
Retail Investors Will Be Ripped Off in Private Markets with SEC Approval

By Benjamin Schiffrin | *Director of Securities Policy*

February 26, 2026

Introduction

One year ago, the Securities and Exchange Commission (SEC) allowed a private credit exchange-traded fund (ETF) [to start trading](#), opening up private markets to Main Street retail investors. The SEC did so despite its own staff warning that the ETF had [significant remaining outstanding issues](#). That's because private credit is high risk, controversial, difficult to value, and therefore illiquid.

As a result, ETFs have been limited to having no more than 15% of their holdings in private assets so that the funds can accurately price their assets daily and investors can buy and sell daily, confident that the prices accurately reflect the value of the assets in the fund. Private markets and assets generally are not priced daily and are typically illiquid, meaning that they don't trade. For that reason and other risks, they are not therefore appropriate for retail investors.

However, here, the ETF the SEC allowed to trade [stretched the definition of liquidity](#) in order to [circumvent the rules](#) limiting illiquid holdings to 15% of assets. Essentially, the fund made private credit seem more liquid than it is. In this way, the fund [breached the limit](#) on ETFs holding no more than 15% of illiquid assets. This meant that the ETF posed [risks for the retail investors to whom it was targeted](#). One year later, as the SEC [continues to push](#) to expose retail investors to the private markets, turmoil in the world of private credit shows just how risky that push is.

Just last week, Blue Owl, a giant private credit lender, [announced](#) that investors in one of its funds would no longer be able to ask for a set amount of money back each quarter; instead, Blue Owl would decide how much money it would return quarterly. This means that investors in the fund who want out entirely [will either have to wait or sell at a discount](#). As Bloomberg [reported](#), the move "highlights the risks confronting retail investors entering the fast-growing private credit market."

Blue Owl is the latest private credit player to face setbacks since the SEC potentially [opened the floodgates](#) to retail investor participation in the private markets by allowing trading of the private credit ETF, but it is by no means the only one. Firms have seen losses of billions of dollars on several private credit deals in the last year. These deals should give the SEC pause before following through its plan to expose retail investors to assets that even institutional investors misjudge.

Tricolor

Tricolor, which sold used cars to low-income Americans, [declared bankruptcy in early September 2025](#). Its business model was to simultaneously sell the car and arrange the financing. To make the loans, Tricolor relied on lines of credit from big banks. It then [bundled the loans into bonds and sold them to investors](#). Its bankruptcy [caught both its creditors and investors off guard](#).

The reason is that Tricolor was not publicly traded or required to release [public financial statements](#). This shielded it from the [scrutiny](#) public firms face. Its regulators and lenders had [limited visibility](#) into its finances. And investors had few opportunities [to ascertain the company's financial health](#). This [led to losses](#) for both Tricolor's creditors and the investors in the loans.

JP Morgan wrote off [\\$170 million](#) related to Tricolor's bankruptcy. Barclays lost nearly [\\$150 million](#). Similarly, Fifth Third expected to take a [\\$170 to \\$200 million loss](#) on a loan to Tricolor. Investors suffered too. After the bankruptcy, bonds bought by firms such as Pacific Investment Management Co. and Janus Henderson Group [sold for between 10 and 70 cents on the dollar](#).

First Brands

First Brands, an auto parts maker, [declared bankruptcy in late September 2025](#). The company had been [backed](#) by private credit. The bankruptcy caused losses for [dozens of private credit lenders](#).

The episode [served](#) “as a stark example of the growing risks of money flooding into the opaque world of private financing.” Unlike public markets, the private credit market suffers from a [lack of transparency](#). This means investors must rely on [fund managers' valuation of the loans](#).

In the case of First Brands, the bankruptcy impacted some of the largest institutions on Wall Street. Jeffries Financial Group faced redemption requests from investors with money in a hedge fund arm of the bank, which had [\\$715 million tied to First Brands](#), and also placed [billions of dollars](#) of First Brand loans with other investors. Morgan Stanley estimated that Jeffries faces up to [\\$45 million in total losses](#). Private funds run by UBS were also owed more than [\\$500 million](#). And BlackRock funneled money to an intermediary that lent it to First Brands. First Brands' bankruptcy filing listed \$10 billion in liabilities, highlighting the [scale of losses](#) facing lenders and investors.

