Non-Bank Lenders and the Rise of Sponsor Finance

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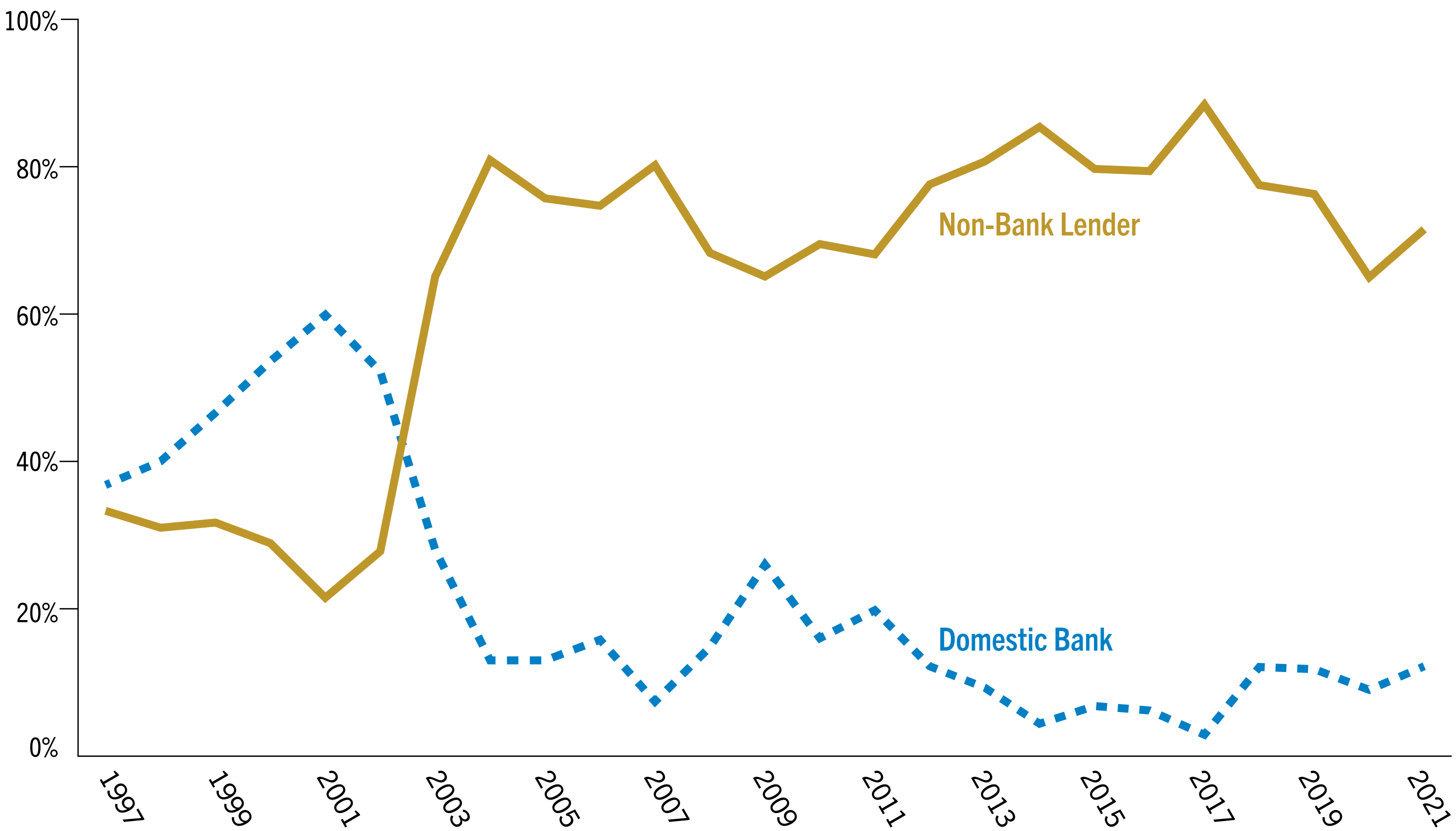
Non-bank lenders have replaced banks as the main source of debt capital for sponsor-backed middle market companies.

A Shift in the Source of Funds for Middle Market Deals



Pitchbook, LCD, "High-End Middle Market Lending Review 4Q 2023." Excludes data for 2020, 2022 and 2023 because PitchBook LCD did not have enough observations. Data series begins in 1997.

Regime Change

- Twenty years ago, the primary source of debt capital for middle market companies was regional commercial banks.
- Many of these local banks were subsumed by national brands in the 1990s; then, new regulation further hindered banks from issuing smaller company loans, setting the stage for private direct lenders to step in.
- Non-bank lenders brought distinct innovations (such as the unitranche loan) and offered a number of benefits (including speed, simplicity and certainty of execution) to the private equity firms driving most middle market transactions.
- The relationship that grew between non-bank direct lenders and PE sponsors has developed into a win–win partnership that undergirds a long-standing symbiosis in the space.

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