

PENTA

The Changing World of Art Financing

By

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Sanford Biggers, *Parallaxadaisical*, 2017. Antique quilt, birch plywood, gold leaf, on display at David Castillo Gallery, The Armory Show. *ILLUSTRATION: COURTESY DAVID CASTILLO GALLERY*

If you're at The Armory Show of 20th and 21st century art this weekend and are considering the purchase of a sculpture by Sanford Biggers, an emerging artist who often obliquely tackles political themes, you might consider snapping a photo of the piece and sending it to Andrea Danese, CEO of Athena Art Finance.

That's Danese's expectation of what collectors ready to buy a work will do during the annual art fair held at Piers 92 and 94 in Manhattan today through Sunday. The texts and photos will arrive with a question: "How much will you lend me if I go ahead and buy this?" Danese says.

Since the one-time credit derivatives specialist founded Athena, with backing from The Carlyle Group and Pictet Group's private equity unit three years ago, Athena has been finding ways to help collectors finance new pieces as well as lend against their art collections. The firm also provides financing to galleries, art dealers and auction houses—businesses that can't count on a smooth cash flow year-to-year, a scenario that won't do for a traditional bank lender, Danese says.



Andrea Danese, CEO of Athena Art Finance, at The Armory Show in New York. ILLUSTRATION: COURTESY OF THE ARMORY

"We are the ideal lender to those who don't fit the bill of a bank," Danese says.

Athena, a major sponsor of The Armory Show, has tapped a niche in the art world that's so far been dominated by major private banks, like U.S. Trust, Citi

Private Bank and J.P. Morgan Private Bank. As artworks have boomed in value, individuals have realized their collections are a source of capital that can be accessed to borrow cash for buying more art or any number of things.

Entrepreneurs even tap their collections to get working capital for their growing businesses, says Evan Beard, national art services executive at U.S. Trust, the private bank unit of Bank of America. "If you have business returning 8% a year, you can unlock that capital at a very low interest rate from your art collection and plow it into your business," Beard says.

Collectors also use loans to unlock capital against their collection to finance third-party guarantees of prized works up for auction. Borrowers who back works that sell above the guaranteed reserve will get a share of the premium the buyer pays, Beard says.

"You have a group of collectors who are using their art as call options on works they find interesting coming up for auction," he says.

All this lending activity has fueled U.S. Trust's art-lending business over the last five years or so, growing it to about \$6 billion, Beard says. To date, Athena's role in the market is far smaller: In two years of business, the firm has originated loans of around \$200 million in market value. Another relatively new independent art financier on the scene is Falcon Fine Art, a unit of the Falcon Group in London.

The big difference between a bank like U.S. Trust and a financial services company like Athena is that banks are required to issue full-recourse loans, giving these institutions access to a borrower's entire balance sheet should a loan not be repaid. Athena issues only non-recourse

loans, meaning the only collateral against the loan is the artwork itself. Athena can't seize your car or house if you don't pay.

The catch is Athena's loans are more expensive. Tied to variable interest rates, the firm's loans—ranging from 3 months to 10 years for up to 50% of the value of the artworks—are at least 4 percentage points more than a loan from a private bank.

The higher rate reflects the fact that Athena is taking on more risk. But the firm's business model is gaining traction because it fills a niche, offering flexibility and financing options not always available from traditional sources. "People are becoming creative and using the instrument of credit to address timing and cash flow depending on needs," he says.

Athena only lends against "blue-chip" art, which Danese defines as works by well-known artists with an active, solid market. Blue-chip can mean works of established figures like Gerhard Richter or Andy Warhol to works of relatively young, sought-after artists like Sanford Biggers or Jonas Wood, with a track record of private sales.

"Our major concern is always liquidity, if we have to sell the artwork, and price volatility," Danese says. "We try to stay on the safe side of the market."