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Reg Cap Recap

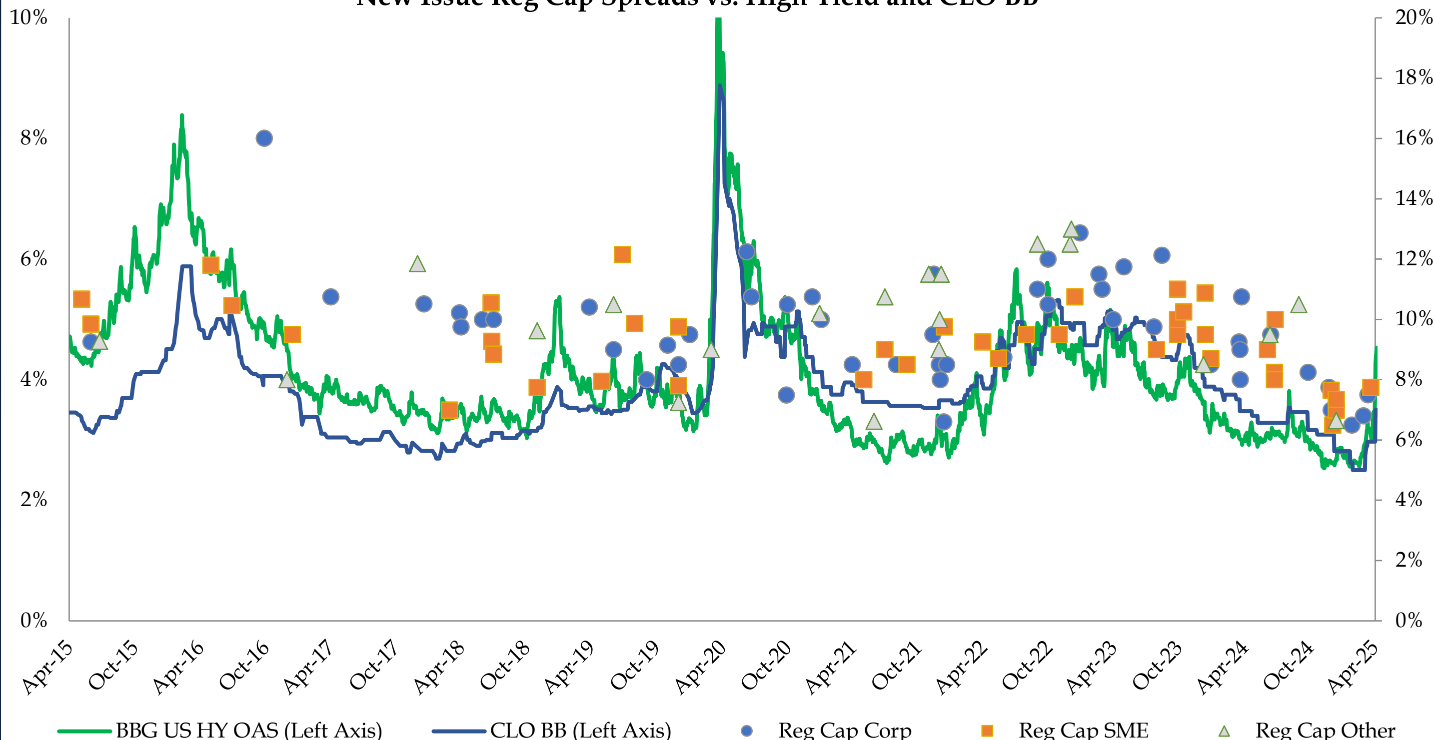
A bimonthly update on the Regulatory Capital Relief/ Significant Risk Transfer sector

SEER CAPITAL

May 6, 2025

Reg Cap Spread Trends

April Reg Cap pricing ranged from 775 to 950bps, while HY spreads widened by 37bps during the month.



