BEYOND THE BANKS

Private debt and the EMEA mid-market - why bank credit thinned out beneath €25 million, what lending from private balance sheets actually looks like, a working decision matrix for debt versus dilution, and how companies raising €2 million to €25 million borrow well.

PRIVEA PARTNERS RESEARCH · AUGUST 2026 · 8 PAGES

ABOUT THIS PAPER

This paper is written for founders, owners and boards weighing debt against equity in EMEA, and for the advisers who serve them. It draws on Privea Partners' own vantage point: more than 140 single and multi family office relationships across 26 markets, a working focus on cheques of €2 million to €25 million in equity and debt, and a senior team whose combined transaction track record exceeds US$13 billion. What follows is practitioner observation rather than market statistics - the credit market as we see it from inside the flow. It is one of five papers in our August 2026 research series on capital raising in EMEA; the companions - on the family office shift, Gulf capital, the mid-market equity gap and raise-readiness - are available at priveapartners.com/insights.

How to read it: section 01 explains the space the banks left; section 02 describes balance-sheet lending in practice; sections 03 and 04 frame debt versus dilution and reduce it to a working matrix; sections 05 and 06 close with borrowing guidance and the firm's own view. Boards weighing a facility should start with the matrix in section 04 - the honest answers usually make the decision.

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EXECUTIVE SUMMARY

For most mid-market companies in EMEA, the bank that financed their last decade will not finance their next one. This is not malice. It is arithmetic - and it has quietly redrawn the map of who lends to whom beneath €25 million.

This paper maps what has replaced bank credit in the band: lending from private balance sheets, principally family offices, at sizes the banks have abandoned and the credit funds cannot efficiently reach. It sets out what that lending actually looks like - instruments, covenants, pricing, security and speed - and then addresses the question that matters more than any comparison of lenders: when is debt the better answer to dilution, and when is it the wrong answer altogether? A working decision matrix is included, along with practical guidance on running a private debt process well. The thesis is straightforward. At current equity marks, debt from a matched private balance sheet is the most underused instrument in the band - not because it is hard to find, but because most companies never learn it exists, and most that do approach it like a bank product instead of a relationship. The matrix in section 04 is the paper's practical core: six questions any board can answer in an afternoon, whose honest answers usually make the decision - or specify the blend - by themselves.

FINDINGS IN BRIEF

- The bank retreat beneath €25 million is permanent: capital rules and cost structures removed cash-flow lending from the band, and no market we cover expects it back.
- Credit funds cannot reach down: diligence economics hold their floors at or above roughly €25 million, for the same reason growth equity's floor sits there.
- Family balance sheets now lend into the space: €3 million to €25 million, three-to-seven-year terms, covenants negotiated to the business, execution in weeks.
- The live question is rarely bank versus private. It is debt versus dilution - and at current equity marks that question deserves more attention than most boards give it, which is usually none.
- Family credit frequently converts to equity partnership: the facility is how family and founder diligence each other, and the follow-on conversation starts from trust already built.

140+
FAMILY OFFICE RELATIONSHIPS

26
MARKETS COVERED

€2M-€25M
CHEQUE BAND

US$13BN+
SENIOR-TEAM TRANSACTIONS

01

SECTION 01

THE SPACE THE BANKS LEFT

The retreat of bank credit from the European mid-market was not an event. It was an erosion - regulatory, structural and demographic at once - and its consequences land precisely in the €2 million to €25 million band.

Post-crisis capital rules changed the economics of cash-flow lending to mid-sized private companies. Risk weights, provisioning and the cost of holding anything unrated pushed bank balance sheets towards property, large corporates and whatever can be collateralised and templated. The relationship banker who understood the business retired and was not replaced; the credit decision moved to a scorecard in another city.

The erosion was demographic as well as regulatory. The generation of credit officers who could underwrite a business on its cash flows and its people retired into a system that no longer trains their replacements; lending judgement concentrated into models, and models do not lend €8 million to a founder-run company with customer concentration and a good explanation. What left the market was not just appetite. It was the capacity to understand - and family lenders, run by exactly the people the banks stopped training, stepped into that vacancy naturally.

The consequences are familiar to any founder who has recently asked their bank for growth capital: months of process, covenant packages built for a different company, security demands that reach into the founder's house, and often - after all of it - a no. Growth capex, acquisitions and shareholder events are precisely the uses banks now find hardest to underwrite.

The retreat is uneven across EMEA, which matters for planning. UK and Dutch mid-market companies still find pockets of appetite at the challenger banks; German Mittelstand borrowers retain their house banks for working capital but not for events; Southern Europe is the thinnest of all; Ireland and the Nordics sit between, with appetite for asset-heavy businesses that evaporates for services. But the direction is the same everywhere, and no market we cover expects the banks to come back down-market.

Private credit funds filled the space above - but their economics generally begin around €25 million and climb. Below that line, the fund model struggles for the same reason institutional growth equity does: the diligence cost of an €8 million facility is not much lower than that of an €80 million one.