Carriox Capital/Broadband Telecom/Bridgevoice

Carriox Capital, an [invoice financing firm](#) affiliated with telecom companies Broadband Telecom and Bridgevoice, [filed for bankruptcy in October 2025](#). BlackRock and BNP Paribas lent [hundreds of millions of dollars](#) to Broadband Telecom and Bridgevoice through Carriox. After the bankruptcy, BlackRock's [private credit arm](#) accused the companies of an “extraordinarily brazen and widespread fraud.” It said the companies [fabricated accounts receivables](#) that were supposed to be used as collateral for the loans. BlackRock initiated legal action to recover the loans it made to the telecom firms, alleging that it had fallen victim to a [\\$500 million fraud](#). In regulatory filings, BNP Paribas added [\\$220 million](#) to its loan-loss provision to account for a “specific credit situation.” The episode [marked](#) “another breakdown in an opaque corner of the U.S. debt markets.”

Renovo

Renovo, a kitchen and bathroom remodeling business, [filed for bankruptcy in November 2025](#). One of BlackRock's private credit funds [was the largest holder of Renovo debt](#), and valued it at 100 cents on the dollar as late as September 30, which [meant](#) that “fund investors were paying management and performance fees as if the debt retained full value.” Yet a month later, BlackRock's assessment was that the debt [was worth nothing](#) and that it expected [a 100% loss](#).

The Renovo bankruptcy [struck at the heart](#) of “a major vulnerability in the private credit market: the disconnect between the value of illiquid loans and the performance of the underlying companies.” Because the asset managers making private credit loans [are the ones valuing them](#), “they can be motivated to delay recognition of potential borrower problems.” Duke Law Professor Elisabeth de Fontenay, who studies private credit, [says](#) that since there is no public market the biggest concern is that it's difficult to know if private lenders are accurately marking their loans.

Indeed, BlackRock's experience with Renovo was not an isolated incident. The fund that lent to Renovo disclosed writedowns [across a series of troubled investments](#) last month that resulted in cutting its net asset value by 19% as of the end of the year. According to the Wall Street Journal, the fund's managers had marked most of the investments [at or near cost](#) in financial releases as recently as November. The Wall Street Journal found the fund's troubles noteworthy in light of the push for similar products to be sold to retail investors, and its [reporting](#) is germane to that issue:

BlackRock's disclosure underscores the risks investors face inside the opaque private-credit world. It can be difficult to know what investments are worth at any given time, given that they hardly ever trade and instead are valued by fund managers using a mix of internal analysis and third-party pricing services.

Blue Owl

Blue Owl's move to limit redemptions in one of its funds last week was not the first time it has had to do so recently. In November, it moved [to limit withdrawals](#) from a fund ahead of its plan to merge that fund with another one of its funds. Blue Owl scrapped the plan after investors in one of the funds discovered the merger could cost them [as much as 20% of their money](#).

Last week's decision to block redemptions is even more of a [huge red flag](#). It means that individual investors in the fund no longer [have a say over when they get their money back](#). The move is [rattling](#) the \$1.8 trillion private credit market, and the panic that has ensued simply [underscores](#) “the broader systemic risks of such a lightly regulated industry gaining exposure to public markets”:

Private credit firms have been angling to attract retail investors, because more money coming in is, of course, good for business. But retail investors don't behave the same way institutional players do, and when the panic begins in private markets, there are no guardrails to protect individuals the way there are in banking.

Indeed, private credit [exists](#) “outside the traditional, highly regulated banking system.” It is [only lightly regulated](#). So individual investors need to be aware that with illiquid assets like private credit—[unlike with banking](#)—“there is no government-run insurance scheme to stop them from

losing everything if panic really gets out of control.” As Paul J. Davis [said](#) in Bloomberg, the Blue Owl episode “renews doubts about whether such private funds are suitable for retail investors at all.”

The Bigger Picture

These examples are all isolated incidents, but they reflect broader trends in private credit. Bloomberg [reports](#) that 1 in 10 private credit borrowers are deferring cash interest payments and that at least 45 firms were taken over by their lenders in 2025, the most in six years. Perhaps more significantly, the Wall Street Journal [reports](#) that “the same money managers leading the charge to ‘democratize’ private markets . . . are among the worst performers in the publicly traded private-credit funds called business development companies,” with these products “in sharp decline.”

In light of this turmoil in private credit, it’s not surprising that investors are curtailing their exposure. The Wall Street Journal further [reports](#) that, “for the first time since the start of the private-credit boom, large numbers of individual investors are trying to get their money out.” At the end of last year, the biggest funds eligible to wealthy individuals received requests from about 5% of shareholders to cash out, which the Wall Street Journal [said](#) was “well above the normal volume.”

