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Reg Cap Recap

A bimonthly update on the Regulatory Capital Relief/Significant Risk Transfer sector

March 4, 2025

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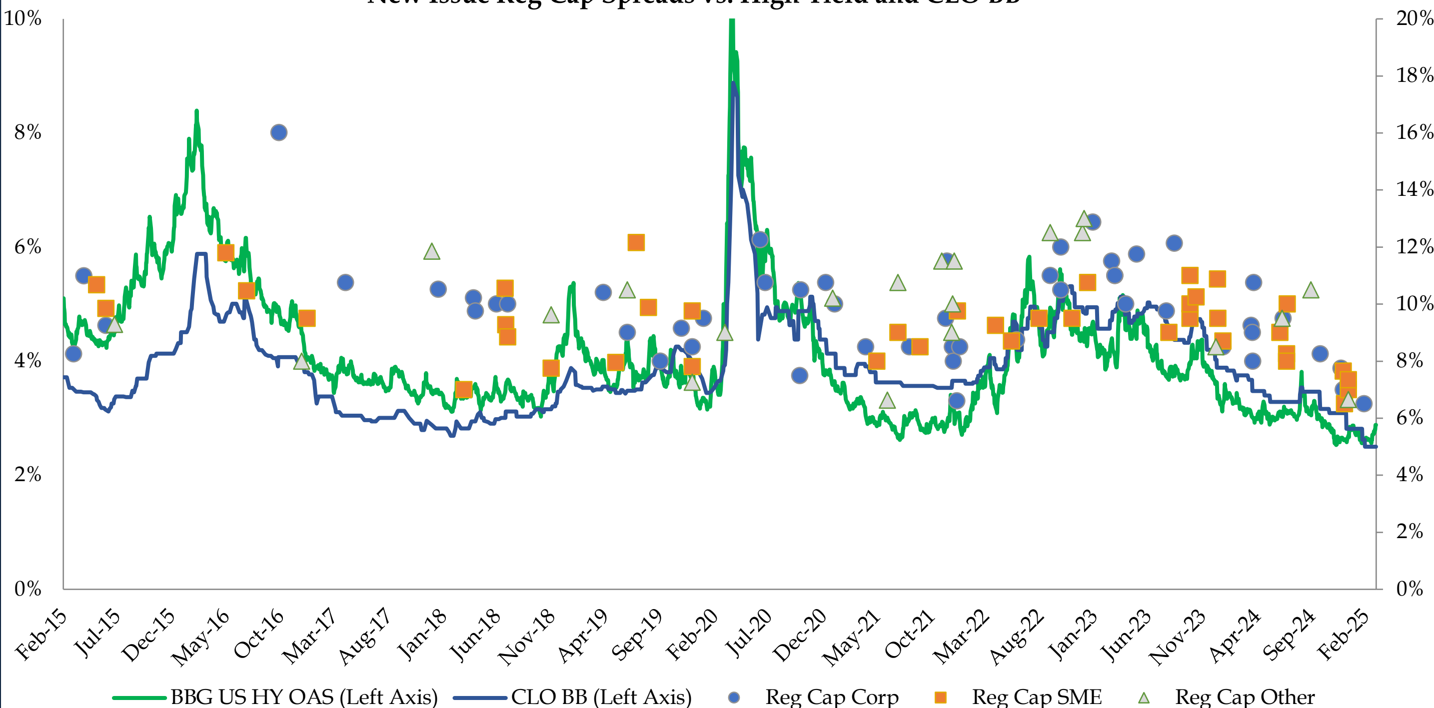
Reg Cap Spread Trends

Reg Cap spreads for new issue ranged from 650 to 900bps over the past few months, around 100bps tighter than 1H2024 prints, while HY spreads widened by 22 basis points during February.

New Issue Reg Cap Spreads vs. High Yield and CLO BB*



** Source: Seer Capital Research / Bloomberg. Reflects selected first and second loss tranches but excludes mezzanine and thick (i.e. 0-12.5%) tranches. As of March 3, 2025.*

Recent New Issue Activity

The following is a representative listing of recent new issue activity.

