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Losses are in the valuations, but not in the books (yet)

Realised and marked credit losses in US BDCs, 2023 to 2026

Sascha Steffen · Frankfurt School of Finance & Management · 24 November 2026 · Data: SEC filings to 2026 Q2

0.58%	2.40%	0.5 pp	45–48%
realised losses, year to June 2026	realised + unrealised, same cost base	realised loss per point of marked loss, within four quarters	first-lien recovery on impaired exits

Executive summary

- **Realised losses understate current credit stress.** In the year to June 2026, US BDCs realised losses of 0.58% of their portfolios at cost. On the same cost base, realised and unrealised losses together came to 2.40%, and the valuations (so-called “marks”) on their direct-lending debt fell by 1.83% of par.
- **Realised losses have stayed flat since 2023.** They ranged from 0.04% to 0.29% a quarter from 2023 Q2 to 2026 Q2, including 2026 Q1, when the marks fell by 1.04% in one quarter.
- **Losses are accounted for late and only in part.** At the level of individual BDCs, each point of marked loss is followed by about 0.5 points of realised loss over the next four quarters. The marks themselves trail the loan market: for loans without a traded price they change about a third as much.
- **Recoveries after restructurings are low.** First-lien lenders recover 45 to 48% of cost on impaired exits. Debt-for-equity swaps look like 77% recoveries at the last debt mark and 26% once the equity received is valued. The range is in line with KBRA DLD (45 cents) and Fitch's 2025 bankruptcy emergences (43%), and about 18 to 22 points below S&P's long-run dollar-weighted first-lien recovery (66.5%).
- **European borrowers recover less.** First-lien recovery for European borrowers of US BDCs is 28 to 33% on 19 to 31 exits, against 46 to 49% for other borrowers.
- **For investors:** ask for marked and realised losses on debt, separately from equity, and for the value that remains after a restructuring.

1. Realised losses are accounted for late and in part

In the year to June 2026, US business development companies (BDCs) realised losses of **0.58%** of their portfolios at cost. On the same cost base, their realised and unrealised losses together came to **2.40%**. The marks on their direct-lending debt fell by **1.83%** of par over the same year. Realised losses stayed between **0.04% and 0.29%** a quarter from 2023 Q2 to 2026 Q2, the same pattern documented for bank loan-loss provisions, which rise late in downturns (Laeven and Majnoni 2003).

Marks lead realised losses. At the level of individual BDCs, a marked loss of 1 percentage point is followed by about **0.5 points** of realised loss over the next four quarters. Investors who read the realised loss rate as a measure of current credit stress therefore read it a year or more late, and only for half of the loss. However, the marks are themselves slow: for the 92% of BDC borrowers without a traded loan, marks change about a third as much as loan prices and still trail it a year later (Spina, Steffen and Streitz 2026).

When impaired loans exit the loan portfolio, first-lien lenders recover **45 to 48%** of cost once debt-for-equity swaps are followed into what the lender holds afterwards. That is in line with KBRA DLD's 45 cents at restructuring (2025) and with current estimates for direct lending (section 6).

2. Three ways to count a loss

How can we account for a loss? (1) A realised loss records an accounting event, (2) a marked loss records a change in valuation, and (3) the loss at exit records what disappears from the lender's book when an impaired loan leaves it (Exhibit 1). Realised losses are measured against amortised cost; realisation reverses the unrealised loss already recorded on the same investment.[1]

Exhibit 1. Three ways to count a loss

Measure	Source	Base	Captures	Misses; what sets the timing
Realised loss	Fund XBRL flows in 10-Q and 10-K (net realised gains and losses)	Whole portfolio, % of opening cost	Losses crystallised by sale, repayment, restructuring or write-off, net of realised gains	Losses still in the marks; equity gains net against loan losses. Timing set by exit and restructuring decisions
Marked loss	Schedules of investments, positions linked quarter to quarter	In-scope direct-lending debt, % of opening par	Change in fair value on the same loans, whether or not realised	Level 3 marks, which change about a third as much as traded loan prices (Spina, Steffen and Streitz 2026) and vary across holders of the same loan with fund leverage (Anadu and Wasner 2026). Timing set by the valuation process
Loss at exit	Loans leaving the book (exit events)	Cost of exited impaired loans	Cost minus last fair value; for swaps, minus the value of what the lender holds after the exit	Cash exit proceeds. Timing set by the exit