In all, private credit investors [pulled more than \\$7 billion](#) from some of the biggest funds at the end of 2025. And, according to the Financial Times, that figure “will [grow](#) as funds report more numbers.” These statistics [underscore](#) “how investor appetite for private credit has deteriorated.”

Why This Matters

All this begs the question of why the SEC would be pushing retail investors into private credit now. It’s one thing when institutional investors or high net worth individuals lose money investing in private credit. It would be something else entirely if mom-and-pop investors started losing their life savings. Lloyd Blankfein, the former CEO of Goldman Sachs, was recently asked whether a crisis is brewing in private credit. His [answer](#) referenced the push to attract retail investors:

If something blows up and big institutional investors lose money, does the public sector care that much? Not really. If a bunch of individuals start losing their 401(k) plans and their money, does the public sector care? Does the government sector care? Yes, a lot.

I think it’s crazy to put those assets there These securities are opaque and may be riskier than most, but to the extent you’re selling to institutions people don’t care that much. But if individuals lose money . . . or real businesses lose money it’s terrible.

And the chances of retail investors losing money in private credit are much greater than for institutional investors. There is no dispute that private credit is less transparent than the public markets. Since both the borrowers and the lenders in most cases are private, “investors are given [relatively little visibility](#) into the financial health of the companies borrowing from private credit firms.” Investors can [see](#) “only a limited amount of information about private credit borrowers and the terms of their loans.” It is also the case that private credit exposures [are increasingly convoluted](#), “with funds making loans backed by a wide range of esoteric collateral, even



repackaging fund stakes into assets.” Sophisticated financial institutions have the experience and resources to conduct the due diligence necessary to navigate this terrain, although as the above examples show, sometimes even that is not enough. Retail investors would have a much harder time separating meritorious private credit investments from risky private credit investments without the disclosures that exist to protect the public and are a hallmark of public markets.

Retail investors also have less of an ability to bear the risk of loss. Although the above examples show how even institutional investors suffer massive losses in the private credit market, those losses would not ultimately impact the firms’ bottom line. For example, the Guardian [said](#) that Barclays is “plainly big enough” to take the \$150 million loss from Tricolor “on the chin.” The same is true for the other large firms that suffered huge losses in private credit in the last year. But it will not be true for retail investors. Instead, with respect to retail investors with only modest amounts of money to invest, losses in private credit investments [could wreck their financial hopes](#).

Conclusion

The turmoil in the private credit market in the last year shows that the SEC’s push to expose retail investors to private credit is ill-advised. There is no question this is what private credit firms [want](#). But the SEC does not exist to [further the agenda](#) of private credit firms. It exists to protect investors. And right now, as one activist investor just [said](#), retail investors are being told that private credit is “the greatest invention since the internet” when it is “just really lending to small companies.” What is more, private credit funds [involve](#) high leverage, low liquidity, and untrustworthy valuations. Although some [say](#) “that investors in these funds know—or should know—this,” that may be true for institutional investors, but it is highly unlikely for the average retail investor. That is why retail investors have long been [off limits](#) for private credit firms. The events of the last year, in which sophisticated financial institutions have suffered losses in private credit, only reaffirm the need for the SEC not to loosen the limits on private credit but bolster the protections for retail investors.




BETTER MARKETS

Better Banks | Better Businesses Better Jobs | Better Economic Growth Better Lives | Better Communities

Better Markets is a public interest 501(c)(3) non-profit based in Washington, DC that advocates for greater transparency, accountability, and oversight in the domestic and global capital and commodity markets, to protect the American Dream of homes, jobs, savings, education, a secure retirement, and a rising standard of living.

Better Markets fights for the economic security, opportunity, and prosperity of the American people by working to enact financial reform, to prevent another financial crash and the diversion of trillions of taxpayer dollars to bailing out the financial system.

By being a counterweight to Wall Street's biggest financial firms through the policymaking and rulemaking process, Better Markets is supporting pragmatic rules and a strong banking and financial system that enables stability, growth, and broad-based prosperity. Better Markets also fights to refocus finance on the real economy, empower the buyside and protect investors and consumers.

For press inquiries, please contact us at press@bettermarkets.com or (202) 618-6430.



[SUBSCRIBE](#) to Our Monthly Newsletter

[FOLLOW US ON SOCIAL](#)



2000 Pennsylvania Avenue NW | Suite 4008 | Washington, DC 20006 | 202-618-6464 | www.bettermarkets.org
© 2026 Better Markets, Inc. All Rights reserved.