Westlake Securities Best Practices on: **Refinancing Strategies for Middle-Market Companies**

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Landscape Overview

A noteworthy proportion of companies operating within the lower middle-market segment across the United States are currently confronting impending debt maturities within the upcoming twelve-month period. Thankfully, a set of advantageous opportunities can be found within the private capital landscape for these enterprises to effectively bolster their overall financial standing. The increasing prevalence of direct lending practices and the emergence of alternative financial solutions are now contributing to a broader spectrum of available choices, characterized by their speed of execution, inherent flexibility in structuring, and the capacity for substantial capital deployment. With a considerable amount of dry powder, private credit funds are well-situated to present more competitive interest rates and more accommodating terms, thereby establishing a favorable environment for borrowers seeking to secure reduced borrowing costs, implement modifications to their amortization schedules, and strategically position themselves to access fresh capital for future growth initiatives.

Overall, private credit has matured into a robust, borrower-friendly source of refinancing for middle-market enterprises.

Key Considerations and Best Practices

01 // Early Action

- Engage lenders 9–12 months before debt maturity to secure ample time for negotiation and due diligence.
- Be prepared with comprehensive financial forecasts and a clear strategic plan to instill lender confidence.

02 // Evaluate Refinancing Paths

- Amend & Extend: Potentially easier than a new loan, but existing lenders may demand additional fees, higher spreads, or tighter covenants in return for extending maturities.
- New Debt Facilities: Competitive bidding among private credit funds can yield more advantageous pricing, structure, and covenant flexibility.

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03 // Optimize Capital Structure

- Unitranche Financing: Simplifies the structure by blending senior and junior debt, often with a single interest-only facility.
- Split Facilities: Combine a lower-cost asset-based revolver (from a bank) with a term loan from a direct lender to reduce blended interest costs.

04 // Lender Competition and Negotiation

- Solicit term sheets from multiple direct lenders to ensure the best terms on interest rates, maturity, covenants, and additional capital availability.
- Consider sponsor or equity support to de-risk the deal and improve overall pricing and flexibility.

05 // Risk Management

- Interest Rate Volatility: Most private credit loans float; use caps or swaps if necessary to mitigate rate spikes.
- Covenant Cushion: Negotiate realistic thresholds to avoid defaults in volatile market conditions.
- Refinancing Costs: Watch for fees, prepayment penalties, and potential make-whole provisions that can reduce net savings.

Strategic Outcomes

Companies that successfully navigate this process can:

- Lower their all-in borrowing costs by leveraging a competitive lending market.
- Extend or even remove near-term amortization, stabilizing cash flow and freeing up resources for growth.
- Raise additional capital for strategic acquisitions or expansions, often via incremental facilities or delayed-draw tranches.

By starting early, engaging skilled advisors, and capitalizing on lender competition, companies can transform near-term debt maturities into an opportunity to solidify their balance sheets and position themselves for sustainable growth.

Strategic Outcomes Continued

Example Scenario

A company operating within the lower middle-market segment is facing debt maturities within the next twelve months.

Consequently, this company is actively seeking to undertake a refinancing process with several key objectives in mind. These primary goals include achieving a reduction in its existing borrowing costs, extending the period over which the debt matures or its amortization schedule, and also exploring the potential to raise additional capital to support future endeavors.

In the prevailing market conditions of today, private credit has emerged as a particularly influential and dominant force in providing financing solutions for companies of this profile.

Therefore, gaining a comprehensive understanding of the various options available within this space and establishing a working relationship with a leading investment bank and/or engaging in consultations with an extensive network of experienced professionals are absolutely crucial steps for navigating this process successfully and achieving the desired financial outcomes.

Market Trends Favoring Private Credit Refinancing

Private Credit's Rise

Banks have retrenched from middle-market lending due to post-2010 regulations (e.g. limits on leverage) and recent banking turmoil, opening the door for private credit funds. Private debt AUM has ballooned to ~$1.6–2 trillion, and direct lenders now provide the majority of middle-market debt. In fact, private lenders now account for ~84% of middle-market loan deals (total debt packages <$500M) as banks pull back (*2). This means companies have a greater pool of options to refinance or fund growth.