		ASSET			PORTFOLIO SIZE		
Closing Date	Spread (bp) [1]	Type	Jurisdiction [2]	Disclosure [3]	Currency	Amount (bn)	First Loss [4]
Jan-25	650	Corporate	Canada	Yes	USD	7.0	Yes
Dec-24	765	SME	Germany	No	EUR	3.1	No
Dec-24	700	Corporate	Global	Yes	EUR	6.4	Yes
Dec-24	700	SME	Spain	No	EUR	2.2	No
Dec-24	735	SME	UK	No	GBP	1.6	Yes
Dec-24	840	Auto	US	No	USD	2.6	No
Dec-24	650	SME	Spain	No	EUR	2.8	No
Nov-24	665	Auto	Sweden	No	SEK	12	No
Nov-24	750	Auto	US	No	USD	3	No
Nov-24	750	Auto	US	No	USD	4	No
Sep-24	825	Corporate	Global	Yes	USD	4.5	Yes
Sep-24	1050	Lev Loans	Global	Yes	USD	3	Yes

[1] *Spread to SOFR*
[2] *Asset jurisdiction and issuer jurisdiction may vary*
[3] *Disclosure of obligors in the reference pool of assets by name*
[4] *Indicates whether the Reg Cap issue is in the first loss position*

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Market Commentary

The Reg Cap market in 2025 has already been busy with a broad mix of activity, ranging from regular way issuers and programs, to M&A driven issuers, to trailblazers. Just this week we completed our due diligence and submitted bids on three separate new issue Reg Cap transactions.

Spreads appear to be finding a floor after significant tightening during the 2nd half of 2024. One benchmark European issuer doubled the size of their transaction in the face of strong demand well inside of both their last print and their expectations, an indicator that tighter spreads are already translating to increased supply. Other deals are seeing strong bids but not the level of competition among investors to deploy capital that prevailed in late 2024. A number of very large private credit managers who were seeking to enter the Reg Cap market to deploy large tickets seem to have become frustrated and moved on. In our view this makes sense, as Reg Cap is a better fit for nimble and experienced players, see: https://seercap.com/wp-content/uploads/2024/12/Reg-Cap-Inexperienced-Players-Need-Not-Apply.pdf

We anticipate more of the same going forward—growing supply from banks globally under pressure to optimize balance sheet usage, referencing a wide range of asset classes, purchased by the same group of specialist Reg Cap investors with a strong understanding of and commitment to the product, whom we have been working alongside for the past 10+ years.

Reg Cap News

New Issue News

U.S. Bancorp Plans $625 Million SRT Deal Tied to Corporate Loans (BN, 2/20/25)
and ***U.S. Bancorp Close to Selling $625 Million Corporate-Loan SRT*** (BN, 2/27/25)
U.S. Bancorp is planning to sell $625 million of SRT (aka "Reg Cap") bonds that will allow it to offload risk from a portfolio of investment-grade corporate loans and revolving credit facilities. A $125mn first loss tranche is being preliminarily discussed with investors at a spread between 800-850bp. U.S. Bancorp is also reportedly planning to issue a BBB- rated Reg Cap tranche, at a spread of ~300bp. JPMorgan, Morgan Stanley and Goldman Sachs are among US banks that marketed SRT transactions last year. Bank of America is reportedly close to issuing a Reg Cap deal linked to a $1bn portfolio of corporate loans. In our view the US Bank deal is an exciting benchmark for the market as the first broadly syndicated US deal referencing corporate loans, and is expected to provide US Bank with very attractive execution. US Bank has chosen to issue using the CLN structure, which is subject to Fed approval (which they already had from a previous deal) and subject to a cap on the total assets they can reference in CLN deals. Other banks have referenced corporate loans via SPV structures, which come with Volcker rule complications that many banks interpret as limiting their ability to syndicate to groups of investors.

U.S. Bancorp SRT Use May Continue for 2027 Target (Bloomberg Intelligence, 2/28/25)
U.S. Bancorp is working to increase its Common Equity Tier 1 (CET1) ratio from 8.6% to 10% by 2027 to meet potential Category 2 bank regulatory requirements. If its assets exceed $700 billion for a year, it will become a "Category 2" Bank and subject to tighter regulations, including no longer being able to exclude unrealized losses from regulatory capital. The bank is planning to use synthetic risk transfers, among other measures, to bolster capital.

Among big US regional banks, US Bancorp still has high credit ratings even after Moody's, S&P and Fitch downgraded the lender (to A3/A/A) in 2023.Earnings are expected to improve in 2025, supported by stable margins and modest loan growth. The bank's strategy includes efficiency improvements and a potential resumption of share buybacks.