** 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 May 5, 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]
Mar-25	715	Auto	US	No	USD	3.5	No
Mar-25	775	SME	Italy	No	EUR	2.1	No
Mar-25	750	Corporate	Global	Yes	USD	7.0	Yes
Mar-25	750	Corporate	US	No	USD	5.0	Yes
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 record pace of Reg Cap issuance from European banks in the 1st quarter appears to be continuing in the 2nd quarter, which is always active as banks seek to obtain regulatory capital relief for their 1st half results. We are currently analyzing nine deals representing a wide range of European issuers, jurisdictions, and asset classes. The deals we are working on represent a subset of the market, as both issuers and investors have become more targeted in their choice of partners, as we have detailed here: https://seercap.com/wp-content/uploads/2024/12/Reg-Cap-Inexperienced-Players-Need-Not-Apply.pdf

The question on everyone's mind is where are Reg Cap spreads following the broader market volatility triggered by Donald Trump's tariff announcement on the so-called "Liberation Day," April 2. Our initial estimate, based on first round bids and marketing levels from a handful of new issue transactions, is 50-100 bps wider than the tights reached in 4Q 2024 / 1Q 2025, but we will have more clarity in the next few weeks as i) the macro picture continues to develop, and 2) the current wave of deals progresses. In early April, as in previous times of volatility, some investors sought liquidity by offering Reg Cap in the secondary market, but bidders factored in discounts for uncertainty / illiquidity, and very few positions changed hands. In general, volatility in liquid credit markets has a dampened effect on Reg Cap, which is supported by dedicated buy and hold investors. In the event of an economic downturn in the medium to long term, we expect Reg Cap, at least the deals we purchase, to outperform other credit products since they reference high quality credits carefully selected by leading banks.

Reg Cap News

New Issue News

Apollo, Carlyle Buy First SRT Tied to Loans to Private Debt (Bloomberg News, aka "BN," 4/30/25)
Japan's Sumitomo Mitsui Banking Corp. issued what is believed to be the first Reg Cap deal (aka Significant Risk Transfer, or "SRT") tied to credit lines extended to business development companies (BDCs), placing $375mn of risk referencing a $3bn portfolio. Analysts suggest that growing familiarity with the BDC sector, which has also seen record issuance ($24bn in 2024), paved the way for their use in Reg Cap. Apollo Global Management, Carlyle Group, and Ares Management were reported to be among the investors. With banks continuing to turn to Reg Cap to manage capital and free up lending capacity, issuance could grow 15% this year by some estimates. Much has been written about private credit competing with banks, but private credit and banks partner in many areas. Private credit / BDCs make loans to risky companies, banks provide senior financing against portfolios of those loans, and in this case the bank, in turn, shares some of the risk on those loans with private credit.

Reg Cap News

Risk Transfer and Macroeconomic Trends Conference (New York, 4/29/25)
We participated in the Quantifi Risk Transfer and Macroeconomic Trends Conference on April 25. The event brought together market participants, investors, and policymakers to discuss the evolving landscape of risk transfer mechanisms and macroeconomic dynamics affecting global markets. We participated in the Risk Transfer panel, which explored the growth and development of the SRT/Reg Cap Market. The panel included an introduction of SRT (which was useful for the many audience members coming from other areas of finance), historical context, U.S. Market emergence, as well as the current environment and outlook. The European SRT market was reviewed as a mature, well-established market, while the US is still in the maturation process and will take time to develop. Discussions also centered around the stability of Reg Cap in times of stress and opportunities in new regions and asset classes. Overall, SRT is a resilient and growing market segment that we believe will continue to perform well and expand in the U.S., Europe and beyond.

Q1 2025 SRT Report (RTRA Intelligence, 5/1/25)
Reg Cap issuance surged in Q1 2025, reaching nearly $5bn in notional tranches, about double Q1 2024--and this was during the traditionally slow first quarter. Corporate loans and European-originated deals remain the dominant asset type, though new asset classes like BDC credit lines and leasing assets emerged. Meanwhile US Bank executed a novel SRT where a thick tranche was sliced into smaller tickets that were rated. Despite tighter pricing, investor interest has held strong due to the SRT market's lower sensitivity to macroeconomic shifts. As spreads compressed last year, investors have explored return-enhancing strategies including the use of leverage. But this quarter marked the end of a prolonged phase of spread tightening, amid the broader market volatility. The volatility led to both a pick-up in secondary activity and some resetting of spread expectations, ~50-100bps wider. But, as has been the case in past crises, the buy-and-hold investor base for Reg Cap tends to keep market moves muted. As our own Terry Lanson noted, "Most European originators have evolved towards placing deals with a select group of investors who they view as partners. This provides originators with certainty of execution and price tension-which is important for regulators- and optimal allocation of resources for all parties."

