

Wealth Management™ **2019**
Market Outlook



The 5 Top Myths of Luxury-Asset Lending Unmasked

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With the stock market wobbling and global economic and political instability on the rise, savvy investors will look beyond their stock portfolio for liquidity in 2019. One largely untapped pool of capital they'll use to seize new investment opportunities: borrowing against luxury assets.

It's an ideal time to tap collectibles for liquidity, as their value has skyrocketed. For instance, fine-art auction totals soared 72% in the past year, the ArtTactic Global Art Market Outlook 2018 found.

Despite the value locked up in luxury assets, many wealth managers don't discuss luxury-asset lending as a liquidity option with their HNW clients. Wealth managers may lack needed expertise, or have misperceptions of the sector.

Interested to learn more? Let's debunk five common myths about borrowing against luxury assets:

Myth #1: Luxury-asset lending is for the broke and desperate, not my high-net-worth clients. While serving clients in distressed situations is certainly part of what luxury-asset lenders do, most clients are successful high-net-worth individuals looking to maximize an emerging investment opportunity. Whether clients seek to jump on a hot stock pick, invest in a startup, or expand their art or classic-car collections, an asset-backed loan allows investors to quickly capitalize on market changes and diversify their portfolio.

Myth #2: Fine art is the only collectible that can be used in a luxury-asset backed loan. That may still be true at some banks and alternative lenders, but the industry has broadened its horizons in recent years. Innovative alternative-lenders have established liquidity programs for a broader range of



luxury items – collectible cars, wine, jewelry and watches, as well as fine art.

Myth #3: It takes too long to secure a loan against luxury assets. In fact, a luxury-asset-backed loan is often approved in just a few days. That compares favorably with the process of securing a traditional bank loan, which requires more paperwork and can take weeks.

Myth #4: An asset-backed loan would be prohibitively expensive. Not always. The advantage in asset-backed lending is that the interest rate and pricing are determined by asset class, loan size, and duration—not the individual's creditworthiness. By contrast, a traditional bank loan is based

primarily on credit rating and cash flow. Asset-backed loans typically don't focus on the client or require a guarantee. The focus is on the asset, not the client.

Myth #5: It'd be better for my client to just sell their luxury asset. Not usually. Selling an asset in distress could force a client to accept a below-market value. Also, changes to 1031 exchange rules mean taxes and fees can take a substantial bite out of asset value. Engaging a top auction house can be a great route to maximizing asset value, but this could take months to arrange. Meanwhile, the opportunity that inspired the desire for liquidity may pass by.

As you can see, luxury-asset backed lending can be a discreet, rapid route to liquidity for HNWs looking to seize new investment opportunities. Forming a relationship with an asset-backed lending firm gives wealth managers a new tool to help clients diversify their portfolios in uncertain times. ■

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Global boutique financial-services firm Borro Private Finance has provided over \$400 million in loans against luxury assets.

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