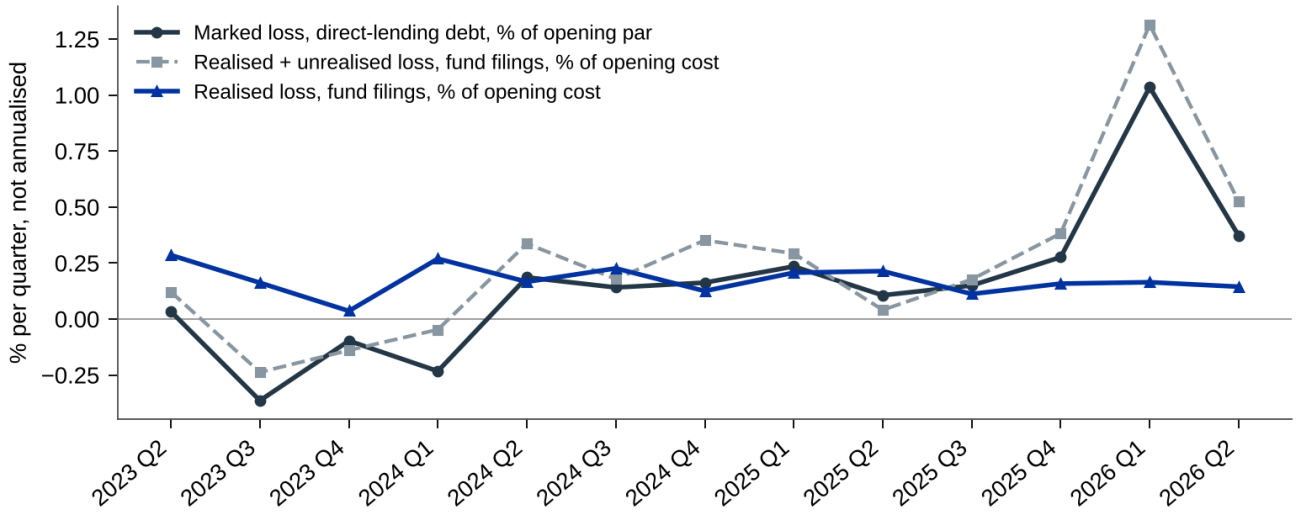
Note: Positive values denote loss. Realised flows are net of gains; marked losses are net of mark-ups. Source: radar methodology and SEC accounting-policy disclosures.[1]

3. Realised losses are flat since 2023

In 2026 Q1 the marked loss reached **1.04%**, the realised plus unrealised loss in fund filings **1.31%**, and the realised loss **0.16%** (Exhibit 2). The marked series and the fund total (realised plus unrealised losses) rise and fall together (same-quarter correlation 0.97; 0.93 without 2026 Q1) on different bases and samples. The markdowns were broad: the ten largest position markdowns made up 10.9% of USD 5.8bn of gross markdowns in 2026 Q1, and the ten most marked-down borrowers 19.9%, among 3,905 borrowers with a markdown.

Part of any quarter's markdown reflects wider spreads rather than borrower-specific credit; Ares attributed about 70% of its 2026 Q1 markdowns to market-wide price changes.[2] Cliffwater's index shows the same gap as the radar: 0.47% realised and 1.59% unrealised losses over the four quarters to 2026 Q2, with software markdowns Cliffwater reads as "suggesting future realised losses ahead".[3] Fitch's October 2026 private-credit default rate was 6.2%, but 0.4% counting only bankruptcies, liquidations and restructurings; interest deferrals and PIK (49% of default events) and stressed maturity extensions (38%) account for most of the difference.[4]

