NAVember 2026 – Exit Scenarios and Downside Protections

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NAV financing continues to evolve as one of the most dynamic areas of private fund finance, with growing adoption across asset classes, financing structures and investment strategies. Throughout the NAVember 2026 Conference, industry leaders, lenders, sponsors and legal practitioners explored the latest developments in NAV lending, including the expansion of commercial real estate NAV facilities, the growth of GP/ManCo financing, and the increasing focus on downside protections and exit planning. This summary highlights the key themes, market trends and practical takeaways from each session, offering insights into where the NAV market stands today and where it may be heading in the years ahead.

1. Introduction

"Exit Scenarios and Downside Protections" brought together experienced leaders in the NAV lending space and partners in Haynes Boone's lender-side finance and restructuring practices. The panel discussed, from the perspective of credit providers, funds and counsel, how parties to a NAV transaction think about different asset classes, identify risk, structure mitigants and protect themselves in exit scenarios. The panel looked at how repayment plans play out in the ordinary course, when early warning signs appear and in worst-case scenarios.

2. Ordinary Course

a. **Underwriting from the exit backward.** The panel discussed an approach to underwriting that starts by looking at the anticipated source of repayment and identifying how expected cash flows will facilitate repayment within a desired timeline.

- *NAV does not equal cash.* As a core principle, lenders must understand how and when NAV converts to cash, and whether that cash will arrive when repayment is due. Among the many factors involved, it is important to understand a borrower's ordinary-course cash flows (debt service, redemption options, liquidation plans, etc.) early and thoroughly. Even ordinary-course redemptions can affect the timing of a NAV lender's repayment.
- *Timing is key.* The structure and key terms of the deal, including maturity, cash sweeps and covenant setting, should be structured around when NAV will turn to cash and how that timing will interact with repayment requirements, including if an early exit becomes necessary.
- *Position in the waterfall.* A NAV lender needs to understand how the cash-flow profile ultimately reaches it relative to other stakeholders, such as an asset-level ABL lender.

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- *Example: primary LP interests in closed-end funds.*Consider a borrower launched in 2024 that holds about 10 primary LP interests and, in 2026, seeks roughly 20–30% loan to value (LTV):
    1. The underlying funds may all enter harvest at about the same time.
    2. If the underlying funds are private credit funds with one to two turns of fund-level leverage, early-harvest cash goes first to repay those senior fund-level lenders. This is normal, but it delays cash reaching the NAV lender.
    3. A deal can have good collateral coverage and LTV, even though its cash-flow profile has weakened. Lenders need to understand this up front and calibrate LTVs, advance rates, concentration limits and asset eligibility accordingly.

b. **Underwriting across the risk spectrum: the "barbell."** The panel also described underwriting that varies with risk, using a barbell analogy.

- *Lower-risk end.* One example is a highly diversified secondaries portfolio. The structure will include a number of risk buffers, and analysts will run multiple stress scenarios to identify and address risks, but the covenants will be less conservative than for a riskier collateral package. The risk of a NAV breach is relatively low, and the expectation is that there will be enough cash flow to repay the loan.
- *Higher-risk end.* Another example is a highly concentrated portfolio with back-leverage against a single asset. Credit analysts will take extra care in identifying risks and mitigants through careful diligence. For the borrower, the ability to manage the asset and keep optionality in the transaction is paramount. Here, the parties might agree to a longer tenor to allow flexibility around the exit.
- *Across the entire spectrum*, it is important to understand:
    1. How durable the asset's value is, meaning how likely it is to move during the financing and breach a trigger or covenant; and
    2. The expected cash-flow profile.

c. **Must-haves.** The panel noted certain must-haves, whether the portfolio being leveraged is on the "safer" end:

- From the borrower's perspective, moderate LTV covenants and enough buffer between expected LTV, running LTV and the default threshold.
- Standstill provisions, which the panel covered in more depth (see below).
- Valuation provisions that do not encourage lenders to overuse valuation challenge rights, with protections both sides can rely on.
- A balance between lender protections and borrower operational flexibility, with covenants and grace periods as a key focus.

3. Asset Classes, Diligence and Valuation

a. **Preferred equity.** A pref investment is first-dollar-out at a higher LTV, which is simple from a repayment standpoint. When the investment is back-levered, however, the bank is not necessarily first-dollar-out on the borrower's first-dollar-out position.

b. **Value-retention risk.** For some assets, such as GP stakes paid as a percentage of revenue, distributions count toward the pref holder's return without reducing the NAV the bank lends against. If too much cash leaks to the borrower, the bank may end up with a low headline LTV but little remaining value it has rights to.

c. **Structural responses.** These include:

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- Look-through LTV;
- Maximum distribution caps; and
- Loan-to-return-type tests, which confirm remaining equity value at the borrower level, not just at the underlying asset.

d. **Tailored valuation.** Valuation approaches must be tailored to each asset type, and each type presents its own challenges. Diversified secondaries are easier to value. Pref, structured solutions and GP-led transactions are single assets that rely on the sponsor's valuation method. Because the borrower wants to keep leverage in place through the term, not all first-dollar-out proceeds should go to the lender, and measuring the remaining value in these instruments can be difficult.

4. Early Warning Signs and Standstill Provisions

a. **A growing flashpoint.** The panel observed that standstill provisions are increasingly a point of negotiation in NAV dealmaking. Borrowers are requesting them more often, and the panel described them as a good example of lenders and borrowers working together on structuring details.

b. **Collaboration vs. distress.** A well-tailored standstill provision, negotiated collaboratively, can help foster communication and collaboration in a downside. Without cooperation, in a highly distressed scenario, communications among the parties may become contentious and more professionals may become involved. This raises costs, which in turn hurts recovery, and the chance that one or both parties lose control of the deal grows as the situation spirals.

c. **Market optics.** The panel also discussed how standstills help manage optics in the market, which can help maintain asset/collateral values.

d. **Specificity.** Standstill provisions need to be specific. The parties should know in detail what will happen during the standstill period, how long it will run and key milestones and timelines during the period, as well as what rights and obligations each party has during that time. This requires clear communication and a collaborative approach at the outset of the deal.

5. Worst-Case Scenarios, Cash Flow and Other Key Safeguards

a. **Know every repayment source.** Counsel on the panel stressed that the parties need a detailed understanding of all possible repayment cash flows. Once default remedies and collateral security are exhausted, cash flow is all that remains. This echoed the panel's earlier point about identifying risks and mitigants at the start of a deal by working backward from exit scenarios.

b. **Timing.** If the deal is already distressed, it may be too late to start mapping all possible repayment cash flows.

c. **Structural safeguards and trends.** After an overview of key bankruptcy protections common in NAV deals (bankruptcy remoteness through SPV borrowers and guarantors, and true sale and non-consolidation opinions), the panel highlighted other structural safeguards and related trends:

- **Pledge consents.** These can be difficult to obtain, but the market has evolved so that they are not always needed.
- **Strong, ongoing reporting covenants, combined with good communication.** The panel emphasized the value of reporting covenants. With open communication and collaboration between credit providers and borrowers, they can be tailored to the asset class or portfolio, which makes them better at catching substantive issues as early as possible.

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See other panel summaries here:

- NAVember 2026 – NAV Finance: Market Maturation and Strategic Applications
- NAVember 2026 – New Frontier of NAV: CRE NAV Loans
- NAVember 2026 – New Frontier of NAV: GP/ManCo Facilities and CVs
- NAVember 2026 – Market Update on Securitization and Structured Products in Fund Finance

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