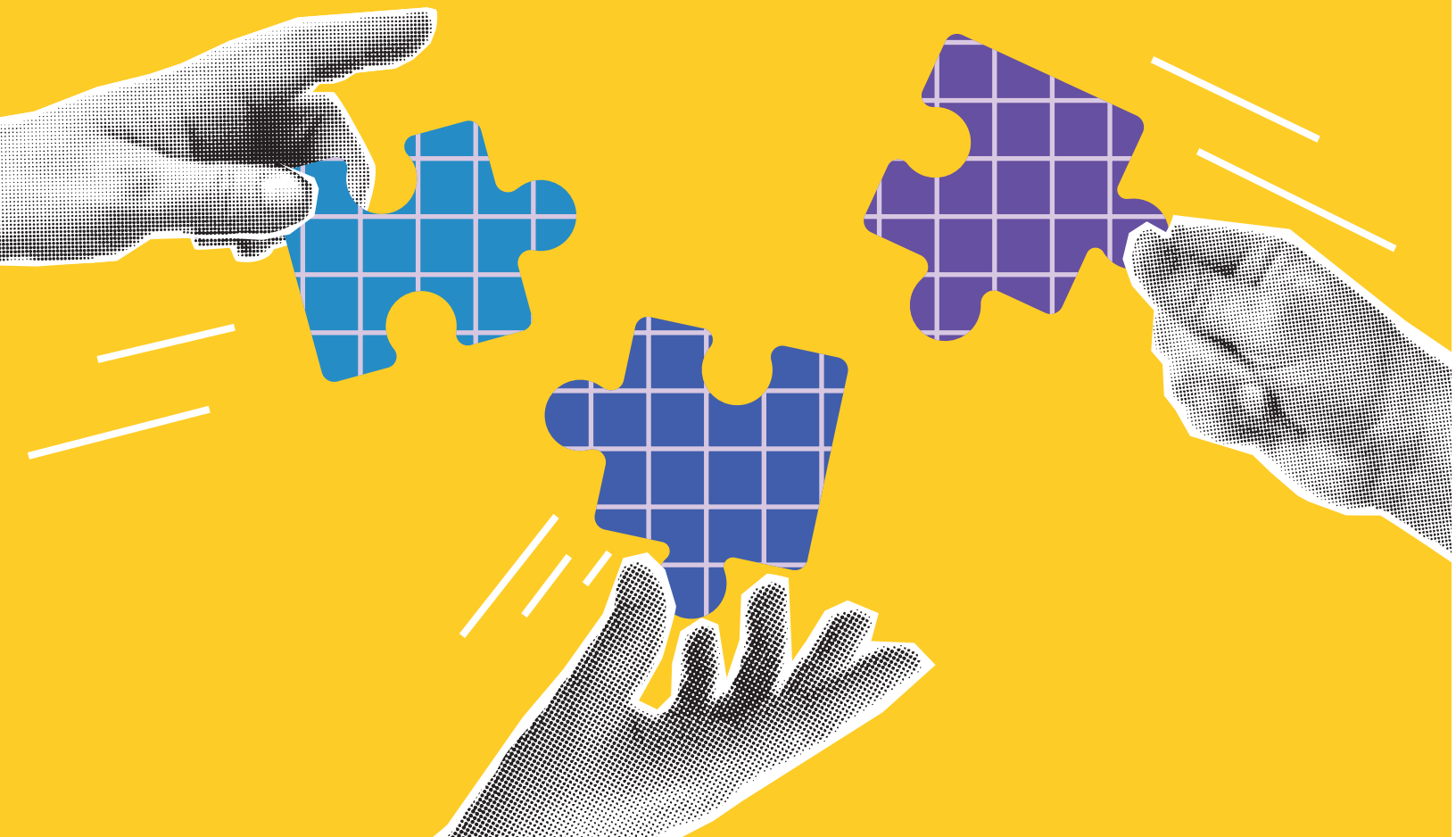


Private Credit and ABL Partnerships Meet Middle-Market Challenges

BY MICHELE OCEJO

In this roundtable, executives share distinct perspectives on how asset-based lending and private credit intersect — revealing strategies that help strong businesses access capital, adapt to challenges, and continue moving forward.



Interest rates remain high, tariffs are muddying planning cycles, and many mid-market companies still carry capital structures built for a very different cost of capital. We asked a roundtable of secured finance leaders for their perspectives on the middle market.

Arif Bhalwani, CEO of Third Eye Capital, Brad Kastner, managing director at MidCap Financial, and Aaron

Peck, co-head of Alternative Credit Solutions at Monroe Capital each view the landscape through a unique lens. Together, they reveal how asset-based lending and private credit can work together to keep good businesses moving forward.

Where the Market Stands

Mid-size businesses find themselves caught in several major challenges and economic shifts that are difficult to resolve through traditional financial solutions. Many operate under levels of debt that made sense before 2022, but greatly hinder their ability to grow and adapt in a higher rate environment.

