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Reg Cap Recap

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

June 17, 2025

Reg Cap Fundamental Credit Trends

The Reg Cap sector spans a variety of reference assets and, of course, the performance of those assets varies among originators. Assets originated by banks to their clients for the banks' balance sheets have generally outperformed assets in generic credit indices. Further, investors impose selection criteria and originators, when selecting assets for a reference pool, are motivated to help ensure the success of their Reg Cap program on the most attractive terms.

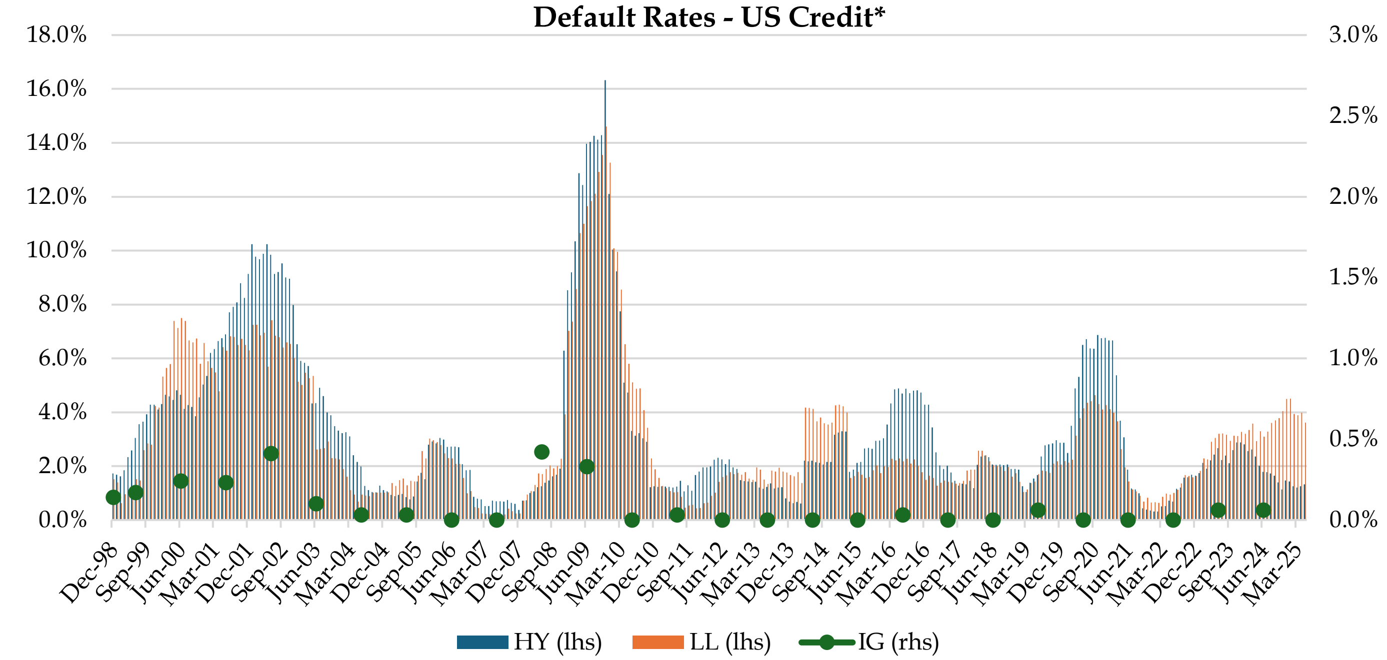
That said, we find it useful and important to track broad trends in asset performance in addition to deal-specific surveillance (which is non-public). Across the 40 investments that we own and track, referencing corporate, SME, middle market, consumer, and auto loans in Europe, North America, and Asia, we are seeing continued strong credit performance almost across-the-board, with just a few positions that we are monitoring more carefully due to slightly higher negative credit migration and/or default trends.

The indices we look at as broadly representative of some of the most common reference assets include US Corporate Debt, including Investment Grade, High Yield and Leveraged Loans; European Investment Grade Debt and High Yield; and US Prime auto loans. We would expect most reference asset pools to significantly outperform these publicly available benchmarks. The following is a brief update on current credit trends for each.

US High Yield and Leveraged Loans

Most corporate credits in referenced pools are investment-grade quality. Defaults of investment grade obligors are rare. While Investment Grade ("IG") defaults have been only a small fraction of the defaults in leveraged credit (i.e. US High Yield "HY"' bonds and Leveraged Loans "LL"), there is a strong correlation (~75%). Therefore, it is useful to track the (far more numerous) default activity in HY and LL as a possible bellwether for IG. Current default performance in HY and LL continues to be consistent with very low or no IG defaults.

