health benefits company Bene-aid, says the idea for the business has been in the works for years.

"We decided now is the time," Mr. Schwartz says. "We like it and think it's an interesting space to be in."

Special to The Globe and Mail