Refinancing Wave

2023–2024 saw a surge in refinancing activity as companies proactively address looming maturities. Refinancing volume jumped ~80% (to ~$380B across U.S./Europe in 2024) – partly driven by a "maturity wall" of loans coming due, but also because financing costs improved (*2).

Many loans issued at peak rates in 2022–2023 were refinanced in 2024 once interest rate spreads tightened. Both direct loans and syndicated loans saw spreads narrow by 100+ bps from 2023 highs, (*2) creating an opportunity for borrowers to lower interest costs.

"Borrower-Friendly" Conditions

By late 2024, credit markets turned in favor of borrowers as lenders competed to deploy capital. Middle-market lenders had abundant "dry powder" and thin deal flow, putting pressure on them to refinance existing loans (rather than be repaid) and chase new deals (*4). The net result was meaningfully lower borrowing rates and looser terms for middle-market borrowers. One debt advisory noted that by Q4 2024, unitranche loan pricing had settled around SOFR (4.34% as of March 28, 2025) + 4.5–5% for larger sponsors, with most new direct loans pricing below SOFR + 6% (versus above +6% a year prior).

Maturity Wall & Private Credit Capacity

A substantial "maturity wall" looms in 2025–2026 (est. $277B of leveraged loans maturing, with ~$96B due in 2025) (*3). Private credit funds are expected to refinance a significant share of these loans. Many direct lenders have raised large funds anticipating this need, and even banks are partnering with private credit firms to fill the gap. (For example, Wells Fargo's JV with Centerbridge, Citi with Apollo, etc., have been formed to address non-bank lending opportunities (middlemarketgrowth.org). Analysts expect private credit to continue filling financing gaps as companies roll over debt in a higher-rate environment.

Advantages of Private Credit for Fast Refinancing

Speed and Certainty

Private credit can offer faster execution and greater certainty than alternatives. Rather than a months-long bond issuance or syndication process, a direct lender can underwrite and close a tailored loan relatively quickly – a crucial advantage when time to maturity is short.

Flexible Structures

Private credit deals should be structured to meet the borrower's goals. Terms can be created to be bespoke: e.g. unitranche loans (one facility replacing separate senior and mezzanine debt), interest-only periods or minimal amortization, and features like Delayed Draw Term Loans (DDTLs) for future capital needs. Some direct loans allow PIK (paid-in-kind) interest toggles or other means to defer cash interest, if needed, to help companies manage near-term cash flow. Terms can effectively extend amortization and reduce debt service in the critical early years of a refinance. The ability to defer portions of interest is often an option in private credit agreements and can help companies conserve cash during a turnaround or expansion. The trade-off is that deferred interest accrues, and total leverage may increase over time.

Confidentiality and Sponsor Support

Private credit transactions are private bilateral loans, avoiding the need to publicly market financial information. This confidentiality can be important if a company doesn't want to telegraph refinancing risk to competitors or stakeholders. Moreover, if the company

is private equity-backed, sponsors often have strong relationships with direct lenders and can leverage those ties to secure favorable terms. Top sponsors have shown willingness to inject equity or other support to de-risk refinancings, which reassures lenders and ultimately protects their loan principal. This can help secure a lower rate or additional funding from lenders who take comfort in sponsor commitment.

Ample Capital Seeking Deals

There is significant dry powder in private credit funds and mega-funds moving down-market, which benefits borrowers. Lenders need to put capital to work—if M&A deal flow is slow, they focus on refinancing opportunities to prevent loan repayments from shrinking their portfolios. This has led to highly accommodative behavior: some direct lenders have even lowered their spreads to retain borrowers who might otherwise refinance elsewhere. Historically, direct loans carried ~100–150 bps higher interest than comparable bank loans in exchange for their flexibility, but that premium compressed in 2024 as private lenders matched bank pricing to stay competitive. For a company refinancing now, this competition can be leveraged to achieve better pricing and terms than were available a year ago.

