

## Introduction

[Part I of The Monachil Playbook: Revolutionizing Asset-Backed Private Credit](#) introduced our differentiated approach to private credit, which is centered on asset-backed lending rather than traditional corporate credit. Specifically, we outlined how Monachil targets specialty finance originators with sub-\$30 million loan books which we have identified as an underserved segment that offers uncorrelated exposure. We also examined how technology and bank retrenchment have opened the door for a new generation of originators.

In Part II, we take a closer look at how Monachil sources, underwrites, and structures these opportunities, and why our strategy is built to thrive across market cycles.

## Market Factors Driving Increased Opportunity in Asset-Backed Lending

The current market environment has combined with long-term secular trends to expand the opportunity set for our strategy. Advances in technology and lower operating costs across lending functions—including marketing, origination, underwriting, and servicing—have lowered barriers to entry in the sector, enabling specialty finance lenders to compete more effectively with larger institutions.

At the same time, legacy providers of capital to these smaller lenders, among them banks, have significantly reduced their participation in subprime and non-traditional lending markets, thereby creating a void that alternative credit providers like Monachil are positioned to fill. With the easing of regulations generally designed to encourage banks to increase their holdings of government securities, like the supplementary leverage ratio (SLR) and eSLR, deposit-taking banks have a smaller appetite to lend into some of the sectors that we target.

As capital and market structure constraints limit conventional lenders and erode barriers to entry, we are seeing a growing pipeline in high-quality, undercapitalized lending opportunities. This dynamic enables us to be highly selective in deploying capital, ensuring that we engage in transactions with strong structural protections and attractive risk-adjusted return profiles. With market dynamics increasingly favoring specialized lenders that can offer creative financing solutions for niche assets, Monachil Capital Partners is well-positioned to capitalize on this shift and deliver differentiated value to our investors.

## Sourcing in a Dislocated Market

Monachil's sourcing advantage is rooted in decades of experience and a deep network developed through years in structured finance and credit markets. Both our President, Joe McNeila, and I spent over 15 years at Goldman Sachs and, together with our Origination Team, maintain longstanding relationships across the specialty finance ecosystem of originators, intermediaries, and institutional investors. We leverage these relationships, along with proactive outreach, industry conferences, referrals from existing counterparties, and inbound interest following public deal announcements, to maintain a robust pipeline of high-quality opportunities.

This sourcing model is especially effective in today's market where, as we have noted, many banks have withdrawn from lending to non-traditional or subscale originators. This retrenchment has left a vacuum, particularly for companies with loan books under \$30 million, that Monachil is uniquely positioned to fill. Since these originators often fall outside the credit box of mainstream institutions, they seek non-bank partners who understand their asset class and will move quickly to offer customized, thoughtful structuring better aligned with their business.

Early access enables us to shape terms, conduct thorough diligence, and engage with counterparties in a less competitive, less crowded segment of the private credit market. As a result, we have distinguished ourselves from the many capital providers focused on commoditized middle-market direct lending deals and have become one of the first calls for niche originators.

### **Underwriting Discipline and Structural Protections**

Monachil's underwriting process begins with a rigorous evaluation of both the underlying asset pool and the originator's operational track record. Our diligence spans originator-specific historical default and recovery rates, servicing capabilities, borrower lead generation channels, and modeling GFC-like stress scenarios on collateral performance. Downside protection is central to our philosophy as we aim to structure transactions that can withstand stressed assumptions.

Key features of our structural approach include conservative advance rates, overcollateralization requirements, control over counterparty bank accounts, and tight covenants tied to both asset performance and financial metrics. As an additional layer of protection, we generally require the originator to retain a significant first-loss equity tranche—aligning interests and incentivizing prudent underwriting alongside loan book growth.

By structuring facilities that don't rely on enterprise value of the company receiving our financing, we are able to risk manage our exposure by controlling the amount of capital available to our borrower throughout the life of the facility. In cases of underperformance or covenant breaches, we retain the ability to transition servicing, seize collateral, or restrict future draws, thereby mitigating the risk of impairment.

### **The Power of Alignment: Why Originators Choose Monachil**

Many specialty finance originators view Monachil as not only a capital provider, but also as a long-term partner with a deep understanding of their business model and constraints. Our willingness to tailor facilities to the cash flow profile of niche lending strategies stands in contrast to the rigid frameworks used by banks and larger funds.

Moreover, our ability to execute deals efficiently, paired with our familiarity with complex lending structures, sets us apart. In a market where speed is often critical, our ability to move quickly, while still preserving underwriting rigor, continues to position us as a preferred counterparty. Lastly, originators value that our facilities grow alongside them, allowing for responsible scaling rather than imposing abrupt increases in capacity. We enjoy working with our borrowers to help them expand gradually, ensuring that portfolio growth is matched by operational readiness and risk discipline.

Alignment with our borrowers fosters a more collaborative borrower-lender relationship, one that allows capital availability to scale up with successful originators and wind down with underperformers. Moreover, it gives us early access to opportunities before they are otherwise known, much less broadly marketed, which helps to preserve the yield and risk profile that Monachil investors have come to expect.

Ali Meli

Founder and CIO

Monachil Capital Partners LP

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