

# THE FAMILY OFFICE GUIDE TO NAV BORROWING: *Five Questions Every Family Office Should Ask Before Signing*



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**N**et asset value lending has moved from the periphery of private capital into the mainstream. With the global NAV finance market now estimated at over \$100 billion and deployment projected to reach \$70 billion in 2025, this is no longer a niche instrument. For family offices holding long-duration allocations to private equity, real estate, and venture capital, a NAV loan can offer a practical way to access liquidity without unwinding carefully built positions. This article is written for principals considering taking a NAV facility against their own portfolio, and the questions worth spending time on before any term sheet is signed.

The timing is relevant. Distributions as a percentage of NAV across private equity have fallen from a 2014 to 2017 average of 29% to roughly 11% today, and more than 16,000 portfolio companies globally have been held for over four years, the highest proportion on record. Capital is locked up for longer, and the families feeling that pressure most often are those with the strongest underlying portfolios.

## 1. Why Are You Taking This Facility?

This question should come before all others. Good reasons to borrow include bridging to a known liquidity event (a pending exit, a fund distribution, a refinancing) where the timing mismatch is temporary. Funding a time-sensitive co-investment without forcing a sale elsewhere is another. So is smoothing cash flow during a period of low distributions when the underlying assets remain sound.

Less sound reasons include papering over structural cash flow shortfalls, or sustaining exposure to an underperforming position in the hope of a recovery that may not come. If the honest answer to “why are we borrowing?” is reluctance to confront a portfolio problem, the facility will not solve it. Equally important: ensure your lender’s incentives align with yours. A lender with a long-duration capital base who has worked through cycles is a fundamentally different counterparty from one whose own fund is approaching maturity on a fixed timeline.

## 2. What Qualifies as Collateral, and How Will It Be Valued?

A NAV loan is only as sound as the valuation underpinning it. The collateral pool may span fund interests, co-investments, direct positions, and real assets, each with different valuation cadences and methodologies. The critical issue is how Level 3 assets (those without active market pricing) are appraised. A lender relying on stale or GP-reported marks introduces risk that both parties may underestimate. Insist on clarity around independent valuation protocols, reappraisal frequency, and how concentration affects eligibility.

Family offices with meaningful venture capital allocations should pay particular attention. Early-stage VC positions carry inherently volatile, often binary valuations, and not all lenders are equipped to assess them. If your portfolio is heavily weighted toward venture, you will likely need a specialist lender with direct experience in that asset class, one who understands the dynamics rather than applying a blanket discount that either misprices the risk or makes the facility uneconomic.

## 3. What Happens in a Drawdown Scenario?

Most NAV facilities carry loan-to-value covenants, with LTVs that may reach up to 30% and potentially higher where the collateral is highly diversified or includes real assets alongside private equity and credit. A well-structured deal should be sized conservatively enough that the probability of a covenant breach under normal market conditions is negligible. Enforcement actions on NAV loans are extremely rare in practice, precisely because reputable lenders build substantial headroom into these structures from the outset.

That said, understanding the mechanics matters. How are breaches handled? What cure periods exist? Is there a negotiated ramp-down, or does the facility snap to full recourse? Even where the likelihood is remote, stress-testing your portfolio at a meaningful decline before signing is a discipline worth exercising.

## 4. How Does This Interact with Existing Leverage?

A family office rarely carries a single layer of debt. Credit lines, real estate mortgages, and unfunded capital commitments all contribute to aggregate leverage. Layering a NAV facility on top requires a clear picture of how each obligation interacts. The question is not just whether you can borrow, but whether the combined weight of all obligations leaves sufficient breathing room under adverse conditions, and whether introducing portfolio-level leverage changes the risk profile of the family’s wealth in ways that have been fully considered.

## 5. What Is the True All-In Cost?

The headline interest rate is rarely the full picture. Legal structuring fees, ongoing valuation costs, reporting obligations, and covenant monitoring all add to the effective cost of capital. The relevant comparison is the expected return on the assets being preserved versus the all-in cost of the loan, after accounting for tax treatment and opportunity cost. Where the facility bridges a known liquidity event, the arithmetic is usually straightforward. Where it sustains exposure in the hope of a future recovery, the margin for error narrows.

NAV lending, deployed thoughtfully, is a powerful tool in a family office’s capital management toolkit. It preserves portfolio continuity, avoids value-destructive forced sales, and provides flexibility that traditional credit lines cannot match. But it is not without cost, and it is not without risk. The families that benefit most are those who approach these facilities with the same discipline they bring to any allocation decision: clear-eyed about the purpose, precise about the terms, and deliberate about the counterparty. At Nodem Capital, we work exclusively with family offices on NAV lending, and these are the conversations we have with our clients every day. These five questions are a starting point, not a checklist, for the due diligence every principal should complete before putting pen to paper.