Take a Proactive Approach

Start the Process As Early As Possible

Be as proactive as possible. Don't wait until the last minute. A middle-market company should ideally begin refinancing discussions 9–12 months before maturity (or even earlier if performance or markets are shaky). Advisors warn that waiting could mean running into a "crowded" market later. Kicking off a refinancing early also buys time to negotiate and, if needed, improve financial metrics or line up sponsor support.

Evaluate Amend-and-Extend vs. New Debt:

If the company's existing debt is private (or even syndicated), an "amend and extend" with current lenders can be one path. In a market where new financings are less abundant, many borrowers are negotiating extensions of existing loans rather than refinancing out completely.

Pros: avoids a full new debt issuance process and may leverage an existing loans rather than refinancing out completely. Pros: avoids a full new debt issuance process and may leverage an existing relationship; **Cons**: Incumbent lenders will demand concessions for their consent. What might they ask for? Lenders often seek to tighten protections in exchange for extending maturity or providing additional capital. Common asks include resetting call protection (new no-call periods starting at amendment), possibly upping the interest margin or floors, adding fees, strengthening collateral (additional guarantees or security on the loan), and resetting covenants to reflect the company's new plan/leverage. Lenders may also insist on provisions to prevent being leapfrogged by other debt—e.g., a "springing maturity" clause that accelerates their loan if junior debt isn't refinanced before its maturity (*5).

Borrower Tip

Be prepared to offer some economics (fee or slight margin bump) in exchange for more runway but also use improved performance or market conditions to negotiate better terms than the original deal. If the credit profile has improved or market rates are lower, seek to remove overly restrictive covenants or lower the spread. In 2023–2024, many borrowers successfully negotiated more favorable terms on covenant cushions, baskets, etc., as part of extensions (taking advantage of the shifting "market" in documentation).

Run a Competitive Process

Even if you ultimately stick with current lenders, it pays off to solicit alternative financing proposals. Engaging an investment bank or advisor to quietly approach multiple private credit providers can yield competing term sheets. This puts the company in a stronger position to lower borrowing costs. For example, if incumbent lenders know you have an offer from another fund at a lower rate or with an attractive structure, they are more likely to match or beat it to avoid losing the loan. In practice, direct lenders are actively competing and have tightened pricing to win mandates.

In the past, Goldman Sachs notes that borrowers historically paid a premium for private credit's flexibility, but in today's market that premium is eroding due to lender competition. Which you can use to your advantage. Solicit proposals that address your objectives (e.g., some lenders might offer a longer term or larger upsize). Be sure to compare not just headline interest rates but also fees, amortization, and covenants. Also consider bank financing options: if your credit profile allows access to the syndicated institutional loan market or a high-yield bond, get quotes there too—even if you prefer the certainty of private credit, knowing the "market" price from all sources strengthens your hand in negotiations with direct lenders.

Optimize Debt Structure (Lower Cost & Flexibility)

A key goal is lowering the overall cost of capital while achieving needed flexibility. Often this means choosing the right debt instrument or mix:

- Unitranche Loans: These combine senior and junior debt into one facility (often provided by one lender or a club) at a blended rate. Unitranche debt has become common in middle-market private credit because it simplifies the capital structure and usually carries limited mandatory amortization (often just a small annual amort.) until maturity. Replacing a bank term loan + mezzanine combo with a unitranche can lower the weighted-average cost if the mezz was very expensive, and it pushes out amortization (improving near-term cash flow). Many refinancings in the middle market now use unitranche loans to extend maturities 5+ years with interest-only terms.

- Senior/Junior Split: In some cases, blending an asset-based loan (ABL) or bank revolver for working capital with a direct lender term loan for growth capital can minimize cost. Banks might still offer a revolving line secured by receivables/inventory at a low rate, while a private credit fund provides the term debt. This can lower the average interest rate and provide ample liquidity (the ABL addresses seasonal needs, and the term loan refinances the term debt).

