

diamond willow

Aligning story, strategy and structure to secure corporate financing

Alternative Debt Guide

Alternative Credit Explained: Lenders,
Structures, Economics, and Fit



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The logo consists of the lowercase letters 'dw' in a bold, sans-serif font, centered within a white square background.

What You Need to Know About Alternative Lending

This short note is designed for Canadian business owners, executives, advisors, sponsors, and others who want a practical understanding of private/alternative lending and how it fits alongside traditional bank financing.

What is Alternative Lending?

Private/alternative lending is debt provided by non-bank lenders - including private credit funds, direct-lending platforms, specialty finance companies, asset-based lenders, pension/insurer affiliates, mezzanine lenders, and more. These lenders are funded through various sources, which may include capital from institutional or high net worth investors, bank-funded credit lines, and more.

What They Lend:

- Senior secured (incl. uni-tranche and stretch-senior)
- Second-lien
- Mezzanine or subordinated (often with PIK features or warrants)
- Asset-based facilities (A/R, inventory, equipment)
- Venture & recurring-revenue debt
- Bridge loans for acquisitions or recapitalizations

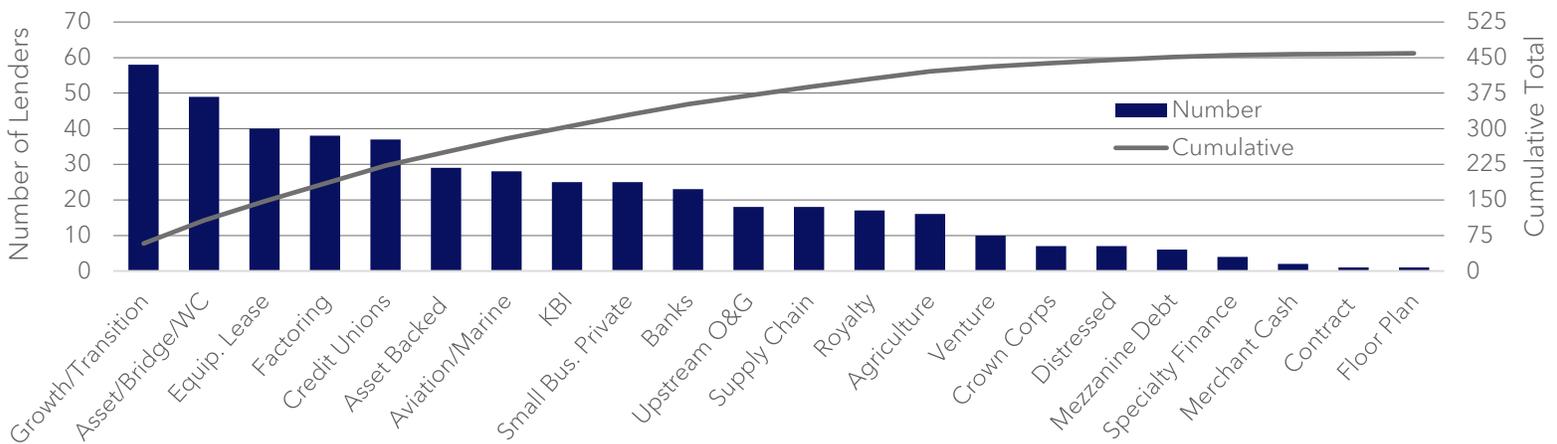
How They Get Paid:

- Interest (usually floating over CORRA/Prime)
- Upfront/arrangement and origination fees
- Monitoring/admin fees
- In mezzanine cases, occasional equity participation

How the Loans are Secured:

Typically secured under PPSA, with intercreditor arrangements when paired with a bank or other senior debt facility.

Diamond Willow's Canadian Lender Network



Diamond Willow tracks every lender operating in Canada with a network of 450+ lenders spanning all situations.

