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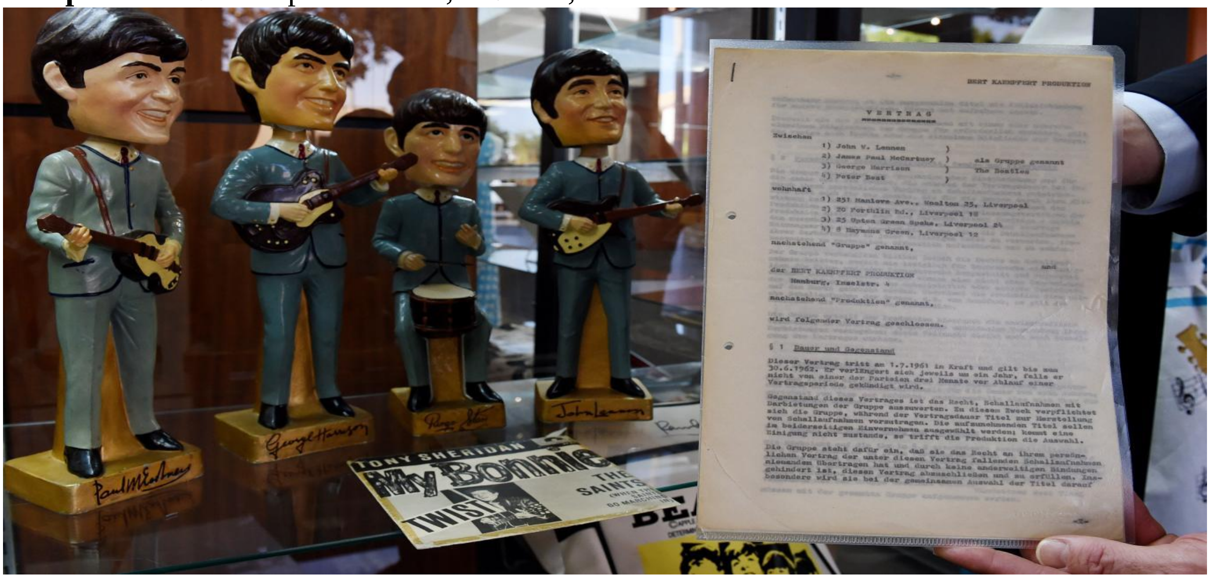
Getting by with a little help from high-end pawnbrokers

Entrepreneurs are increasingly shunning banks in favour of borrowing from luxury asset lenders

Josephine Moulds April 10 2017, 12:01am, The Times



One of the first loans that Borro wrote was against the Beatles' first recording contract. Its top clients borrow an average of £317,000 to cover tax

When Arthur Morgan, a 59-year-old property entrepreneur, needs a business loan, he does not go to a bank. "They're too slow. It would take six to eight weeks to get a facility from a bank. By the time you've got it, you could have had the money, spent it and got the money back. You could have bought and sold in that time," he says.

Instead Mr Morgan uses his assets as security to borrow from **Yorkshire Loan**, a high-end pawnbroker in Harrogate. "You don't have to go and court somebody; you don't need to spend all those man hours, following through with accounting reports and forecasts. Invariably, you've already evaluated it and made that decision, it's just the money you're after."

Mark Pulman, a director at Yorkshire Loan, has been dealing with Mr Morgan for the past three years and is familiar with his assets. So when Mr Morgan needed £100,000, he was able to borrow it the same day, using an office building as security.

This kind of convenience does not come cheap. Yorkshire Loan charges 3 per cent interest a month, about 40 per cent APR. "The jobs I use Mark for, I price them accordingly. It's all about how you use Mark. Some people put stuff with him and he never sees them again. With myself, it's about having the advantage," Mr Morgan says.

So-called luxury asset lending is predicted to grow by 10 per cent a year and is used increasingly by business owners who are asset-rich but cash-poor. With banks still reluctant to lend, entrepreneurs are coming up with innovative ways of financing their businesses.

Conrad Ford, 43, founder of Funding Options, a business loan comparison service, says: "Lots of types of business lending expect you to give a personal guarantee. It's putting everything on the line. It could be a family home, it could be stocks and shares. One of the benefits of luxury assets as a form of security is that you are essentially ringfencing your total exposure if something goes wrong with your business."

Traditionally, luxury asset lenders have been small operations where the owner is heavily involved in every lending decision. Mr Morgan says that is why Yorkshire Loan works so well for him. He sees Mr Pulman as "an old-fashioned bank manager" who makes decisions himself based on personal relationships.

Other companies hope to take luxury asset lending mainstream. Borro has an international brand and lent £80 million last year, secured against everything from fine wines to memorabilia. Paul Aitken, 44, chief executive, says that one of the first loans it wrote was against the Beatles' first record contract.