- Secured vs Unsecured: Most private credit for middle-market is secured first-lien debt. However, if the company has minimal assets to pledge or wants to avoid encumbering new assets, some lenders might offer a stretch senior or mezzanine piece (at higher cost) to top up the financing. Weigh the cost vs. benefit of any unsecured "airball" tranche. In general, providing solid collateral will get you a better rate.

- Covenant Considerations: Expect at least one financial covenant in private credit deals (usually a leverage or interest coverage test). Make sure your forecasts show ample headroom on any maintenance covenant – negotiate for cushion in the covenant levels or even holiday periods before testing begins, if possible. Strong lender competition has allowed borrowers to secure looser covenants in some deals (or incurrence covenants instead of maintenance in rare cases). But lower middle-market loans tend to have tighter covenants, so focus on obtaining a structure you are confident you can live with. It's better to pay a bit more in interest for a covenant you won't trip than to take an ultra-low rate with razor-thin covenant room.

- Interest Rate and Hedging: Given most middle-market loans are floating-rate (typically indexed to SOFR), consider hedging strategies if you need to cap interest expense. With rates having risen sharply, many borrowers purchased interest rate caps or swaps to protect against further increases. The good news is forward curves in 2024–2025 point to modestly declining base rates. Indeed, as the Fed has started cutting rates, and SOFR had fallen from ~5.3% to ~4.6% by late 2024. If further rate relief comes, a refinanced loan might see its all-in rate decline over time. Nonetheless, ensure you can handle interest costs if rates move up as well—stress test your projections.

Advantages of Private Credit for Fast Refinancing

Extend and Smooth Out Amortization

A core objective is to push out the maturity wall and reduce annual principal payments. Private credit lenders are generally amenable to long tenors (5–7 year terms) with minimal amortization (typically 1% per year or even zero until maturity, unlike bank term loans that often amortize faster). When refinancing, explicitly negotiate for an "interest-only" period or bullet maturity. Most direct loans already have this structure, but if your current debt was amortizing, the refinance will immediately ease cash outflows. This improves liquidity and can free up cash for growth initiatives. If existing lenders are only willing to extend a short period, it may be worth refinancing with a new lender to get a full 5-year reset on the clock. **Successful approach**: Many companies in 2023–2024 did "amend & extend" transactions that pushed maturities out by ~2-3 years, often from 2024 to 2026–2027, giving breathing room for execution of their plans. Ensure any new maturity is well beyond the current economic uncertainty horizon (and ideally after expected market improvements).

Secure Additional Capital if Needed

If the company's goal is not just to refinance existing debt but also to raise new capital (for capex, acquisitions, or simply more liquidity), build that into the refinancing plan. Many private credit firms are willing to upsize facilities or add incremental loans for strong borrowers. For example, if a lender extends their existing loan and adds debt to support acquisitions, they can optimize the capital structure for expansion. This kind of refinancing and upsize or a combination

refinance + growth capital" transaction is common. Best practice is to forecast your capital needs for the next 1–2 years and communicate them to lenders. Rather than just covering the maturing amount, ask for a delayed-draw tranche or revolver for future needs, or oversize the term loan slightly (if leverage allows) to add cash to the balance sheet. Direct lenders often accommodate this, especially if they can structure the extra funding as a committed DDTL (which you only draw when needed). The key is to ensure the business isn't immediately constrained by lack of capital post-refinancing—otherwise you might be back in the market prematurely. If current lenders won't provide additional funds, soliciting a new lender who will refinance and inject new money could be the better route.