How Alternative Lending Differs from Banks

Mandate & Regulation. Canadian banks operate under regulations and internal risk frameworks set by the Office of the Superintendent of Financial Institutions (OSFI) and internal risk frameworks. Alternative lenders are less regulated with mandate-driven return targets and flexibility to underwrite nuanced stories.

Speed & Certainty. Alternative lenders generally make concentrated hold decisions and can move on the basis of partner-level conviction. That often produces faster term sheets and higher closing certainty, especially in competitive M&A.

Structure & Flexibility. Expect tailored covenants, broader use-of-proceeds (including acquisitions, growth capex, refinancings, and select distributions), and unique features like delayed-draw tranches for buy-and-builds. Facilities are commonly crafted around the company's cash-flow profile and KPIs rather than rigid policy boxes.

Leverage & Tenor. Alternative lenders can support higher total leverage and shorter terms than senior bank debt, often with lighter scheduled amortization. This trades off against a higher all-in cost and tighter information rights.

Documentation & Control. Credit agreements are comprehensive, with detailed reporting packages, permission/consent mechanics (acquisitions, dividends, capex), and clear default remedies. In stressed situations, alternative lenders may prefer proactive amendments if the plan is credible and sponsor/management is aligned.

Benefits and Considerations for Borrowers

Key Benefits

- **Tailored structures** – facilities may be aligned to recurring revenue, seasonality, contracted backlog, or M&A roll-ups.
- **Growth friendly** – delayed-draw/accordion capacity to fund acquisitions or growth without re-papering every time.
- **Cash-flow relief** – interest-only or back-ended amortization can free near-term liquidity.
- **Story credits welcomed** – turnarounds, carve-outs, and “near-bankable” profiles get a fair hearing when the plan is credible.

Important Considerations

- **Higher cost of capital** – spreads, fees, and call-protection mean the total cost is above senior bank debt.
- **Covenants & controls** – financial and operational covenants plus consent regimes; sometimes board observers.
- **Reporting intensity** – monthly reporting, KPI dashboards, variance analysis, and audit/tax timelines must be met.
- **Prepayment economics** – make-wholes and prepayment penalties can be material.
- **Equity alignment (mezz)** – warrants or success fees are common in subordinated layers.
- **Intercreditor complexity** – if paired with ABL/LOC, ensure lien priorities, caps, and cash dominion are workable for operations.

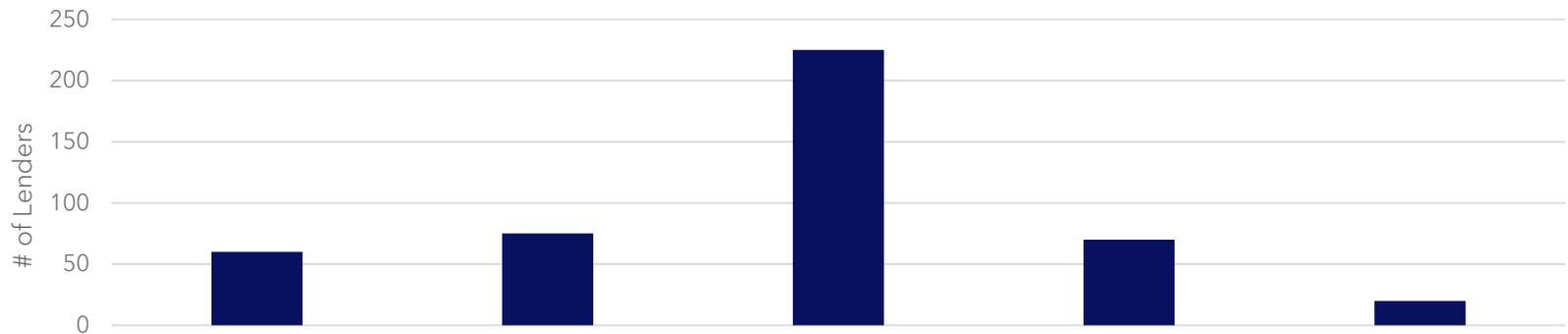
Who Are They?