He says most customers are business owners or entrepreneurs who may not have a predictable or steady cashflow. "The banks struggle to get their heads around people who have irregular cashflows," he says. Many customers have other debts with traditional lenders. "We are an expensive but flexible part of their capital structure," Mr Aitken says. "They already have access to bank debt and this is usually the top-up, flexible portion of their debt." Interest rates vary from 18 per cent to 35 per cent APR.

Paul Aitken, chief executive of Borro, says most customers are entrepreneurs who do not have a predictable cashflow.

Customers use the money to close a property deal, make a quick investment decision or pay tax. Borro's top clients borrow an average of £317,000 to cover tax bills. Others are in financial difficulties. "There's the odd distressed situation," he says. Still, the company's default rate remains relatively low, at 6 per cent. If a client cannot repay a debt, Borro will sell the asset. Mr Aitken says that the company has sold everything from a classic Aston Martin to an Andy Warhol painting.

The Financial Conduct Authority monitors this process, and any excess funds from the sale — after the loan and interest have been repaid in full, plus a fee for the sale — must be paid to the client. Mr Pulman says that the process has become much more closely monitored since the FCA took over from the Office of Fair Trading. "We have to demonstrate we've sold it at a fair price."

If the asset has fallen in value, the lender usually takes the hit. That makes it critical that lenders value the assets correctly.

Mr Aitken says that Borro has ten million lines of auction house data and data scientists that study price trends, as well as an in-house team of appraisers.

Lenders must also ensure that assets are not stolen goods. Mr Pulman checks the assets against several databases and has turned deals down "just because the circumstances didn't sound right".

Luxury asset lenders either store the assets themselves or place restrictions on their use. Ben Shaw, 44, founder of HNW Lending, says: "If it's in a garage already or a museum, we just have an agreement that it's not going to leave there without our permission."

HNW Lending has just agreed an £80,000 loan secured by a couple of private jets. "Because the owner's got a few of them, we've said he can use any one of them at any time, but he can't take all of them out of the facility," Mr Shaw says.

The lenders specify that they do not run credit checks on the borrowers and leave no credit footprint. Mr Shaw says that he does his own research.

"If somebody is bringing you their cherished E-Type Jaguar that they've had for 30 years that might be worth £100,000 now, but don't have any other assets, you're going to be a bit more reticent about lending to them or you might not lend quite as high loan-to-value."

He runs checks to find out whether potential borrowers have been made bankrupt, disqualified from being a director or have a criminal record. "It doesn't mean we won't lend to them. We just like to know these things.

"As long as the asset is fundamentally worth enough to sell in the event that the loan defaults, that's where our primary focus is." Mr Pulman agrees: "If somebody's got perfect credit, they're probably not going to come to us. They're going to go to the bank."

Peer-to-peer investors driving the market

Investors looking for yield can take part in the luxury asset lending market via peer-to-peer lenders such as HNW Lending and Unbolted (Josephine Moulds writes).

Such companies offer the speed and flexibility of other luxury asset lenders by having key investors waiting in the wings to lend the money initially and then selling on portions of those debts to other investors.

Pawning classic cars can fund commercial opportunities

According to Ben Shaw, 44, investors have changed in the three years since he launched HNW Lending.

"It started off with relatively high-net-worth individuals putting in a quarter of a million pounds over three or four loans. Over time more of the general public have found us, particularly because we've got Isa approval."

It means that loans made via HNW Lending can be included in the Innovative Finance Isa.

Rito Haldar, 39, co-founder of Unbolted, says its Isa approval is imminent. Unbolted works closely with auction houses, so that they can offer customers the opportunity to borrow via Unbolted to complete their purchases mid-auction.

About 90 per cent of HNW's loans are backed by property. That appeals to investors, Mr Shaw says. "Most of our lenders own their own home, have some kind of comfort with property. There are fewer of our lenders who really understand car values."

HNW's lenders can choose which loans to take part in. It lists borrowers' names, addresses, the assets they are borrowing against, the purpose of the loan and pertinent facts, such as whether the borrower has been declared bankrupt previously. Mr Shaw says only one borrower has been uncomfortable with this information being made public. He would be willing to let borrowers remain anonymous if necessary, but "it's difficult for us not to tell people. If you're lending money to someone, you want to know who the borrower is, so you can do your own research."

The minimum investment on Unbolted is £5. Investors receive returns of between 8 per cent and 10.5 per cent.

HNW Lending is aimed at larger investors, with a threshold of £5,000 and returns of between 5 per cent and 20 per cent. There have been defaults, but Mr Shaw says investors have always received their capital and interest back in full.