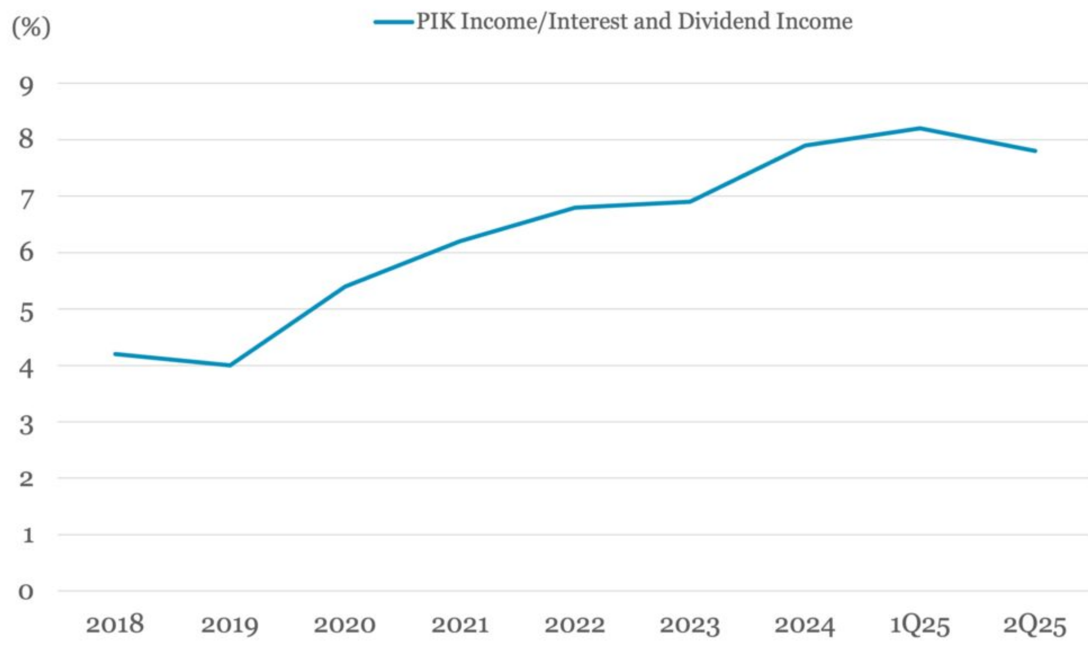
PIK Income Fell Modestly in 2Q25 for BDCs, Dividend Coverage Varies

Fitch Ratings | September 10, 2025



Notes: Represents average metric for 32 Fitch-rated BDCs. Interest income adjusted for merger accounting impacts. Source: Fitch Ratings.

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Payment-in-kind (PIK) income for Fitch-rated business development companies (BDCs) declined modestly in 2Q25 but remains above pre-2024 levels. This reflects persistent challenges in portfolio credit quality and the impact of structured PIK arrangements amid elevated interest rates. The latest quarterly earnings data reveal diverging PIK trends across the sector, with some BDCs reporting significant reductions while others saw increases, partially linked to portfolio amendment activity and asset quality pressures.

For the 32 Fitch-rated BDCs, average PIK income as a percentage of interest and dividend income fell to 7.8% in 2Q25, down from peaks of 8.2% in 1Q25 and 8.3% in 4Q24. Although this represents a slight improvement, PIK income remains above pre-2024 levels, underscoring ongoing credit challenges and heightened competition. The trends were mixed, with PIK as a percentage of income declining for 13 BDCs and rising for 19 BDCs in 2Q25 compared to 2024.