Seer Capital Management LP
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# Reg Cap Recap

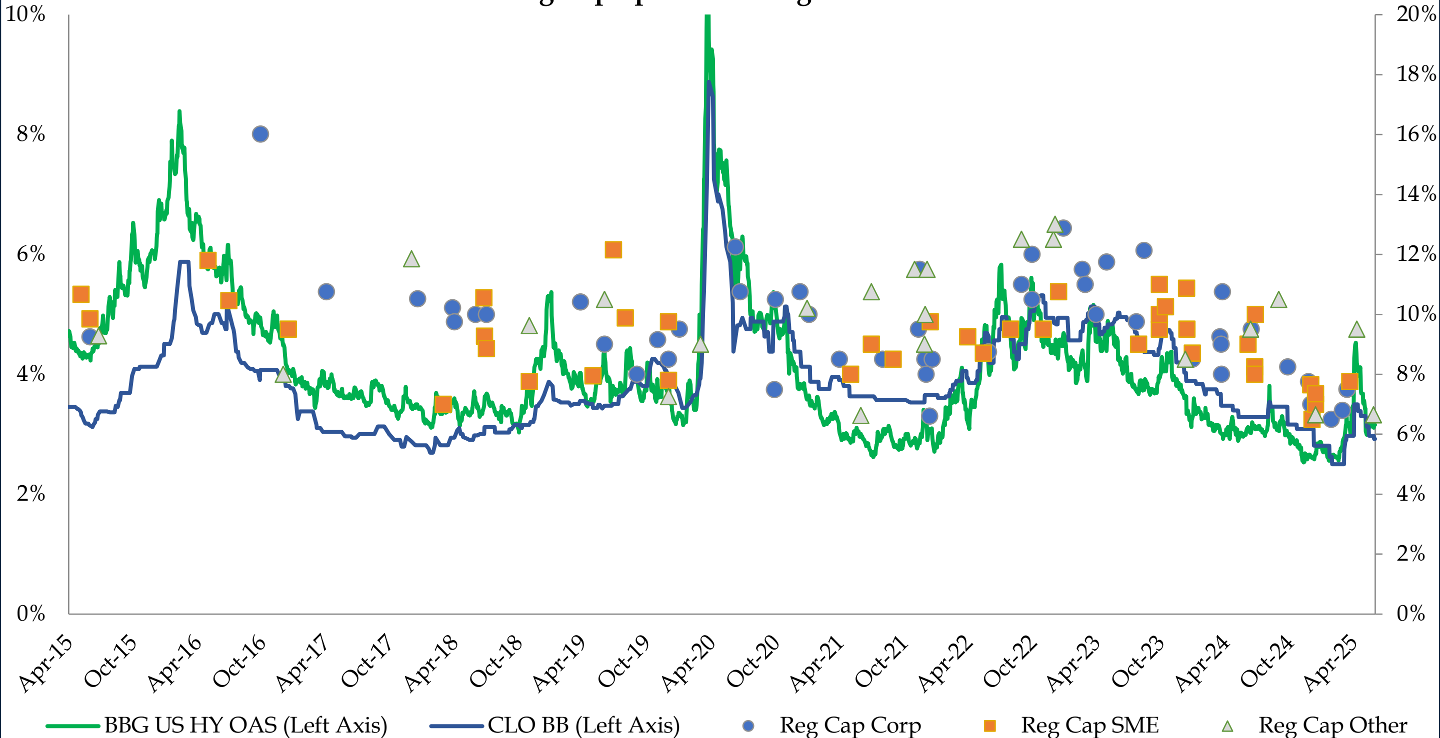
*A bimonthly update on the Regulatory Capital Relief/Significant Risk Transfer sector*

**June 3, 2025**

## Reg Cap Spread Trends

May Reg Cap pricing ranged from 665 to 950bps, while HY spreads tightened by 41bps during the month.

