

## Rated Note Feeder Issues Facing Subscription Line Lenders

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Below is a short summary of the article, please [see the full article here](#).

In the United States, rated note feeder structures are used by private equity fund sponsors and insurance company investors to allow such investors to take advantage of favorable regulatory capital treatment for their investments in private equity funds. While not a new product, this favorable regulatory capital treatment has made rated note feeders increasingly popular in recent years and, coupled with the comparatively large capital commitments of insurance company investors, private equity sponsors want to leverage these capital commitments for their subscription lines of credit. However, rated note feeder structures are primarily or exclusively debt investments, rather than traditional equity investments, and this presents lenders with a unique set of challenges in structuring subscription lines of credit that include investors participating in rated note feeder structures in borrowing bases.

Such issues include enforceability considerations stemming from certain provisions of the U.S. Bankruptcy Code, considerations stemming from the presence of an indenture or note purchase agreement (including considerations under the Uniform Commercial Code), a lack of legal opinion coverage, a changing regulatory landscape, and certain due diligence considerations.

While the numerous issues raised for subscription line lenders are significant, proper governing documents and structuring of the rated note feeder that dovetails with a tailored subscription line structure can go a long way in giving lenders comfort that their collateral package is substantially similar to the collateral package for a traditional equity structure. In most instances careful structuring permits the capital commitments of investors in rated note feeder structures to be included in borrowing bases or other credit agreement covenant ratios. Most important to lenders among these structuring elements is the ability to call capital from investors in the rated note feeder as equity, rather than debt, when called to repay obligations under the subscription line credit facility. Much like the advent of subscription line lending years ago, if all parties work together on the front end, funds should be able to receive the desired borrowing base credit.

*For the full article, which includes a detailed analysis of the considerations noted in this summary, please see the link at the top.*