Credit Risk Transfer Use Should Remain Modest, But Investor Concentration Is High (Moodys.com, 5/6/25)
Credit Risk Transfer (CRT aka SRT aka Reg Cap) transactions remain relatively rare and conservatively utilized, according to a recent Moody's survey of 69 rated US banks. Only 22% of surveyed banks have issued CRTs. Fifteen out of 69 respondents (22%) have issued CRTs, with total outstanding balances of $15 billion, referencing more than $150 billion in assets. For those banks issuing Reg Cap deals they averaged a 25bp increase in their Common Equity Tier 1 (CET1) ratios. These transactions gained traction primarily in response to stricter capital requirements and higher interest rates, prompting banks to explore new ways to bolster regulatory capital. Larger banks are more likely to issue CRTs due to their superior risk management capabilities, while most small and midsize banks have lagged in their

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Reg Cap News (continued)

use. Moody's notes that most bank CRT transactions have been backed by "high-quality assets that are performing well," and that banks tend to favor high quality reference assets to reduce their Reg Cap execution costs.

The investor base in Reg Cap remains highly concentrated, which the authors claim raises concerns about market stability during periods of stress. However, ample evidence suggests that Reg Cap has fared particularly well during crises, due to the buy-and-hold investor base. They also note that banks must possess robust risk modeling and management frameworks to effectively manage these instruments. While the use of CRTs for well-performing, high-quality assets is encouraging, Moody's suggests that "over-reliance" could signal financial vulnerability.

Looking ahead, most new CRT issuance in 2025 is expected to come from existing issuers rather than new participants. Factors like increased charge-offs or shifts in equity valuations could influence future issuance plans. Moody's noted that, while Reg Cap offers meaningful benefits for capital management and risk transfer, they are not a substitute for permanent capital and, of course, do not cover non-credit risks. They conclude by saying that they view modest and strategic use of Reg Cap—particularly by banks with strong internal controls— as a "cautious credit-positive development."

SRTs To Support Bank Capital Despite Concentration And Regulatory Scrutiny (Moodys.com, 5/6/25)

Significant risk transfer (SRT) transactions (aka Reg Cap) have rapidly expanded across European banks as a capital management tool. The SRT market is now approaching the size of the European public securitization market. In 2024, European banks referenced €156 billion in assets in new European SRT deals—double the amount from 2021, according to the AFME (Association of Financial Markets in Europe). Moody's surveyed 14 major European banks; among them they have issued 181 outstanding transactions referencing €246 billion in loans, or around 6% of their total loan books. Most have been active in the sector since at least 2010. Moody's estimates that Reg Cap provides an average uplift of 43 basis points to the surveyed banks' tangible common equity (TCE) ratios.

Moody's notes that they consider SRTs to be "lower quality than CET1" capital, given that they can engender counterparty risk. However, unfunded SRT are far less common (~10% in Europe, and unallowed altogether in the US). Funded SRT does not entail counterparty risk. That said, Moody's also points out that "Capital relief granted in a transaction is point-in-time in nature whereas the underlying reference pools are dynamic and their creditworthiness can deteriorate in an unexpected manner, leading to higher risk weights on the tranches retained by the bank."

As in their note on the US market, Moody's writes that the European Reg Cap investor base is highly concentrated, estimating that the top 10 investors hold 75% of exposures (although to the extent investors are funds, themselves formed of various limited partners, concentration risk is ameliorated). Their study only covered 14 leading European banks, which they did not identify. The universe of European banks who are regular SRT issuers includes many more than 14 players—had Moody's broadened the study, they would have likely found less concentration among investors. It is indicative that the single largest issuer accounted for 22% of issuance in Moody's study, while the top 3 combined for 53% and the top 10 for 95%. We are confident that had Moody's included a wider range of banks in their study, they would have concluded that both the issuer and investor markets are much more fragmented.