**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 June 2, 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] |
| May-25 | 665 | Auto | Denmark | No | DKK | 5.7 | No |
| Apr-25 | 950 | SME | Germany | No | EUR | 2.5 | Yes |
| 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 |

*[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

Reg Cap professionals finally see a light at the end of the tunnel after being deluged with activity for almost the entire first half, with a massive volume of bids due in the last several weeks as issuers look to complete deals by June 30. Next week most of the Reg Cap industry will decamp to Barcelona for the Global ABS Conference, where we will learn what will keep us busy in the second half (luckily things quiet down a bit for summer). The market continues to expand by every measure—number of deals, issuance volume, range of asset class, range of issuers, etc. This week saw another report on Reg Cap by a rating agency, this time S&P, attesting to the importance of product for European banks (see Reg Cap News below). This week also saw draft reforms to the EU securitization regulation, which would make Reg Cap issuance even more capital efficient for issuers and stand to stimulate issuance volume further (see Reg Cap News).

Reg Cap spreads have mostly retraced modest widening seen in the immediate aftermath of the Liberation Day tariff announcements from early April, in line with broader financial markets. The large volume and range of issuance has enabled investors to pick their spots more effectively, with fights for allocation, especially on benchmark deals, less common in the second quarter than in the fourth quarter of 2024.

## Reg Cap News

**New Issue News**

***Deutsche Bank Plans SRT Deal Tied to $3 Billion Corporate Loans*** (Bloomberg News, aka "BN", 5/23/25)

Deutsche Bank plans to issue a Reg Cap deal (aka synthetic risk transfer or "SRT"), linked to a portfolio of $3bn in corporate loans from both their North American and European lending books. The deal, part of their Craft program, is expected to be sized at ~8% of the portfolio, or $240mn. This follows a $560mn Craft deal that priced in March at 750bp over as well as a second deal tied to a portfolio of loans to German SME loans (pricing spread not available). DB's CEO noted on a recent earnings call that, despite market volatility, "There was no noticeable repricing (of Reg Cap issuances) required. So, actually, there is a lot of demand." Deutsche Bank has committed to reducing risk-weighted assets by €25-30bn by year-end, and plans to use Reg Cap to help achieve that goal.

Many expect that the Reg Cap market will see record volumes this year, growing to as much as $35bn by one estimate, more than a 20% YOY increase. Activity continues to be concentrated in Europe with UniCredit, Santander and BNP Paribas all working on multiple deals.

***BNP Paribas Issues Risk Transfer Notes on Up to €7 Billion Loans*** (BN, 5/27/25)

BNP Paribas is finalizing two Reg Cap issues tied to €7bn of loans. One transaction is linked to a portfolio of up to €5bn of large corporate loans originated by Paribas' Brussels-based unit while the second issue is tied to a portfolio of €2bn of loans to large and mid-cap companies from the bank's French retail operations. The Belgian deal, Chancellery, is expected to involve the sale of ~€300mn in bonds, with price talk in the 900bp area. The deal backed by French loans, Marianne 2, is expected be sized at ~€100mn, with price talk in the "upper 800s." Both transactions will be first loss tranches. Separately, BNP Paribas is also doing a Reg Cap deal linked to a portfolio of about €10bn of corporate loans.

***Santander to Arrange SRT Linked to $1 Billion of EBRD Loans*** (BN, 5/27/25)

The EBRD ("European Bank for Reconstruction and Development") has chosen Banco Santander to assist with its first Reg Cap issue, as a means to help expand capacity and continue to provide loans to emerging market borrowers. EBRD follows in the footsteps of other development banks such as the African Development Bank, which did a Reg Cap deal in 2018 and the Inter-American Development Bank, which issued a deal last year. The EBRD's offering will be a mezzanine tranche and is expected to offload credit risk on a reference portfolio of about $1bn of corporate loans across 100 borrowers. "We aim for this to be a program," EBRD management noted, adding that they expect Reg Cap will help boost solvency and enable them to scale up operations.

**Reg Cap News**

***SRT investors to swallow bank risk in IBL Banca debut*** (9fin.com, 5/28/25)

Reg Cap investors generally prefer to avoid counterparty risk, especially to banks that are not "G-SIBS." Counterparty exposure to the bank that issues a Reg Cap/SRT deal comes about as follows. When Reg Cap investors purchase bonds, the cash proceeds can be deposited with the issuing bank, or sit with a third-party bank, or in a Euroclear account. The cash can be guaranteed by a letter of credit or collateralized by high quality securities. Some deals use a ratings trigger, which allows the issuing bank to hold the cash proceeds, but require the cash to be moved to a third party if the bank were to be downgraded below a certain level.