Leverage Sponsor and Advisor Relationships

If a private equity sponsor backs the company, use their clout and relationships. In 2024, transaction leverage averaged 3.7x Debt/EBITDA, consisting of 3.1x senior debt and 0.6x sub debt. Top sponsors have preferred lending partners and can often negotiate attractive terms by steering deal flow to those lenders. Sponsors can also show commitment by investing more equity or rolling equity instead of taking dividends, which strengthens the balance sheet and reduces perceived risk. From a lender's view, a supportive sponsor who is willing to leave money in the business (or put in more) is a green light to extend credit at lower spreads. If the company is non-sponsored, consider engaging advisors who have deep networks among private credit funds. Investment banks typically track which lenders are active and the latest market-clearing terms. Their expertise can help in structuring the deal optimally and in approaching the right lenders.

Risk Factors and Challenges to Monitor

Even with a well-planned strategy, refinancing comes with risks that companies must manage:

Interest Rate Risk

Private credit loans are typically floating-rate. If inflation or other factors send rates upward unexpectedly, borrowing costs could rise. Floating rates can "push companies to the brink" if not managed, even when some interest is deferred. Mitigate this by fixing rates (if possible) or using hedges. Conversely, in a declining rate scenario, floating rates will drop. Either way, plan for rate volatility.

Refinancing Costs and Fees

Lowering the stated interest spread is one goal, but watch out for one-time costs that can eat into savings. These include upfront OID (original issue discount) or closing fees on new loans, legal and banking fees, and any prepayment penalties on the existing debt. If the current debt has a make-whole or non-call period, the "refinancing penalty" might be substantial. In some cases, it may be cheaper to amend the existing loan (with a minor consent fee) rather than refinance and pay a large prepayment fee. Do the math for each option. Also, if extending with current lenders, they will likely charge an amendment fee and possibly a few points of OID on any new money – budget for this in cash needs.

Covenant and Default Risk

A refinance is only a solution if the company can comfortably meet the new debt's terms. Be realistic about covenants: If the business underperforms and breaches a covenant, the company could end up in a default or forced restructuring despite having extended the maturity. The current default rates in private credit remain low, and lenders have shown flexibility by amending loans rather than pushing defaults in a high-rate environment (roughly 10–15% of private loans were amended in the past year to avoid defaults). But not every lender will be lenient, especially if conditions worsen. Some weaker borrowers "will simply be unable to 'amend and extend' and may have to default on obligations", J.P. Morgan cautions in its outlook (*3). To avoid this fate, build a cushion in your business plan and consider raising some equity if leverage is high. It's better to enter a new credit agreement with conservative assumptions than to hope for perfection and trip covenants later.

Execution Risk

Refinancing in the private markets isn't a public affair, but it still requires hitting milestones and possibly meeting lender conditions precedent. There is a risk that a chosen lender could pull back (for instance, if your Q3 results come in much worse than forecast during the term sheet stage, a lender might retrade terms or back out). Mitigate this by keeping multiple financing lines open until close and maintaining transparency with lenders due diligence. Also, coordinate the payoff of old debt carefully—ensure the new funds will be available well before the old maturity or any drop-dead date. Companies sometimes arrange a short-term bridge loan or backstop facility if timing is tight, just as a safety net.

Structural Subordination

If the company has other layers of debt (subordinated notes, seller notes, etc.), refinancing the senior debt alone may not solve all issues. A common risk is "springing maturities" – e.g. if you extend your first-lien loan to 2027 but leave a second-lien or note maturing in 2025, the first-lien lender may insist that the junior debt not be allowed to mature earlier (to avoid a scenario where the junior creditor can force a crisis). This is why an ideal refinancing addresses the entire capital structure. It may be necessary to refinance or renegotiate junior debt alongside the senior. This could mean persuading a mezz lender to also extend (perhaps paying them a fee or slightly higher rate) or taking out the junior piece entirely (roll it into the new unitranche). Ignoring other maturities could create a future pinch point.

Macroeconomic and Market Conditions

The private credit market's appetite can change with broader conditions. In a recession or credit crunch, lenders might demand higher spreads or pull back from riskier credits. The company should monitor market sentiment—for example, if economic indicators worsen, it might be better to lock in refinancing sooner even if pricing is a bit higher, before lenders potentially tighten terms. Conversely, if the economy is improving and your maturity is late in 2025, there might be merit in a shorter "bridge" extension now and a fuller refinance later under better conditions. This is a nuanced call – consult advisors on market timing. The general consensus is that 2025 could see a more robust deal environment, which might tighten credit availability for pure refinancings. So, balance optimism with prudence when timing your refinance.