Moreover, while it is noted as a risk factor, in practice, Reg Cap has been one of the most stable asset types in crises, with very little forced selling. They also note that ~20% of surveyed banks lend to investors against SRT tranches, creating what they call "manageable interconnectedness and correlation risk." Moody's notes that such concern about systemic risks are amplified by the market's private nature and lack of transparency. Our view is that concerns about Reg Cap / Reg Cap leverage leading to systemic risk have been overdone, as we detail further here: https://seercap.com/wp-content/uploads/2025/01/Reg-Cap-Leverage-Clearing-Misconceptions.pdf Also, as we have argued before, while Reg Cap may offer less transparency to the investing public, the market is entirely transparent to regulators.

Regulators remain generally supportive of the sector, especially in Europe, with initiatives like the ECB's new fast-track SRT approval process that signals backing for the market. At the same time, we see greater scrutiny. Supervisory bodies are urging banks to enhance risk assessments and transparency in SRT dealings. In April 2025, the UK's Prudential Regulation Authority (PRA) warned banks that their assessment of collateral in securities financing transactions linked to significant risk transfers (SRTs) is lacking, particularly by relying on illiquid assets that may not be sufficient in default scenarios. Banks must respond by 11 June with steps they're taking to address these concerns. Going forward, SRTs are likely to remain a key capital management tool—especially under evolving Basel III/IV regulations.

Banking Industry News

Federal Reserve Publishes Stress Testing NPR (RBC Regulatory Update, 4/16/25)

On April 17, the Federal Reserve released a Notice of Proposed Rulemaking (NPR) proposing updates to the Capital Plan and Stress Capital Buffer (SCB) rules, applicable to all US bank holding companies (BHCs) with $100bn or more in assets. The NPR aims to reduce volatility in SCB calculations and enhance predictability by averaging the current and previous year's stress tests. Another key change is the proposal to shift the annual effective date of the SCB, to ease operational burdens and enhance earnings retention flexibility. The average SCB across large banks is projected to decline only slightly—from 3.88% to 3.82% but G-SIBs (Global Systemically Important Banks), would see a 44% drop in SCB volatility.

The NPR also introduces targeted revisions to regulatory reporting forms to improve the quality and relevance of stress testing data and to enhance the transparency and accuracy of stress test projections while streamlining reporting requirements. As noted above, further proposals related to supervisory models and stress scenarios are expected later this year.

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Reg Cap News (continued)

Fed Reveals Stress-Test Revamp for Banks, Barr Objects (BN, 4/17/25)
As also discussed above, the Fed has proposed key changes to its stress testing framework for large banks, including averaging test results over two years and pushing out the effective date of new capital buffer requirements from October 1, 2025, to January 1, 2026. The plan aims to reduce volatility in stress capital buffer calculations, give banks more time to adjust to changes, and streamline the process. The Fed noted that these updates are not designed to materially affect capital requirements. Those changes might come later this year and would also include things like disclosing the models and allowing public input on the hypothetical recession scenarios used in the tests.
Critics, including former Fed Vice Chair for Supervision Barr, warned that the changes could weaken the effectiveness of stress tests by making them too rigid and easier to "game." Fed Governor Kugler supported the changes but did note that these changes could make capital buffers less sensitive to current economic conditions, since the two-year averaging would rely on financial data that may be up to 18 months old and hence stale. Public comments on the plan are due within 60 days.

A Recession Would Be Different for Banks This Time (Bloomberg Opinion, 4/23/25)
US banks have played leading, causal roles in several past economic crises. This time around, the author argues, the banking industry is in a position of strength heading into a potential downturn triggered by new tariffs. This strength comes on the heels of two years spent shoring up balance sheets after the 2023 banking mini-crisis. Over the intervening quarters, banks have also dealt with unrealized losses on government debt by allowing low-yielding securities to mature and reinvesting at todays' higher rates, while also tightening lending standards to improve credit quality.
This has left many banks with both stronger capital levels and improved credit performance. Banks are arguably positioned to see the current uncertainty as an opportunity—using excess capital for aggressive share buybacks, and positioning themselves to benefit from shifts in interest rates. Unlike past crises, they're entering this uncertain phase with robust balance sheets and the ability to play offense rather than defense.