Reg Cap issuers, of course, prefer that the cash is deposited in their coffers, giving them ready access to the cash. This creates counterparty risk for investors, because if the bank were to encounter difficulties, even if the Reg Cap bond had no defaults, the bank might fail to pay back SRT investors.

IBL Banca, a small Italian bank specializing in salary-backed loans and active in the securitization market, is coming to market with its first Reg Cap issuance. The proposed transaction is expected to be sized at 5-6% of the reference portfolio, €2bn in salary-backed loans. IBL has only €9.1bn in assets (by comparison, Europe's 50th largest bank has ~€115bn in assets) and is rated BBB. A key negotiation point was whether investors would accept unsecured exposure to IBL, given its size and rating. However, investors increasingly accept some bank risk, even without a pricing concession, perhaps because the industry track record suggests that bank failures haven't jeopardized SRT investors.

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## Reg Cap News (continued)

At Seer, most of our SRT investments are issued by leading banks in their jurisdictions, which limits our counterparty exposure and also helps us ensure that we are taking exposure to high quality reference assets. We think that some other investors may underestimate and not adequately price in exposure to smaller issuing banks.

***Gearing Up*** (RTRA intelligence, 5/29/25)
True sale SRTs (Significant Risk Transfers) for commercial real estate (CRE) are gaining modest interest in the U.S., particularly among regional banks with high CRE exposure. This is driven by bank regulations which cap CRE concentration at 300% of equity capital. In addition, U.S, banks —unlike in Europe—cannot use synthetic structures to address the concentration cap.
Seer's Terry Lanson was quoted in the article, explaining that "US banks wishing to reduce their reported CRE concentrations need to use cash, rather than synthetic, securitizations pending a regulatory clarification. Banks generally aren't seeking to exit the risk entirely, nor are they seeking funding, so they retain the senior part of the capital structure."
True sale SRTs remain rare in the U.S., mainly because of major challenges around accounting "derecognition," which is required for capital relief. Derecognition demands that the bank gives up control of the assets and does not retain variable returns. Both are at odds with banks' usual practice, which would be to service the assets and keep the first-loss tranche and/or excess spread. Moreover, U.S. banks must recognize unrealized losses when selling assets, so viable SRT deals require assets with minimal unrealized losses. The recent Third Coast Bank transaction is the most prominent example of a Regional US bank using the Reg Cap market to address CRE concentration limits.

***European Banks Continue to Embrace Significant Risk Transfers*** (S&P Global, 5/29/25)
This report by Standard and Poor's is a favorable snapshot of the Reg Cap market in Europe. European banks are continuing to expand their use of significant risk transfers (SRTs), with a 15% increase in outstanding transactions in 2024 and further growth expected in 2025. The authors noted the benefits of synthetic securitizations, which allow banks to manage credit risk, optimize capital, and enhance returns. The report noted that, while large institutions like Santander and BBVA dominate issuance, a wider set of banks—including first-time issuers like AIB and DNB—are entering the market and likely to become more active as costs are offset by benefits from repeat transactions.
Importantly, Standard & Poor's weighed in on a very constructive note on several recent Reg Cap controversies/criticisms. For example, they wrote:

1. We see well-designed SRTs as an effective capital and risk management tool.
2. We do not see a material risk of a bank becoming overly dependent on SRTs in view of the limited market size, regulatory constraints, etc.
3. Although there is a lack of comprehensive data, we do not currently see material leverage in the European SRT market, where the junior tranches sold to investors typically require sizable haircuts and frequent margining in repo transactions.

S&P ending by noting that, while pricing remains attractive, future developments will hinge on market conditions, investor appetite, and evolving regulatory scrutiny.