Exhibit 2. Realised and marked losses, US BDCs, 2023 Q2 to 2026 Q2



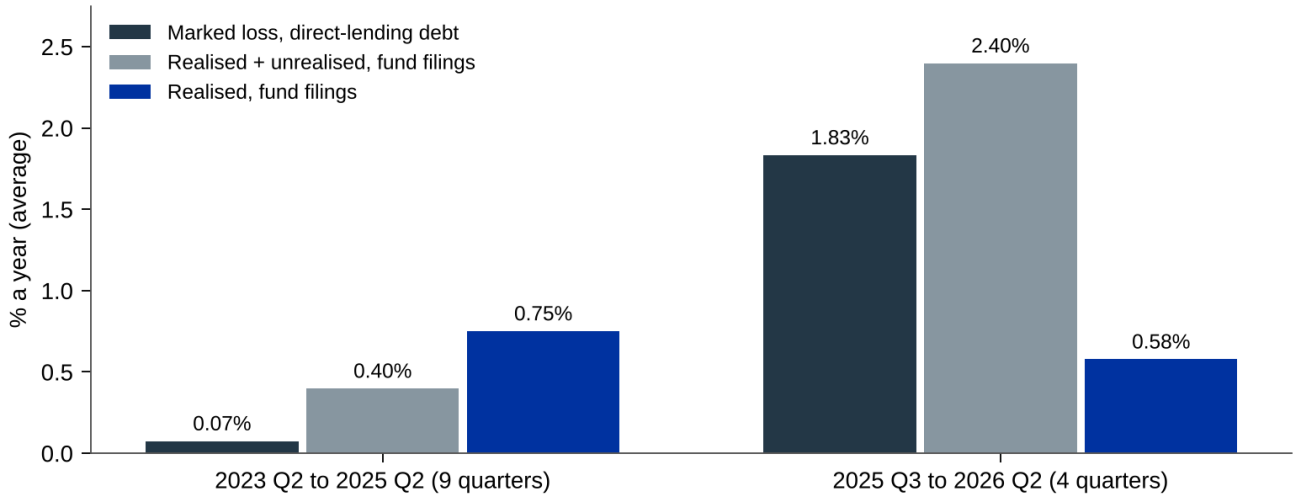
Note: Positive = loss; negative = appreciation. Fund flows use opening whole-portfolio cost (80 to 134 BDCs); marks use opening par of linked direct-lending debt positions. Source: SEC filings; radar build of 21 Nov 2026.

4. Two periods, opposite effects

From 2023 Q2 to 2025 Q2, BDCs realised losses of **0.75%** a year while their realised and unrealised losses together came to **0.40%** a year and the marks on direct-lending debt were close to flat (0.07% a year). Managers were realising losses already marked down earlier, while marks on the rest of the book recovered. In the four quarters to June 2026 the order reversed: realised **0.58%**, realised plus unrealised **2.40%**, marked **1.83%** (Exhibit 3). The

contrast holds on constant panels of filers present in every quarter, for BDCs that hold at least 90% of their portfolio in debt, and in both listed and non-traded BDCs.

Exhibit 3. Two periods, opposite effects (average per year)