Meanwhile, regulatory constraints and the risk-averse nature of banks mean that middle-market businesses struggle to find solutions from institutions that shy away from complexity. These businesses do have valuable assets as potential collateral. But patent portfolios, litigation receivables, fiber networks, or music catalogues are not easy for banks to work with.

In other words, the stage is set for private markets to fill the vacuum.

“We’re in one of the most attractive environments for private credit that I’ve seen in over two decades,” said Bhalwani. Elevated rates, he said, have “exposed the structural fragility of balance sheets” for many companies bought during the last LBO cycle. In Canada, a concentrated banking system and strict capital rules have left even fewer options for borrowers in transition.

Kastner points to a broadening of the market. “Until recently, the perception of private credit consisted of more traditional leveraged finance – cash flow loans supporting private equity buyouts. Over the past 12 years, large asset managers have invested in ABL platforms, many of which have scaled, creating today’s private credit ABL landscape.”

Peck’s asset-backed finance team focuses on what he calls “more esoteric” collateral, from litigation finance portfolios to data center infrastructure. “These aren’t rinse-and-repeat structures. They’re very tailored.” To deliver returns to investors and allow these middle-market businesses to meet their goals, financing these assets requires deep relationships and specialized knowledge.

Partnerships in Practice

Bhalwani sees private credit partnerships as natural complements to ABL, which “underwrites what is, not what could be.” Private credit is the bridge between the ABL’s liquidity function and the borrower’s

broader transformation needs. It can fund operational turnarounds, support ownership changes, or cover temporary cash burn.

In one post-COVID recapitalization, Bhalwani partnered with a bank that took the revolver while Third Eye provided a senior stretch term loan against oilfield equipment, plus a performance-based equity kicker. “Within 90 days we cut SG&A by 20 percent, brought in new customers, and optimized pricing. We doubled EBITDA in 14 months.”

Kastner says private credit ABL now includes ABL stretch facilities that go beyond the asset coverage and lend into enterprise value. “We can provide a revolver plus a stretch term loan but can also collaborate with private credit term providers. We can provide a revolver as part of a split lien structure, or a priority revolver, where the private credit ABL shares the same lien package as the term lender but gets paid first in the waterfall.”

For Kastner, the most effective partnerships address patterns and nuances around the Company’s cash flow. “Some companies have certain attributes that make traditional cash flow lending a poor fit but still may require additional proceeds beyond the asset base. Companies who are restructuring a cash flow capital structure, have seasonal working capital structures, or are being acquired off an EBITDA with significant adjustments, can benefit from a more flexible ABL or ABL plus term loan.



■ **ARIF N. BHALWANI**
Third Eye Capital



■ **BRAD KASTNER**
MidCap Financial



■ **AARON PECK**
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Risk and Creativity

For Peck, private credit and ABL unlock the ability to “play in the seams” where banks aren’t active - or to work as a complementary solution supporting a bank. Monroe Capital often works with banks when the borrower’s needs exceed the bank’s risk limits. In some of these instances, Peck said, Monroe structures the deal so the bank takes the safer senior position while Monroe provides the additional capital, using formats like A note/B note, first out/last out, or back leverage. In other times, Monroe holds the entire stretch senior tranche.

The goal is to give the borrower full funding without pushing the bank beyond its comfort zone, while keeping both lenders aligned on monitoring and problem-solving so the relationship stays collaborative rather than adversarial.

In any event, these partnerships rely on a clear view of risk and a willingness to embrace creativity. It is important for private credit providers to think like owners, not just lenders, Bhalwani said.

Bhalwani’s risk checklist starts with “durability of the collateral base, real-time access to reporting, and strong intercreditor protections.” He also wants cure rights and the ability to buy out the ABL if needed.

Kastner zeroes in on asset quality. “If the working capital assets are liquid and predictable, the lien package becomes less critical; however, we can be much more creative and flexible with a full lien package.”

Looking Ahead

Bhalwani expects deleveraging to continue, keeping opportunities open for lenders who can work through complexity. Kastner anticipates demand from borrowers with irregular working capital cycles.

Peck is watching the impacts of tariffs, AI-related capital demand, and commercial real estate refinancing needs. “In real estate credit, sooner or later, some banks will start pulling the rip cord,” he says. “That, we believe, will create refinancing opportunities beyond the current risk tolerance of most banks.” Additionally, Peck expects there to be continued capital

demand related to the proliferation of artificial intelligence. “We are seeing significant demand for capital to finance projects related to the massive growth in AI. From financing data centers and the hardware associated with AI, to the massive demand for power, asset-backed finance opportunities abound.”

Private market leaders see major opportunities to collaborate to solve middle-market challenges. The middle-market accounts for more than 30% of all private jobs. Volatility, trade instability, and higher-for-longer interest rates make it harder for these businesses to receive funding and liquidity from traditional sources. Private credit and ABL

partnerships create a runway for this crucial sector to continue to adapt and grow. 📈



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Michele Ocejo is SFNet director of communications and editor-in-chief of The Secured Lender.

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