***The inside track on tight SRT pricing*** (9fin.com, 5/30/25)
While headline pricing in Reg Cap may appear tight, behind the headlines, investors are increasingly influencing deal structure, portfolio quality, and terms. Deutsche Bank's latest Craft deal exemplifies this: although it priced tighter than its March deal, it featured a higher-quality, more granular portfolio, shaped partly by investor feedback and, reportedly, also by the bank's own hedging needs.
Seer Reg Cap team members were involved in structuring the first Craft transaction while working at DB in the early 2000s, and the program has performed extremely well, serving as a vital source of capital for DB while providing investors with very attractive returns. Changes to the latest Craft can be viewed as marginal in the context of the overall program, and we expect it to continue to perform well.
In general, while spread volatility in Reg Cap has been quite muted in the context of broader market turmoil, deteriorating macroeconomic conditions have enabled investors to become even more active in negotiating portfolio composition, replenishment criteria, credit event definitions, etc.
Pricing comparisons across Reg Cap deals have always been fraught, even between successive deals from the same program. Variations in tranching and portfolio composition make comparisons imprecise. In addition, the market remains fragmented, with club deals negotiated privately. As a rule, bilateral or smaller club deals offer more room for investor input than seen in broadly syndicated deals. The author concluded by noting that, while recent market uncertainty seems to have tilted negotiations in favor of investors, the Reg Cap market continues to be "issuer-friendly," with solid investor demand.
At Seer we note that these nuanced differences between Reg Cap deals and issuers make the product particularly complex, and enable experienced investors who understand all key transaction features to outperform new entrants.

***Santander Unseats Barclays as Europe's Biggest SRT Issuer*** (BN, 5/30/25)
Banco Santander has surpassed Barclays as Europe's largest issuer of Reg Cap, according to a report from S&P Global Ratings. Based on S&P's sample of issuers, the rating agencies estimated a 15% increase in retained tranches at the end of 2024, to about €460bn ($523bn) from about €400bn at the end of 2023. Within that group, Santander had retained more than €70bn in SRTs, vs. €60bn at Barclays. "Despite geopolitical uncertainty, investor demand remains strong," S&P analysts noted.

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## Reg Cap News (continued)

***Breaking down the EU's draft SRT 'big bang' reforms*** (9fin.com, 6/2/25)
The European Commission's draft reforms to the Securitization Regulation and Capital Requirements Regulation represent a significant overhaul of the EU's approach to securitization generally, and Reg Cap/SRT specifically. Among the key proposals are revisions to risk-weight floors for senior tranches, making them more risk-sensitive and reducing capital burdens on "lower risk" securitizations. This includes expanding STS (Simple, Transparent and Standardized) eligibility to unfunded structures like insurance guarantees and introducing a new "resilient" label for securitizations that meet robust risk criteria. The "resiliency" criteria include standards for amortization mechanisms, exposure concentration, counterparty credit risk and minimum credit enhancement. If ratified, there would be two labels to reach for maximum capital benefits: STS and "resilient." The proposed changes would generally make using Reg Cap to reference securitization of granular portfolios of lower risk assets, like mortgages, auto loans, SME retail and credit cards, more capital efficient. At Seer, we prefer transactions referencing such assets and are excited by the growth of the market that the reforms are bound to stimulate. For more on how the various regulatory parameters impact the capital treatment of Reg Cap, see:
https://seercap.com/wp-content/uploads/2021/02/Seer-Capital-Bank-Regulatory-Capital-Relief-White-Paper-Feb-2021.pdf

These changes are intended to improve capital efficiency, especially for low-risk assets, while also streamlining and modernizing how risk is quantified and treated. These reforms reflect recommendations from recent academic and industry papers, which argued that current formulas overstate risk and called for more proportionate capital requirements.
In addition, the reforms would revise SRT approval processes and due diligence requirements. A new Principle-Based Approach for SRT would replace rigid testing rules, requiring banks to demonstrate that 50% of unexpected losses are credibly transferred, supported by a comprehensive cash-flow analysis. On the due diligence front, the proposals aim to reduce reporting burdens—especially for repeat, highly granular, or public transactions.
The proposals will have to be debated and voted on by the "Trilogue" (the European Parliament, European Commission and European Council) which could be an extended process.

***EU's Securitization Revamp Set to Halve Some Capital Buffers*** (BN, 6/2/25)
As discussed above, the European Union is proposing new rules that would make it easier for banks to sell off mortgages and reduce the amount of capital they must hold against certain bundled (securitized) loans kept on balance sheet. The EU has recognized that current regulations and practices may be stymying the important securitization market, and hence stymying economic growth. For example, in a typical year, the EU new issue market in securitized products is only €200bn, compared with ~ €2trn in the U.S. The EU is due to announce plans to overhaul their securitization market next month, as part of the EU's "Savings and Investment Union," which aims to "channel the bloc's financial firepower" more efficiently and spur growth.
The European Commission's proposal introduces a new concept, "resiliency," to describe higher quality transactions, as discussed above. The proposal would reduce the existing floors used for "resilient" senior tranches from 10% to 5% for so-called STS transactions and from 15% to 10% for non-STS deals. For other senior positions that aren't considered resilient, the floor for capital charges will also be reduced to 7% and 12%.