The demand side has grown at the same time. Companies that postponed equity raises rather than accept the marks of recent years did not stop needing capital; they converted equity demand into credit demand. In our conversations, a growing share of new mandate enquiries begin as debt questions - founders who have already decided what their equity is worth and want a route that respects it. Into this space, quietly, have come private balance sheets: family offices holding direct credit as a core allocation, lending to operating businesses they understand.

02

SECTION 02

WHAT BALANCE-SHEET LENDING LOOKS LIKE

Lending from a family balance sheet is not a bank product with different pricing. It is a different instrument: underwritten on the business and the people, structured to the situation, and executed in weeks.

The instruments span the range: senior facilities, unitranche-style structures, mezzanine with warrants or an equity option, and hybrid packages in which the same family writes debt and equity within one agreed structure. Sizes track the band we work in - €3 million to €25 million - with terms typically of three to seven years.

Covenants are negotiated to the business rather than lifted from a template. A family lender who understands seasonality will build it into the covenant test rather than pricing it as risk. The trade is candour: monthly reporting is expected, questions are asked by people who have run companies, and the one genuine default is the surprise.

Security expectations are commercial rather than mechanical. Families lend against the business first and the assets second; personal guarantees are rarer than in bank channels, but honesty about existing charges and intercompany positions is assumed. Documentation is lighter yet real - facility agreements drafted by proper counsel, not handshakes. The difference is the speed of the negotiation, not the absence of one.

On pricing, family credit typically sits inside comparable private-credit funds for businesses the family knows, and above bank debt - where bank debt is actually available. The honest comparison is rarely bank versus family. It is family credit versus no credit, or debt versus selling equity at a price the founder will regret for a decade.

The question in this band is rarely bank debt versus private debt. It is debt versus dilution - and at current equity marks, that question deserves more attention than it gets.

Speed is structural, not promotional. There is no credit committee calendar; there is a principal with capital and a view. Where the relationship is warm and the preparation is complete, facilities in this band are agreed in weeks rather than quarters.

CREDIT AS THE FIRST DATE

A family that lends to a business it likes frequently becomes the equity partner of the business it now knows. Across our network, the debt relationship is often how the family and the founder diligence each other - and the follow-on equity conversation starts from trust already built, not from a standing start.

03

SECTION 03

DEBT VERSUS DILUTION

The real decision in this band is not which lender. It is whether to borrow at all - and the honest answer depends on arithmetic most boards never quite write down. This section writes it down.

Start with what dilution actually costs. Equity sold at a depressed mark is not a one-time expense; it is a permanent transfer of every future year of value at today's worst price. A founder who sells fifteen per cent at half the fair mark has not paid a financing cost - they have halved the return on a decade of work. Debt, by contrast, has a knowable worst case: the coupon, the covenants and the obligation to repay. The comparison only reads as close because dilution's cost is invisible on the day it is incurred.

Debt earns its place where three conditions hold. The cash flows must service it with headroom in the downside case, not the plan; the use of proceeds must be defined and cash-generative - capex with visible returns, an acquisition with known economics, a bridge to a specific event; and the balance sheet must carry it without converting every board meeting into a covenant conversation. Meeting two of the three is not a pass; it is a renegotiation of the plan until the third holds.

Debt is the wrong answer where any of those fail. A company that needs permanent capital - to fund product build-out, absorb losses or reposition entirely - should not finance a permanent need with a repayable instrument, whatever the dilution saved. In our experience the worst outcomes in the band are not expensive equity rounds; they are facilities written against forecasts that only the optimist's case could service.

One more honesty: leverage magnifies management as well as returns. A company carrying debt runs tighter - reporting sharpens, working capital gets managed, spending faces a monthly test it never faced before. Founders who have run both kinds of balance sheet often report that the discipline was worth more than the dilution saved. The benefit is real, and it is also the trap: it only compounds if the downside case was honest on the day the facility was signed.

The choice is also not binary. The structures we see completed most often in 2026 are blends: a smaller equity ticket at a defensible mark alongside a facility that funds the definable uses; mezzanine with an equity option that lets the family share upside without repricing the register; a bridge facility that defers the equity question to a better year. One family balance sheet can hold any of these whole - which is the quiet advantage of principal credit over both banks and funds.

Section 04 reduces this to a working matrix. It is deliberately blunt: the questions are answerable by any board in an afternoon, and the honest answers usually make the decision for you.

04

SECTION 04

THE DECISION MATRIX

Six questions decide most debt-versus-dilution cases. Answer each honestly, tally the columns, and treat a split verdict as an argument for a blended structure rather than a coin toss.

