RIJ and ChatGPT Discuss ‘Business Development Companies’

By Editorial Staff *Tue, Jan 6, 2026*

In the many-layered world of private credit, 'business development companies' are an important component. Their bland name tells us nothing. But what are they exactly, and what role could they play in the democratization of high-yield private credit? We asked ChatGPT.

RIJ: What are BDCs, and why do I keep hearing about them when reading about private credit?

ChatGPT: BDC equals Business Development Company. A BDC is a type of publicly-traded investment company that Congress created in 1980. They’re designed to funnel capital to small and mid-sized U.S. businesses that are too big for banks and too small for public bond markets. Think of a BDC as a publicly-listed wrapper around a private-credit portfolio.

Most BDCs primarily make:

- Senior secured loans
- Unitranche loans (A hybrid loan structure that combines senior debt and subordinated debt in one loan, allowing banks to compete better against private debt funds)
- Occasionally mezzanine debt or equity kickers

BDCs show up in private credit discussions because they’re how retail and semi-retail investors access private credit. Private credit itself is:

- Illiquid
- Opaque
- Institutionally dominated

BDCs by contrast are:

- Publicly traded
- Yield-focused
- Regulated under the Investment Company Act

When you read about private credit “going mainstream,” BDCs are usually the bridge.

How BDCs are structured (key mechanics)

BDCs must:

- Invest ≥70% of assets in U.S. private companies
- Distribute ≥90% of taxable income (like REITs)
- Use limited leverage (generally ~2:1 debt-to-equity max)
- Mark portfolios to fair value quarterly

That structure explains their:

- High yields
- Fragility in downturns

BDCs offer:

- High stated yields (often 8–12%+)
- Quarterly or monthly income
- A “private markets” story in a liquid format

But their:

- NAVs can be volatile
- Dividends can be cut
- Secondary market prices can diverge sharply from portfolio value

How BDCs differ from “pure” private credit funds

Feature	BDC	Institutional Private Credit Fund
Liquidity	Daily (public stock)	Locked up (5-10 yrs)
Investor base	Retail & advisers	Pensions, insurers
Valuation	Quarterly marks	Often internal marks
Leverage	Capped	More flexible
Fees	Visible	Often opaque
Behavior in stress	Price drops fast	Value adjusts slowly

Why we’re hearing about BDCs *now*

- 1) Banks pulled back. Regulation + capital rules → banks lend less to mid-market firms → private credit fills the gap.
- 2) Rates went up. Floating-rate loans inside BDCs suddenly pay real income, which makes them headline-worthy.

- 3) Everyone wants alternative investments. BDC says “private credit” without a 10-year lockup.

So, a BDC is a publicly traded income vehicle that lets investors own a slice of private credit — with all the transparency, volatility, and marketing that implies.

Why you hear the term ‘BDC’ so often in private credit

For non-institutional money, a BDC is often the *only* legal way to access private credit at scale. BDCs have become:

- The retail face of private credit
- Heavily marketed
- Heavily discussed

RIJ: Can a CLO and a BDC be the same thing?

ChatGPT: No. CLOs and BDCs sit next to each other in private credit, but they are not the same thing. They *can* be connected, but they are structurally and legally distinct.

- A CLO and a BDC cannot literally be the same legal entity.
- The same manager can run both a CLO and a BDC.
- A BDC can own pieces of CLOs (usually the equity tranche).

That overlap causes confusion.

RIJ: How do BDCs compare to closed-end funds?

ChatGPT: A BDC is best thought of as a specialized, regulated subtype of closed-end fund — one that:

- Is created by statute (not just by SEC registration),
- Invests primarily in private, illiquid credit, and
- Has additional rules layered on top of the normal CEF framework.

BDCs share these traits with closed-end funds:

- Permanent capital (no daily redemptions)
- Publicly traded shares
- Market price can differ from NAV
- Use of leverage
- Income-oriented investor base

From an investor’s point of view, BDCs and CEFs *feel* similar:

- You buy a stock
- You get a yield
- The price can swing independently of portfolio fundamentals

But a CEF typically holds public bonds, equities, and municipal bonds, while a BDC typically holds private loans, unitranche debt, and mezzanine credit. That makes BDCs less liquid at the asset level and more dependent on manager judgment for valuation.

RIJ: Thank you.