**Banking Industry News**
***EU to Delay Capital Rules for Bank Trading Desks by One Year*** (BN, 5/23/25)
The European Union has decided to delay the application of tougher capital requirements for bank trading businesses. The regulation will be pushed back one year to the start of 2027. It's the second such delay. Implementation has been derailed by the U.S. failure to pass its own (broader) package of capital rules, aka "Basel Endgame," and a broad move toward deregulation under the new administration. The EU decision comes amid rising pushback from businesses and governments across the EU who are hoping to ease financial regulation to boost growth and maintain competitiveness.

***UK Bank Ring-Fencing Has Outlived Its Usefulness*** (Bloomberg Opinion, 5/26/25)
UK banks want the government to abolish a key piece of post-financial crisis regulation that forces them to keep ordinary depositors' money legally separate from their trading and investment-banking business, aka "ring-fencing." Bankers claim that ring-fencing is costly and inefficient. Ring-fencing applies to banks with deposits in excess of £35 billion ($47 billion). This author suggests that ring-fencing has outlived its usefulness and should be replaced with higher deposit insurance to reassure people about the speed of recoveries if a big bank fails.

***Bank Lending to Private Credit Funds Swells 145% in Five Years*** (BN, 5/29/25)
Wall Street banks have significantly increased their involvement in the $1.7 trillion private credit industry, with loans to private debt funds up 145% over the past five years. Though banks had traditionally competed with private credit firms, banks now support them heavily by providing financing. Bank exposure to both business development companies (BDCs) — which pool direct loans — and other types of private debt vehicles reached about $95 billion by the end of 2024, according to a recent Federal Reserve report. Domestic banks were lenders on 50% of loans to BDCs as of the first quarter of last year, with JPMorgan Chase & Co. being the largest in the space.

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## Reg Cap News (continued)

This trend allows banks to earn strong returns on highly secured loans while avoiding direct exposure to the riskier loans made by private credit firms. While most BDCs are investment grade, the underlying loans are generally made to riskier companies or used to finance LBOs. The Fed notes that "default probabilities of loans to BDCs are the smallest ones across almost all different credit ratings," but that bank loans to private debt funds, rather than BDCs per se, have "higher default probabilities."
The Fed has identified a few concerns. First, that direct lending funds may be forced to draw down their credit lines in times of stress, putting pressure on lenders in turn. Secondly, loans originated by private credit firms are not subject to the same underwriting as those of banks, leading regulators to question banks' ability to evaluate those credit decisions.
Though the immediate risks "appear limited," the Fed researchers cautioned that "The lack of transparency and understanding of the interconnectedness between private credit and the rest of the financial system makes it difficult to assess the implications for systemic vulnerabilities."
We would be remiss if we failed to point out that reported regulatory scrutiny of banks financing Reg Cap transactions issued by other banks is misguided, given i) the tiny amount of Reg Cap financing relative to the amount of lending to private debt funds, and ii) the high quality nature of the assets referenced in Reg Cap transactions. For more on this topic see:
https://seercap.com/wp-content/uploads/2025/01/Reg-Cap-Leverage-Clearing-Misconceptions.pdf

***France Scraps Bank Capital Rule for Indebted Firms as Risks Ease*** (BN, 6/2/25)
France will ease some capital requirements for its largest banks' exposure to highly indebted companies. Regulators claim that lenders face lower risk than they did two years ago when the measure was enacted, but no doubt are also responding to calls to remain competitive. Currently, banks with leveraged loan exposure in excess of 5% of their equity must keep an extra buffer equivalent to 3% of the relevant exposures. The regulation focuses on companies with more than €300 million euros in debt or whose debt surpassed 6 times earnings. French regulators now maintain "The specific risks that led to the introduction of such a measure have clearly diminished," but regulators stand ready to reintroduce the measure as deemed needed in the future.

## 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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