Types of Funds:

- **Direct-lending funds** – independent managers and global platforms with Canadian/regional teams, writing senior/uni-tranche and second-lien loans.
- **Pension/insurer-affiliated lenders** – long-duration capital seeking stable returns.
- **Mezzanine & transition capital funds** – subordinated debt with equity-like features for growth, MBOs, and recapitalizations.
- **Specialty finance companies** – equipment finance, leasing, factoring, inventory/equipment term loans.
- **Venture & recurring-revenue lenders** – SaaS and IP-heavy businesses underwritten to ARR/NRR and gross margin metrics.
- **Bank-owned ABL and “alt” desks** – asset-based lines or non-conforming desks adjacent to the core bank.
- **Crown & para-public (adjacent)** – BDC/EDC programs that can complement alternative lending structures via guarantees, mezzanine, or co-lending.

Ticket sizes range from single-digit millions for niche lenders to several hundred million for larger platforms; most mid-market borrowers find ample options within that span.

Diamond Willow Mid Market Lender Breakdown by Rate



Rate Range				
0%-9%	10%-12%	13%-18%	19%-30%	30%+
Banks	Near-Bank	Private CF Lenders	Private CF Lenders	Factoring
Crown Corps.	Pension Funds	ABL	ABL	Distressed
Credit Unions	Large Institutions	Working Capital	Working Capital	Special Situations
	Select Private Lenders	Technology	Technology	
	Equipment Leasing	Specialty Sectors	Specialty Sectors	
		Equipment Lenders	Equipment Lenders	

When is Private/Alternative Lending Appropriate?

When you Should Consider Private/Alternative Lending:

- **Speed & certainty** are paramount (competitive M&A, tight closing windows).
- **Leverage or flexibility** beyond a bank's appetite is required (growth, roll-ups, capex, contract-backed projects).
- **"Story" or transition situations:** turnarounds, carve-outs, covenant resets, bank fatigue, or post-event refinancings.
- **Cash-flow matching** is valuable: interest-only periods while initiatives mature, then step-up amortization.
- **Sponsor alignment:** PE-backed platforms seeking a scalable debt partner for add-ons.
- When there are **risks that banks can't price:** poor historical performance, extreme customer/supplier concentration, disputes or lawsuits, industry risk, or short-term client needs

It is less optimal for asset-rich, stable profiles which can obtain inexpensive senior bank debt for most needs, or when a simple operating line is sufficient.

Accessing Private/Alternative Lending

Two Common Approaches:

- **Direct outreach** – management or sponsors approach targeted lenders; works best for straightforward stories with clear fit.
- **Advisory-led process** – an advisor runs a competitive, time-bound process to optimize structure, cost, and covenant flexibility, and to preserve optionality with banks/ABL. This is common when the situation is nuanced, timelines are tight, or multiple structures could work.

What to Prepare (for a detailed list see our Lender Preparedness Checklist):

- **3-5-year financial model** with covenant headroom, liquidity bridge, and downside cases.
- **Lender presentation:** business model, unit economics, customers/contracts, competitive moat, management biographies.
- **Historical financials:** two-to-three years or monthly for 24-36 months
- **Key performance indicators** such as ARR/NRR, backlog, utilization, churn as applicable.
- **Debt schedule & pro forma sources/uses;** cap table and any shareholder loans/subordination details.
- **Collateral map** including assets such as A/R, inventory, equipment, IP, and real estate, or major contracts, permits/licenses or insurance.
- **Governance & reporting cadence:** audit/tax status; legal structure (entity chart) and PPSA/hypothec considerations.

The Bottom Line:

Alternative lending is now a mainstream pillar of Canadian corporate finance. Used thoughtfully - often in tandem with bank finance - it can provide the speed, certainty, and flexibility needed to scale, acquire, or turn around. The right partner, the right structure, and the right process are what separate a merely available deal from a value-creating one.

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Tailored corporate debt financing solutions.

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