Small listed BDCs have lost more than a third of their income in two years

Two years of declining yields and net repayments have reset BDC earnings lower. First-half filings and earnings calls from nine small listed Business Development Companies (BDCs) show smaller books, lower income and tighter dividend cover.

−36%
Net investment income, $277m in H1 2024 to $176m in H1 2026

0.76x
PIK-adjusted dividend coverage in H1 2026, down from 1.08x in H1 2024

5.6%
Non-accruals at cost, up from 4.7% in H1 2024

All nine
BDCs in the sample cut their regular dividend, by 8% to 50%

Four things drove the decline

1

Repayments outran new lending

New lending roughly halved. For every **$1 lent** in H1 2026, **$1.37 came back** in repayments, against $0.82 two years earlier. The books shrank as a result.

2

Lower rates, tighter spreads

The 90-day average SOFR fell **172bp** between June 2024 and June 2026, cutting directly into income on floating-rate loans.

3

Fewer deals, fewer fees

Fee and other income fell **23%**. The amount is small, but it is a clear sign of slower origination.

4

A moderate rise in non-accruals

Loans no longer accruing interest rose to **5.6% of the portfolio at cost, from 4.7%**. With the overall book shrinking, the impact on income in absolute terms was limited, for now.

The pressure on earnings has flowed through to dividends: every BDC in the sample cut its regular dividend, by 8% to 50%. Yet total regular dividends fell only 22%, from $222m to $172m, while net investment income fell 36%. With payouts cut by less than earnings, PIK-adjusted dividend coverage[1] *slipped below 1x:* ***0.76x in H1 2026****, from* ***1.08x two years earlier****.*

[1] PIK-adjusted dividend coverage = (net investment income − payment-in-kind (PIK) income) ÷ regular dividends declared.

The stress persists, as the pressure shifts from falling rates to rising rates

Within the assessed BDCs

- **PIK is 9.6% of income**, up from 6.2%: income booked but not received in cash. This becomes crucial as rates rise, yet PIK is discussed far less than it should be. Disclosures also rarely split PIK agreed at origination from PIK granted later under stress.
- **Floating-rate debt is 59% of borrowings**, up from 52%, so hikes raise funding costs too.
- **Shares trade at 0.63x NAV**, down from 0.95x in June 2024, suggesting the market is pricing in further pressure on earnings.

Across the market

- **Defaults at a record:** Fitch's US private credit default rate reached 6.3% in August 2026.
- **Small-business distress rising:** Subchapter V (small-business Chapter 11) elections up 46% (Jan to Sep).
- **Redemption pressure:** requests at non-traded BDCs averaged 9.8% of shares in Q3 2026, easing from 10.8% in Q2 and 10.2% in Q1 but still about double the usual 5% quarterly cap (Fitch Ratings, October 2026). Unmet requests point to continued outflows, diverting cash from new lending just as borrowers may need to refinance.

Lower yields tested earnings. Higher rates will now test underwriting.

That test will run through the first half of 2027. The early litmus is lending: BDCs still lending appear to be passing; those holding back cash may already see it turning red.

Sample and method: Nine small listed BDCs selected by market capitalisation, focused on lower-middle-market lending. All figures are on a calendar January to June basis for every name. New lending for H1 2024 excludes loans acquired through a merger. Sources: first-half filings and earnings calls for the sample; Federal Reserve Bank of New York (SOFR averages); Fitch Ratings ("Fitch Ratings U.S. Private Credit Default Rate Rose to 6.3% in August 2026", 14 September 2026; "Perpetual BDC Redemption Wave Eases as Pro-Rated Requests Fulfilled", 13 October 2026); Epiq AACER / American Bankruptcy Institute (bankruptcy filings). For information only; not investment advice.