QUESTION	POINTS TO DEBT	POINTS TO EQUITY
Serviceability	EBITDA covers interest with headroom in the downside case, not just the plan.	Cash flows are volatile or reinvested; coverage depends on the forecast working.
Use of proceeds	Defined and cash-generative: capex, acquisition, a bridge to a known event.	Open-ended: product build-out, market entry, losses to be absorbed.
Valuation	Current marks undervalue the equity; the founder is unwilling to sell at the price offered.	Marks are fair or better; permanent capital is worth the dilution.
Register	The cap table is clean and owners want control unchanged.	The register needs a partner: succession, governance, credibility, follow-on depth.
Horizon	The need is a bridge - a defined period to a better raise, an exit or an event.	The need is permanent; repayment would starve the plan that justifies the money.
Risk posture	Owners accept fixed obligations against forecasts they genuinely trust.	Owners want risk shared; covenants would constrain bets the plan requires.

Two notes on using it. First, the matrix assumes honest inputs - a downside case built to pass the serviceability test is a default in draft form. Second, the strongest answers are often mixed on purpose: four answers pointing to debt and two to equity is not a contradiction but a specification, and a family balance sheet is the one counterparty that can write the resulting structure in a single negotiation.

A third note: re-run the matrix annually and at every material event. The answers move - marks recover, cash flows season, registers change - and a structure that was right at signature can be refinanced into a better one. The families we work with treat refinancing conversations as relationship deepening, not disloyalty; in our experience they are also where the equity conversation most often begins. The matrix prices advice, too: an adviser who cannot walk your board through all six questions from your own numbers is selling a product, not a judgement.

05

SECTION 05

WHAT THIS MEANS FOR FOUNDERS

Private lenders underwrite candour as hard as they underwrite cash flow. Six practical consequences follow - the same preparation that wins family equity, applied to credit.

1. **Run the matrix before the market runs it for you.** Decide debt, equity or blend on your own arithmetic - serviceability, use of proceeds, valuation, register, horizon, risk - before any lender or investor frames the question for you. The party that defines the structure usually wins the negotiation. Write the answers down; the discipline of the memo is half its value.
2. **Model the downside case first.** A lender is buying your worst quarter, not your best one. Three years of accounts, current management information and a downside case modelled honestly are worth more than any forecast that impresses.
3. **Map your security position before the first meeting.** Know what you can give and what you will not, what amortisation the cash flows genuinely support, and whether an equity option is on the table. Arriving with a position invites a negotiation; arriving without one invites a lecture.
4. **Price the whole package, not the coupon.** A slightly more expensive facility with covenants the business can live under, from a lender who will answer the phone in a bad quarter, is cheaper over its life than the lowest headline rate.
5. **Treat the lender as a future shareholder.** They often become one. The behaviour a family sees in a credit negotiation is the behaviour they underwrite for everything that comes after it - including the equity round you have not planned yet.
6. **Run it like a raise.** A short list of genuinely matched balance sheets, warm entry, parallel conversations and an honest timetable. Debt processes drift for the same reasons equity processes do - too broad an audience, too little preparation, too little momentum.

The discipline is identical to an equity process because the counterparty is: a principal, extending trust, at speed, to a company that has earned it. Companies that borrow well in this band tend to raise well afterwards - the network is the same people. And the sequencing advantage is real: a facility completed this year is the cheapest possible rehearsal for the equity process after it - same preparation, same counterparties, smaller stakes.

06

SECTION 06

THE PRIVEA VIEW

Our view on private debt in the band is unhedged: it is the most underused instrument in EMEA mid-market finance, and the gap between its availability and its adoption is a failure of visibility, not of product.

We expect family credit to take share every year we can see. More enquiries reach us as debt questions than ever before; more families in our network hold direct credit as a core allocation each period; and the arithmetic that removed the banks is regulatory bedrock, not cycle. Nothing in that mix mean-reverts; the only question is how quickly the band's borrowers find out.

We also think the debt-versus-dilution question is systematically answered wrong - in both directions. Founders who sell equity at marks they privately consider insulting, because debt never occurred to them, are the commoner error; founders who lever fragile cash flows to avoid any dilution at all are the costlier one. The matrix in section 04 exists because we kept watching boards make a permanent decision with an afternoon's thought.

And we hold the relationship view here more strongly than anywhere: a facility is the cheapest diligence two parties ever do on each other. Many of the strongest family-founder equity partnerships in our network began as loans - candour tested quarterly, commitments kept, trust compounded. Borrow well, and you have not just financed the plan. You have auditioned for the balance sheet behind the one after it.

START THE CONVERSATION

If your company needs €2 million to €25 million of debt - or is weighing debt against dilution - we will tell you candidly which route fits and which balance sheets in our network would genuinely lend. Book a conversation at **priveapartners.com/call**.

ABOUT PRIVEA PARTNERS

Privea Partners raises equity and debt for companies from single and multi family offices across EMEA and the Gulf. The firm works exclusively in the €2 million to €25 million band, across more than 140 family office relationships in 26 markets, with a senior team whose combined transaction track record exceeds US$13 billion.