

Cioffi Featured in Q&A with Green Street News: Fund Finance Adopts Securitization Features

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PRACTICES Asset Securitization, Finance, Fund Finance

In a recent Q&A with *Green Street News*, Haynes Boone Partner [Greg Cioffi](#) discusses how new structures facilitate investments by insurers and other institutions, with further insight regarding issues and innovations relating to RNFs.

Read an excerpt of the conversation below.

What's the appeal of RNFs to noninsurance investors?

Cioffi: Both RNFs and CFOs use traditional tranching classes of rated notes and single classes of subordinated debt or equity, allowing investors to tailor their investments to reflect their desired risk-return profiles. In addition, many institutions [aside from] insurance companies benefit from investing in rated debt instruments. We are seeing a very significant number of private funds, family offices, foreign banks and pension plans investing in RNF and CFO structures. We are seeing many private funds invest in the mezz classes of RNF notes. Investments in the equity class of an RNF provide the investors with an excellent levered return.

And feeders with horizontal strips were developed to cater to these investors?

Cioffi: Yes. The vast majority of the early RNFs were structured so that investors acquired a proportional amount of each class of rated notes and equity, or a so-called vertical strip. That meant secondary-market transfers by holders of these vertical strips could only be affected by the investors selling proportional interests in each class, or the entire strip. A noteholder in these vertical structures has a high degree of alignment of interest with the other investors in the RNF and, as a result, the provisions dealing with interest voting and consent rights are relatively straightforward.

Currently, however, approximately 75 percent of all new-issuance RNFs are being offered on a horizontal basis. The term "horizontal" is perhaps not the most descriptive. These "nonvertical" offerings allow investors to participate in any class of notes offered in any desired proportion based upon such investor's desired risk-return profile.

Why are RNFs with horizontal structures problematic?

Cioffi: One of the more significant issues that must be addressed in the context of horizontal offerings is how to make the RNF issuance user-friendly for potential providers of subscription-line facilities. The main fund will typically want the RNF structured so that it is eligible to be included in the borrowing base for such a facility. That's particularly true if RNF holders are highly rated, which is often the case, since the creditworthiness of noteholders is an important consideration in determining the main fund's credit line availability.

Read more in *Green Street News* [here](#).

