

# Fund Finance Insights: Borrowing Base Constructs in First Half of 2024

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PRACTICES Fund Finance

Data compiled from the subscription secured credit facilities (“**Subscription Facilities**”) our firm documented in the first half of 2024 shows that as the fund finance market continues to grow, so too does innovation and creativity with respect to borrowing bases. To date in 2024, we have worked across from 36 different borrowers’ counsels, highlighting the need for more transparent data on market terms such as borrowing base structures. The variety of approaches used by lenders and fund borrowers in constructing borrowing bases and the prevalence of certain features shown below may come as a surprise to some.



## Borrowing Base Constructs in First Half 2024

- ~70% of these Subscription Facilities for comingled funds (not SMAs) had concentration limits applied to individual investors
- ~18% of these Subscription Facilities utilized a hurdle for inclusion

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- **Included/Designated Investors** – Utilizing the included and/or designated investor construct in a borrowing base continues to be the most popular approach in Subscription Facilities. Included investors are usually investors meeting applicable ratings requirements and/or other

institutional investors deemed sufficiently credit worthy, while designated investors represent a pool of investors for which specific financial information may be minimal or lacking, therefore receiving a lower advance rate than included investors. Some deals also include additional classes of investors with different advance rates (e.g., 90% advance rate for included investors, 65% advance rate for designated investors, and 40% advance rate for high-net-worth investors).

- **Flat Advance Rates** – Unlike the typical 90%/65% advance rates utilized in an included/designated investor borrowing base, flat advance rates are more bespoke, ranging from 25% to 90% (with most falling between 60-70%). Flat advance rate borrowing bases often include the vast majority of investors, subject to any exclusion events, and are commonly used in deals with a high concentration of high-net worth and private wealth management investors.
- **Coverage Ratio** – As an alternative to more traditional borrowing base structures, availability in some Subscription Facilities is governed by a coverage ratio, which in the fund finance industry is generally the ratio of (a) the aggregate unfunded capital commitments of the included investors (after accounting for any concentration limits), to (b) the principal obligations under the Subscription Facility (and often other indebtedness as well). The borrower is required to maintain a minimum coverage ratio at all times, typically between 130-200%. This means that for each dollar advanced under the Subscription Facility, the borrower must maintain at least \$1.30-\$2.00 of eligible unfunded capital commitments. Although this has traditionally been used more in European-led deals, a growing number of US lenders now utilize this approach.
- **Concentration Limits** – To protect lenders from outsized exposure to certain types of investors and help diversify risk, ~70% of the Subscription Facilities our firm documented for co-mingled funds limited the amount of certain unfunded commitments eligible for inclusion in a borrowing base through concentration limits applied on an individual investor basis (e.g., no designated investor will account for more than 5% of the borrowing base) and in the aggregate on all investors in a class (e.g., the designated investors will not account for more than 40% of the borrowing base). Some concentration limits may apply to only specific investors or affiliated groups of investors.
- **Hurdles and Fundraising Triggers** – Around 18% of the Subscription Facilities we saw utilized a mechanic to include specific investors or whole classes of investors with unique credit considerations (e.g., [Texas sovereigns](#)) in the borrowing base or to apply, reduce, or eliminate concentration limits, upon reaching certain benchmarks or the occurrence of certain events. These so-called investor “hurdles” serve to mitigate risk in several ways, such as ensuring that an investor has sufficient “skin in the game” in the form of funded capital contributions (e.g., a “hurdle” condition where inclusion is triggered once 40% of the investor’s commitment has been called and funded). In addition to these hurdle conditions, if a facility was negotiated while the fund was still in the early fundraising stages, the parties sometimes agree to certain fundraising hurdles, whereby the advance rate automatically increases, or certain investors or groups of investors are included in the borrowing base (e.g., hurdles based on the amount of capital raised and/or number of investors).

What started over thirty years ago as borrowing bases with only rated-included investors has evolved to the variety of constructs illustrated above. Subscription Facilities borrowing bases will continue to develop to meet the liquidity needs of fund borrowers, while still protecting the key interests of the lenders.

These insights are based on data from Subscription Facilities documented by Haynes Boone during the referenced period for the largest domestic and international lenders, as well as for regional and super-regional banks.

For more information on Fund Finance market trends, please reach out to any member of the Haynes Boone [Fund Finance Practice Group](#).

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