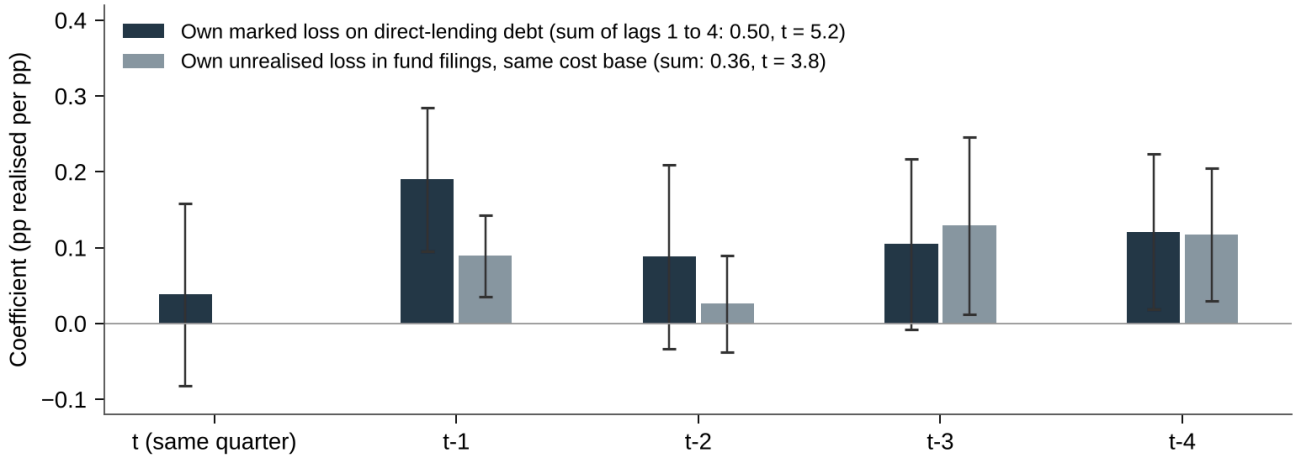


Note: Per-year average = sum of quarterly rates × 4 ÷ number of quarters (sums: realised 1.69% and 0.58%; realised + unrealised 0.90% and 2.40%; marked 0.17% and 1.83%). The first-window marked level ranges from 0.00% to 0.17% across weighting and winsorising choices; the second-window level from 1.72% to 1.83%.

Exhibit 4 tests this BDC by BDC. When a BDC's marks on its loans fall by 1 percentage point, its realised losses rise by about 0.5 points over the following four quarters (t = 5.2; 140 BDCs). In the quarter of the markdown itself, realised losses barely change. The BDC's own unrealised losses, as reported in its filings, give a similar answer: 0.36 points (t = 3.8). Banks showed the same pattern in 2007 and 2008, when their write-downs came after market prices had already fallen (Vyas 2011).

The delay has two stages. First, marks are slow to follow the market. When loan prices fall by 1 point, marks on loans with a dealer quote fall by 0.91 points, but marks on loans without a quote fall by only 0.33 points. Those loans are often marked down only after the borrower has started to pay interest in kind (PIK) (Spina, Steffen and Streitz 2026). Second, realised losses follow the marks by up to four more quarters.

Exhibit 4. Marked losses lead realised losses at the BDC level



Note: Regression of each BDC's quarterly realised loss rate on its own lagged loss rates; quarter fixed effects; standard errors clustered by BDC; rates winsorised at 1/99; bars show 95% intervals. Marks: 845 filer-quarters, 140 BDCs; fund unrealised: 681 filer-quarters, 110 BDCs.

5. Why realised losses lag

Exit and restructuring decisions. A markdown precedes the sale, repayment or write-off that realises it, and a restructuring can keep an exposure on the book while its form changes. The IMF lists "incentives to delay realization of losses" among private-credit vulnerabilities, and the FSB describes valuation discretion that can delay or spread the impact of negative shocks.[5] Lenders under pressure have long extended impaired loans rather than recognise losses (Peek and Rosengren 2005; Caballero, Hoshi and Kashyap 2008). Realised losses are also concentrated: the

median BDC realises close to nothing in a typical quarter, and listed BDCs realised about four times the non-traded rate in 2023 to 2025 (1.48% against 0.34% a year). In both groups realised losses stayed flat in the year to June 2026 while the marks fell.

Netting across instruments. The fund flow nets realised gains against realised losses across the whole portfolio, including equity and structured investments. Equity gains can offset loan losses in the same quarter.

Debt-for-equity swaps. The filings record a realised loss at the restructuring and reverse the unrealised depreciation.[6] The remaining exposure becomes equity, as relationship lenders have long done in out-of-court restructurings (Gilson, John and Lang 1990; James 1995) and as direct lenders commonly do with delinquent borrowers (Jang, Kim, Sufi and Chen 2025). Later losses are then recorded in equity and drop out of debt-only loss and recovery figures. For the radar's **75 swap exits** (USD 866m of debt cost), recovery is **77%** of cost at the last debt mark and **26%** once what the lender holds in the exit quarter is valued. Out-of-court restructurings typically leave firms highly levered, and about a third re-enter distress (Gilson 1997).