StanChart Plans SRT Tied to $1.5 Billion of Corporate Loans (Bloomberg News ("BN"), 2/24/25)
Standard Chartered is planning a ~$120mn Reg Cap issue linked to a portfolio of loans to companies in both emerging and developed countries. The size of the reference portfolio is about $1.5bn and it includes loans in China, India and the UK. Issuance of SRTs is estimated to rise to as much as $35bn globally in 2025, compared to ~$29bn last year.

SRT on $2 Billion Portfolio Draws Investors to African Deal (BN, 2/27/25)
The African Development Bank (AfDB) is structuring its largest-ever capital relief deal, tied to a $2bn portfolio of private sector loans. This transaction will free up over $1bn for new development loans across Africa, addressing poverty and environmental challenges. With government support constrained by growing deficits, multilateral development banks are increasingly turning to capital relief instruments like synthetic risk transfers to attract institutional investors. The AfDB was the first multilateral lender to move into the SRT market back in 2018, with a $1bn deal that generated returns of about 11% for investors. Last October, the Inter-American Development Bank did its first risk transfer on a $1 billion portfolio of loans. The European Bank for Reconstruction and Development is also working on its first deal.

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Reg Cap News (continued)

Reg Cap News

SRT Leverage is Fun and Cool (Cloud 9fin podcast, 2/14/25)
This discussion among 9fin journalists is a follow up to reports that Deutsche Bank ("DB") is no longer offering repo financing on SRT trades. As we also mentioned in our last ***Reg Cap Recap***, DB had never been particularly active in SRT repo. The journalist also reiterated that DB never financed their own SRT issues, nor has any bank that they know of.

The IMF raised the issue of SRT repo as perhaps creating circular risk, in that some of the risk being transferred out of the banking system arguably flows back into the system to the extent banks provide leverage on SRT positions (for our discussion on SRT leverage and the many factors that we think ameliorate repo risk see https://seercap.com/wp-content/uploads/2025/01/Reg-Cap-Leverage-Clearing-Misconceptions.pdf). After the IMF report, the ECB and Fed started inquiring specifically about banks' SRT repo activity. It is not known if this line of questioning led to DB's decisions, or if there were commercial/market reasons.

The most active SRT repo providers have been Nomura and (in the past) Credit Suisse. Santander is the largest SRT issuer but also big in repo for other banks' SRT. DB is a top five issuer but was never particularly active in SRT repo lending. US regulators have expressed a preference for non-US banks to provide repo on SRT, thus avoiding any circularity within the domestic banking system.

The podcast ended with a positive review of SRT, which they argue effectively allows banks to move up the credit stack. The product has also been tested; six European banks with outstanding SRTs have collapsed, without the SRTs becoming impaired. SRT repo has been tested, too. During the height of the pandemic in early 2020, a fund that had SRT on repo collapsed. The banks took their collateral and sold it; in a market crisis, the SRT repo worked as expected.

ECB Warns Bank Lending for Risk Swaps Can Hide Dangers in System (BN, 2/19/25)
The European Central Bank said it will keep a close watch on banks that are providing leverage to Reg Cap investors because of concerns that doing so may result in "substantial hidden risks being retained in the banking system." Nomura, Morgan Stanley, NatWest, Banco Santander and Standard Chartered were listed as some of the most active repo lenders in the sector. (See also ***Securitisations: a push for safety and simplicity***, below.)

How to fix Europe's securitisation market (FT.com, 2/19/25)
Late last year, the EU kick-started a consultation process on how to improve the European securitisation. The EU will make recommendations before the summer. Despite being pivotal in the U.S. for raising capital, Europe's securitisation market is lagging. Four key areas were identified in this article for reform:

1. Unlike their U.S. counterparts, European insurers are restricted from investing in securitisations due to onerous capital charges. Adjusting these rules could unlock substantial private capital. European life insurers currently hold 0.33% of investment assets in securitizations vs. ~17% for U.S. life insurers Capital charges do not properly reflect the different levels of risk in the securitisation market. E.g. in certain circumstances capital charges on bonds are the same regardless of seniority in the capital structure.
2. The EU's "simple, transparent, standardised" (STS) securitisation label, meant to simplify the market, is too narrow, limiting investment in important assets.
3. U.S. markets have a much larger true-sale securitisation market. The true-sale market in the US is 6.5x that of Europe. Unlike synthetic securitisation, true sale enables banks to offload loans completely, freeing up balance sheets to support further lending.
4. Due diligence requirements are "too complex and involve many overlapping reporting requirements" deterring investment. For certain types of securitisations, mandated quarterly granular reporting templates are both cumbersome and not fit for purpose.