Lower Middle-Market Constraints

For smaller companies, a notable risk is that there are simply fewer lenders willing to write small loans or work with unsponsored deals. While the private credit boom has trickled down, the universe of lenders for sub-$10M EBITDA businesses is limited, and they often charge more and require stronger protections. Such companies should be prepared that refinancing might not dramatically lower their interest rate – success might be measured more in securing a needed maturity extension and sufficient capital. It's still worth shopping around, but recognize the leverage (bargaining power) might lie more with the lender in the very small tier of the market.

Successful Approaches in Recent Transactions

Refinance Early to Cut Costs

When market windows open, seize the chance to refinance. Those who do when direct loan yields dip should be able to reduce all-in borrowing costs by triple-digit basis points. This improves earnings and cash flow, helping both the company and its investors.

Leveraging Lender Flexibility

The private credit industry has shown a willingness to amend terms and avoid defaults in the face of rate spikes. Around 10–15% of private credit loans underwent amendments in the past year to accommodate borrowers. Companies that approached their lenders early, communicated challenges, and offered reasonable concessions often obtained extensions or covenant relief. A best practice is to treat your lenders as partners —if your business hits a rough patch, bringing lenders to the table with a credible plan (and perhaps equity support) can turn an impending maturity/default into a successful extension. Lenders prefer a consensual solution over owning the keys to the business, as long as they are aligned with the story. Many middle-market end-and-extend include additional equity infusions or collateral in exchange for more time, leaving both borrower and lender better off than a forced restructuring.

Market Timing and Opportunistic “Repricings”

In some cases, companies refinanced even if their maturities were further out, purely to take advantage of better terms. For example, a number of upper-middle-market borrowers who took unitranche loans in 2022 at very high rates opportunistically refinanced into cheaper syndicated loans in early 2024 when loan investors became hungry again for paper. This kind of repricing exercise (essentially a refinancing for cost savings) can be a smart move if conditions allow. It underscores that refinancing isn’t only for distress or imminent maturities—it’s also a tool to optimize capital structure when the market moves in your favor. Continually monitor the credit market; if you can replace your debt with a significantly lower-cost or better-structured package, doing so can be a "successful transaction" that materially boosts equity value.

Partnering with Experienced Advisors

Some of the most successful refinancings involve engaging top-tier advisors who bring market insights and negotiation savvy. For instance, companies that worked with leading investment banks or consulting firms on debt strategy often were able to structure creative solutions. These might include things like raising second-lien financing or preferred equity as part of the refinance to keep senior leverage manageable or using innovative structures. While not every situation requires complex structuring, having advisors who can think outside the box—and who know what various credit providers are looking for—can be a game-changer. Successful outcomes often feature well-orchestrated processes where multiple stakeholders (existing lenders, new lenders, equity holders) are aligned through skillful negotiation.

In Summary

Refinancing a middle-market company's debt with private credit is highly achievable in the current environment, provided it's approached strategically. The key considerations boil down to securing the best possible terms (lower rate, longer term, sufficient capital) by leveraging a competitive lender market, and mitigating risks through early action and solid structuring. Market trends are in borrowers' favor – private lenders are liquid and eager to invest – but each company's situation is unique. By following best practices (early engagement, exploring all options, and negotiating effectively) and learning from past successful transactions, companies can navigate a looming maturity and emerge with a stronger balance sheet. The overarching theme from firms is that private credit has matured into a reliable refinancing option for middle-market companies, offering tailored solutions when traditional banks or markets fall short. With careful planning, a company can turn its refinancing into an opportunity to not only avoid a crunch, but to lower its financing costs, extend its debt horizon, and even raise growth capital for the future.

Sources

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