6. What lenders get back

First-lien recovery is **44.6%** on 246 non-accrual or written-off exits and **48.1%** on 484 exits under the radar's broader impaired-exit rule, with swaps followed; at the last debt mark the figures are 46.9% and 55.8% (Exhibit 5). The range is stable across exit years (44 to 54% under the impaired-exit rule) and when the 8 swap exits not found afterwards are dropped. Sponsored borrowers recover 5 to 11 points more than non-sponsored ones.

Exhibit 5. Recovery depends on the measurement point

Source	Recovery	Lien and sample	Measurement point
Private credit, marks and restructurings			
Radar, non-accrual or written-off exits	44.6% (46.9% at last mark)	First lien, 246 exits; all liens 37.5% (339); 2023 Q2 to 2026 Q2	Last fair value at exit; swaps followed into the value held in the exit quarter
Radar, impaired-exit rule	48.1% (55.8% at last mark)	First lien, 484 exits; all liens 43.3% (624)	As above
Radar, debt-for-equity swap exits	26% (77% at last debt mark)	75 exits, USD 866m debt cost; 65 first lien	Fair value of all positions held after the swap, exit quarter
KBRA DLD Direct Lending Index[7]	45 cents (51 in 2024)	Direct lending, 2025 average	Implied at restructuring, the initial recovery event
Ultimate recovery after default			
Fitch Ratings[8]	43% (2016 to 2025 average 62%)	First lien, 2025 bankruptcy emergences	Recovery at emergence
S&P Global Ratings[9]	70.8% mean (79.6% median); 66.5% dollar-weighted; 64.8% mean since 2022	US first-lien term loans, emerged 1987 to Sep 2025	Discounted ultimate recovery at emergence

Note: Radar: cost-weighted, pooled 2023 Q2 to 2026 Q2. Figures differ in cohort, weighting, denominator and distress definition.

The 45 to 48% range is in line with other private-credit measures based on marks and restructurings: Cliffwater's index implies 48.8% for first-lien loans in 2025[3] and Octus about 50% for BDC restructurings in 2025 Q2.[10] It is close to Fitch's 43% for first-lien recoveries on 2025 bankruptcy emergences, and below Moody's 57% for covenant-lite first-lien loans from 2023 to mid-2025 (66% with covenants).[11] The gap to S&P's long-run series is about 18 to 22 points against its dollar-weighted rate (66.5%), the closer match to the radar's cost-weighted figures, and 23 to 26 points against its simple mean (70.8%). Against first-lien term loans that emerged from default since 2022, which averaged 64.8%, the gap is 17 to 20 points. It has known sources: recoveries fall when defaults cluster (Altman, Brady, Resti and Sironi 2005) and when the borrower's industry is distressed (Acharya, Bharath and Srinivasan 2007), and direct loans to asset-light borrowers recover less at default (Cai and Haque 2024). Rated syndicated loans fared differently in 2025: S&P reports an average recovery of 88.4% on US term loans and revolvers that emerged from default in the first nine months of the year, above their long-term average of 75.4%.[9] Direct-lending recoveries in the radar's sample stayed close to half of cost over the same period.

7. European borrowers

For European-headquartered borrowers held by US BDCs, pooled first-lien recovery is **28 to 33%** on 19 to 31 exits, against 46 to 49% for non-European borrowers once swaps are followed. The four-quarter pooled marked loss is

0.31% at 2026 Q1 and 0.36% at Q2, against 0.43% and 0.49% for US borrowers. KBRA DLD's implied recovery at default for European direct lending (29.7% in December 2025) is built from European deals held in US BDCs, the same population, so it points the same way.[12] The figures cover European borrowers of US BDCs, not European credit funds.

8. Implications for investor reporting

The radar's claim concerns when losses are recognised, not a large stock of hidden losses: direct lending has a benign loss record over the past decade (Erel, Flanagan and Weisbach 2024), and markdowns in past stress periods exceeded the realised losses that followed.[13] Over the year to June 2026 the realised loss rate understated the stress the marks recorded. Investors should ask for marked and realised losses on debt separately from equity, with gross losses shown next to net flows, and for the value that remains after a restructuring. The timing matters most in funds that subscribe and redeem at net asset value: stale marks on loans without a traded price shifted up to USD 1.25bn between investors in non-traded BDCs from 2017 to 2026, concentrated in stress periods (Spina, Steffen and Streitz 2026). The European Commission's September 2026 call for technical advice on private credit asks for data on valuation practices and fair-value classes.[14] In my reading of the US evidence, a picture built on defaults or realised losses alone misses part of current stress.