Securitisations: a push for safety and simplicity (ECB Supervision Newsletter, 2/19/25)
In this newsletter the ECB starts by stating that securitisations play a key role in the EU's financial markets by channeling capital into projects and redistributing risk. They also allow banks to manage credit and concentration risk, often reducing regulatory capital requirements through "significant risk transfer" (SRT). The ECB goes on to remind readers that improper management can pose serious risks, as seen in the 2007-09 financial crisis. To improve efficiency, the ECB has developed a fast-track process for SRT assessments, and this process will be tested in early 2025. For their part, banks are expected to manage securitisation risks, including stress testing and integrating them into capital planning. The ECB will also be monitoring interconnections with non-bank investors to detect hidden risks and strengthen transparency. Encouraging simple, standardised securitisations could enhance market stability, attract investors, and support long-term financial development, while discouraging "complex and opaque" structures that add risk without broader economic benefits.

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Reg Cap News (continued)

A simple capital requirements approach for European securitisations: SUERF Policy Brief (The European Money and Finance Forum, 2/27/25)
Banking supervisors in the EU are reassessing whether the current treatment of securitisation is still appropriate, and working to streamline and address structural issues, This paper focuses on the treatment of synthetic transactions, the dominant segment of securitisation in Europe (but it can be extended to traditional cash securitisations). It introduces the SEC-Overall Capital Requirement Approach (SEC-OCRA). By replacing the commonly used SEC-Internal Rating Based Approach (SEC-IRBA) and SEC-Standardised Approach (SEC-SA), SEC-OCRA aims to mitigate inefficiencies, enhance risk sensitivity, and better align with macroprudential regulatory objectives The end goal is "a simpler and more balanced trade-off between risk aversion and the economic benefits of securitisation."

The existing capital requirement frameworks for securitisation lack transparency, have fixed and outdated parameters, and impose a rigid capital surcharge without clear links to the portfolio's risk.

SEC-OCRA replaces the flawed formulas of SEC-SA and SEC-IRBA by introducing a new benchmark, "Kocra," which determines capital requirements based on overall capital requirements ("OCR"), which currently average 14.3% of RWA across EU reporting institutions. Tranches below Kocra would carry full capital deduction (RWA of 1/OCR), while those above would have a 0% RWA, simplifying the process and removing the need for excessive capital charges on senior tranches.

Banking Industry News

How Banks Turned into Giant Synthetic Hedge Funds (Bloomberg Odd Lots Podcast, 2/21/25)
In this podcast, Columbia Professor Saeidinezhad discusses her recently published paper "Banks as Synthetic Hedge Funds" Using the collapse of Silicon Valley Bank (SVB) as a starting point, the paper argues that banks like SVB operate as de facto synthetic hedge funds, using financial engineering to replicate hedge fund returns. Saeidinezhad argues that there is an inherent structural tension between banks, which operate under strict regulations, and hedge funds, which emphasize complex risk-taking.

The applicability of this example to SRT is questionable, because one point the author makes is that "instead of focusing on conventional loans", SVB engaged in alternative credit strategies. SRT issuers generally use the product to enable them to continue to originate conventional loans and conventional banking products.

Saeidinezhad argues that SVB illustrates a broader trend where regional banks adopt hedge-fund-like strategies while remaining subject to banking regulations that prioritize stability and depositor confidence. In addition, banks lack the flexibility and, often, the expertise of hedge funds.

In re SRT specifically, Professor Saeidinezhad agrees the product "enhances risk management" but goes on to say that SRT "is not without its challenges." She mentions counterparty risk (which is moot for the vast majority of SRT, which comes in funded form) and "systemic interdependencies" (presumably leverage, which we have discussed at length and feel is an overblown issue). Lastly, she expresses concern that banks may become overly reliant on risk transfers as a substitute for active portfolio management, a point that is hard to argue with in that no entity should be "overly reliant" on any market.

The upshot of the discussion is the professor's claim that traditional regulatory frameworks designed for deposit-taking institutions no longer align with a financial system where many banks operate as "synthetic hedge funds".