Capital Glut That US Banks Opposed Bolsters Them for New Turmoil (BN, 4/23/25)
US banks entered 2025 in a particularly strong financial position, with one analyst calling this the industry's "peak capital" moment. Capital at the twenty largest US banks has surged by over $175bn in three years, pushing Tier 1 common equity (aka "CET1") to nearly $1.3 trillion. The buildup in capital is partly the legacy of post-2008 financial reforms, but also the result of higher requirements following 2023 bank failures (e.g. Silicon Valley Bank). Though the industry started the year with high hopes for an easing of capital requirements under the new administration, that "excess" capital build up they bristled over may now come in very handy if the US tips into recession. One bank CEO noted that having "excess" capital, if indeed they do, is not a burden so much as a "luxury."
Meanwhile banks are using their strong capital positions to boost shareholder returns through both dividends and buybacks, while remaining mindful of potential headwinds. In Q1 alone, the 20 largest banks repurchased at least $27bn in shares, with JPMorgan and Bank of America particularly active. Citigroup is planning a $20bn buyback program. Even regional banks like KeyCorp, Citizens Financial, and M&T Bank are planning share buybacks.

Private Credit's Cracks Widened Before Turmoil (Bloomberg Credit Weekly, 4/26/25)
The IMF has raised alarms over growing vulnerabilities in the private credit sector. Private credit firms (aka "shadow banks") typically lend to riskier, smaller borrowers—who are particularly vulnerable to an economic downturn. The IMF estimates that over 40% of these companies ended 2024 with negative free cash flow. That's up from 25% in 2021. Nearly 21% of non-bank loans in the US were already categorized as "uncertain for repayment" last year. These firms now face mounting risks of default, particularly as trade wars have created economic uncertainty. The rise in payment-in-kind (PIK) financing, allowing firms to defer interest payments, coupled with more amend-and-extend debt restructurings can mask stress signals. The Financial Stability Board is preparing policy recommendations to mitigate the risks that private credit lending may pose to the financial system. The IMF warns that rising defaults could reverberate through banks, who have over $500bn in exposure to private credit.

Regional Banks Brace for Uncertainty Ahead (Bloomberg Intelligence, 4/28/25)
Regional banks are facing heightened uncertainty due to trade-related tariffs. While credit quality remains solid, with no material deterioration seen yet, the market turmoil has begun to affect lending activity, fee income, and earnings expectations. Financial results for Q1 showed a modest decline in net interest income and fee income, driven by softer balance-sheet growth and weaker capital markets activity. Net interest margins improved thanks to lower deposit costs. Management remains cautiously optimistic, expecting margins to stabilize or improve in coming quarters. The median adjusted CET1 ratio was stable at 9.6%, while unrealized securities losses improved a median 15% amid lower longer-term rates.
Strong capital positions have enabled many banks to resume or expand share buybacks. Overall, regional banks show resilience, but they face a challenging macro environment and heightened geopolitical/economic volatility.

Bank Regulator's Buyout Offer Sought by About a Quarter of Staff (BN, 5/1/25)
Around a quarter of employees at the Office of the Comptroller of the Currency (OCC) applied for voluntary buyouts as part of the Trump-era initiative to reduce the federal workforce. The OCC is now seeing substantial interest in voluntary exits, especially from departments

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like economic analysis, policy, risk, and minority inclusion units, which are also facing the deepest cuts. Not all applicants will be accepted—staff in mission-critical roles, such as bank examiners, may be denied. These reductions reflect the OCC's internal restructuring and the Treasury Department's move to increase its influence over federal financial regulators.

Citi Restarts Business of Lending to Buyout Funds After Pullback (BN, 5/5/25)
Citigroup is re-entering the subscription line (aka "capital call") financing market— lending backed by investor commitments to private equity funds—after years of pulling back. Because investors have rarely defaulted on capital calls, subscription lines are seen as safe. Many banks have packaged them into securities, freeing up their balance sheets to make new loans. This move aims to close the gap with competitors like JPMorgan and Goldman Sachs, which have expanded their presence in the space in recent years.
Although subscription lines don't offer high margins, they help banks build long-term ties with private equity clients, potentially leading to future opportunities in deal advisory and underwriting. The lending product has become widely used, with nearly 85% of buyout funds utilizing them by 2023, up sharply from a decade earlier. The global market for these loans is estimated at around $900bn. Regulatory shifts, such as the easing of Basel III rules, are making this type of financing more attractive again for large banks.

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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