Data and coverage. SEC schedules of investments and XBRL flows to 2026 Q2; loss observations 2023 Q2 to 2026 Q2. The realised series covers 80 to 134 BDCs a quarter, excludes venture filers and uses opening whole-portfolio cost; filer-quarters with realised flows above 10% or unrealised flows above 25% of opening cost are dropped (none at 2026 Q2). The marked series links in-scope direct-lending debt positions across adjacent quarters and weights mark changes by current par over opening par; at 2026 Q2 it covers 31,365 linked positions, 6,458 borrowers and USD 444bn of opening par. Because it uses quarter-on-quarter changes on the same positions, discounts at purchase drop out. Marks on loans without a dealer quote adjust to changes in market prices over several quarters (Spina, Steffen and Streitz 2026), so the marked series records stress later than traded prices would. On constant panels the two-window contrast is unchanged: realised 1.48% and 0.58% (44 filers), marked 0.14% and 2.10% (83 filers). Recovery is inferred from cost and last fair value, with swaps followed into retained positions; first lien means at least 95% of in-scope cost in first-lien debt. Cash exit proceeds, final workout recoveries, hard defaults not shown in the filings and European funds outside US BDCs are not observed.

Notes

1 Ares Capital Corporation, 10-K FY2025, accounting policies, "Realized Gains or Losses", "Unrealized Gains or Losses" and PIK interest; SEC Rule 2a-5 on fair-value determination.

2 Ares Capital Corporation, Q1 2026 earnings call, 28 Apr 2026.

3 F. Beyers (Cliffwater), "Decoding Defaults in Private Credit", republished by Betashares, 21 Oct 2026; Cliffwater commentary republished by Betashares, 20 May 2026, first-lien recovery 48.8% in 2025 and 48.6% ten-year average. Man Group reports implied CDLI recovery falling from about 53% to 49%.

4 Fitch Ratings, "U.S. Private Credit Default Rate Eases Modestly to 6.2% in October 2026", 16 Nov 2026; figures as reported by ABF Journal, 18 Nov 2026. Populations and definitions differ from the radar's.

5 IMF, Global Financial Stability Report, Apr 2024, ch. 2; FSB, Vulnerabilities in Private Credit, 6 May 2026, section 3.3.

6 Golub Capital BDC, 10-Q for the quarter to 30 Jun 2024, restructuring loss and reversal of unrealised depreciation; Prospect Capital Corporation, 10-K for the year to 30 Jun 2026, debt exchanged for debt and equity with a realised loss and an equal reversal of unrealised losses.

7 KBRA DLD, "PIK loans drag implied recoveries for KBRA DLD Direct Lending Index", 2 Apr 2026.

8 Fitch Ratings first-lien recovery on 2025 bankruptcy emergences, as reported by Morningstar and Law360.

9 S&P Global Ratings, "Default, Transition, and Recovery: U.S. Recovery Study: Supportive Markets Boost Loan Recoveries", 17 Dec 2025, table 2: discounted ultimate recovery by instrument type, defaults that emerged from 1987 to 30 Sep 2025.

10 Octus, "Q2 private credit restructuring transactions average about 50% recoveries", 18 Sep 2025.

11 Moody's Ratings, as reported by Bloomberg Law, 23 Sep 2025.

12 AFME, High Yield, Leveraged Loan and Private Credit Report, Q4 2025, pp. 5 and 36 to 37, citing KBRA DLD.

13 StepStone, "Cutting through the noise in direct lending headlines", 23 Feb 2026: cumulative markdowns exceeded realised losses by about 1.7 to 2.5 times in past stress periods.

14 European Commission, Call for Technical Advice on private credit, annex of 17 Sep 2026, item 3f.

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