BofA CEO Says Over-Regulation Leads to Debanking of Customers (BN, 02/25/25)
Over-regulation of lenders, and not political bias, is the main driver of customers being shut out of the US banking system, according to Bank of America CEO Moynihan. "We bank everybody. The real question was about over-regulation frankly…If you look at what has happened, it's because interpretations of anti-money-laundering, the Bank Secrecy Act, KYC — know your customers," Moynihan said.."Banks have been criticized for closing customer accounts for unexplained reasons. They are also required by law to report suspicious activity to regulators to prevent money-laundering".

Fed's Bowman Urges More Tailored Regulation for Community Banks (BN, 2/27/25)
Federal Reserve Governor Michelle Bowman called for a better regulatory fit for community banks based on their size and business scope, saying they do not need the same rules as larger institutions."The regulatory approach is much more complex than necessary… a community bank can operate safely and soundly, and in compliance with laws, without being subject to the same extensive guidance and regulatory requirements as larger, more complex banks." Bowman said. She criticized thresholds that step-up regulatory requirements as banks grow larger, arguing that "Some firms with stable growth, a static business model, and a straightforward risk profile cross the $10 billion threshold unintentionally." Bowman previously opposed US regulators' bank-capital proposal, which would have required the country's largest lenders to hold more capital to buffer against losses.

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Reg Cap News (continued)

European Union Poised to Ask Banks About Delaying Capital Rules (BN, 2/28/25) The European Commission is planning to consult the banking industry in March on further delaying the implementation of the Fundamental Review of the Trading Book (FRTB), a key set of trading regulations. The delay, originally pushed to 2026 to keep European banks competitive with their U.S. counterparts, is now under additional pressure from countries like France, arguing that postponement would free up capital for lending and economic growth. The uncertainty stems from the U.S.'s failure to finalize its own Basel Endgame regulations, following the recent change in administration. The rules aim to limit banks' use of internal models to calculate capital requirements.

UniCredit Chief Orcel to Meet Italy Officials to Talk Bank Deals (BN, 2/28/25)
The Italian government plans to meet with UniCredit's CEO to discuss the bank's hostile bid for Banco BPM and its role in Italy's financial sector. The government owns stakes in key financial institutions, giving it a central role in the country's recent wave of dealmaking in the country's financial sector. Officials will address UniCredit's involvement in major deals, including its stake in Assicurazioni Generali. UniCredit, a key player in reshaping European finance, holds a 28% stake in Commerzbank and launched a bid for Banco BPM to become Italy's largest lender.

Europe's ESG Risk Rules Too Complex for Small Banks, Kukies (BN, 3/3/25)
European Union guidelines for how banks measure and manage environmental, social and governance risks are too cumbersome for small lenders, according to German Finance Minister Kukies. "We're convinced they overshoot the target," says Kukies. EBA guidelines are scheduled for implementation in 2026, although "small and non-complex" banks will have until 2027. Kukies added "...we don't think it fits with the trend of rethinking bureaucratic rules if even the smallest savings and cooperative banks have to develop methodologies to detail the effect of biodiversity risks on their lending business in all facets and requirements." Kukies called for the so-called "Green Asset Ratio" to be scrapped. Kukies will likely be in office for only a few more weeks, as a more conservative and broadly business-friendly bloc will lead the next government.

Europe's Banks Post Another Record Year as Profit Peak Nears (BN, 3/4/25)
The European Union's largest banks achieved another record year of profits in 2024, with total net income among the 20 biggest listed banks rising 7.1% to €110 billion. Although profit growth slowed compared to the previous year's 36% increase, banks have managed to limit the impact of falling interest rates by expanding fee-based businesses like wealth and asset management. Analysts expect profitability to decline slightly, with return on tangible equity dropping from 14% to 13% this year. Strong earnings have also enabled banks to increase shareholder returns, with share buybacks rising 29% to €18.4 billion in early 2025.

About Seer

Seer Capital Management LP is a diversified, credit-focused investment firm founded by Phil Weingord in 2008 that primarily invests in structured credit and loans. We allocate capital opportunistically across all major asset classes within structured credit in the U.S. and Europe, including: bank regulatory capital risk transfer (SRT), residential and commercial mortgages, syndicated and SME loans, and a variety of consumer loans (personal, auto, credit card, student, housing). These investments are executed through active trading in both legacy and new issue securitizations, purchase and securitization of whole loans, and direct lending joint ventures.

Seer Capital believes it is well positioned to capitalize on opportunities in structured credit as a result of our highly experienced senior investment team, which has on average more than two decades of experience working in structured credit.

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