There were seven payment defaults in May totaling $4.5bn in bonds and loans and two distressed transactions totaling $673mn in bonds; there were no distressed exchanges in LL. The par-weighted US high-yield bond and loan default rates increased 8bp and decreased 36bp MOM to 1.33% and 3.62%, respectively. As markets rebounded from April's trials, the distressed bond universe contracted dramatically in May. This is of course an important bellwether for future defaults E.g. the volume of HY bonds trading at spreads of 1000bp+ decreased $38bn from its April 7th peak to $73.3bn. In LL, the amount of loans trading at or below $80 decreased $19bn from its recent peak, and is back to 5.3% of outstandings. Using current spreads the implied default rate for HY has fallen to under 1%; and the implied default rate for LL is just under 2%. However, a great deal of policy uncertainty remains and many analysts expect higher defaults, though contained.



Source: Standard & Poor's, JPMorgan Research, as of May 31, 2025.
** HY and LL on a trailing 12-month basis, dollar-weighted. Includes distressed exchanges. IG on an annual basis.*

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Reg Cap Fundamental Credit Trends (Cont.)

European High Yield

Historically, IG defaults in Europe have also been very low, with no defaults at all in most years. Our European HY default data goes back to 2005. Since 2005, the default rate for IG in Europe has been zero in every year but two; in both 2008 and 2009 the IG default rate was 11bp per annum. Again, as with the US market, with so little default activity in IG, we turn to the HY market as a bellwether.

After two months with no defaults, three European high yield issuers defaulted in May, effecting a total of €6.0bn in bonds, a monthly record. The trailing-12mo. default rate for European High yield was up 72bp MOM, to 4.20%. Interestingly, despite the higher defaults, the trailing-12mo. loss rate actually fell 9bp MOM in May as recovery rates have improved. Meanwhile, as with risk markets elsewhere, the level of distressed European HY paper (defined as bonds trading at a spread of >= 1000bp) improved. April's increase in the distressed ratio reversed in May, with the share of bonds trading wide of 1000bp dropping 116bps to 5.48%, a three-year low. European HY analysts warn, however, that while we are in "tariff off" mode, things could quickly and unpredictably shift back to "tariff on," impacting trading levels in the short run and just about everything in the long run.

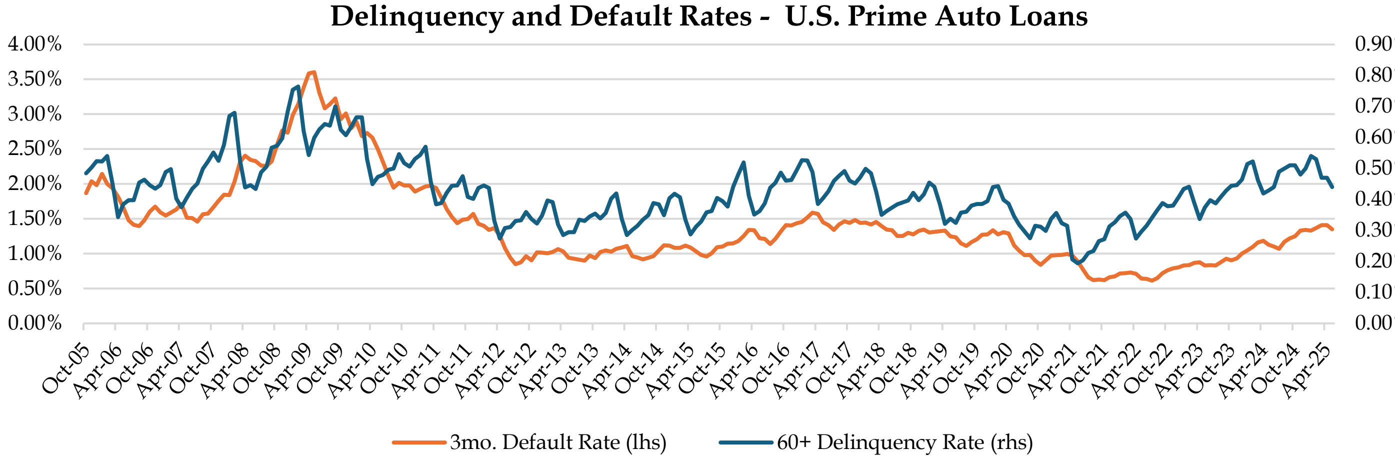
Default Rates - European High Yield

Source: JPMorgan Research, as of May 2025. Trailing 12-month basis, dollar-weighted. Excludes Banks/Insurers.

US Prime Auto Loans

The 60+ delinquency rate for securitized US Prime Auto Loans rose 3bp MOM in May, to 47bp from 44bp in April. The 3-month default rate is 135bp (down 6bp MOM). While it is common to see an increase in DQs in May, after the impact of April tax refunds has worn off, this MOM increase was larger than average. Helpfully, though, delinquent borrowers are avoiding default more often than in past cycles and so defaults and losses have been growing more slowly than DLQ. With respect to defaults, prime auto loan defaults are modestly elevated, at the 59th percentile over a 20yr. history.

Delinquency and Default Rates - U.S. Prime Auto Loans



Source: Morgan Stanley, as of May 31, 2025

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Reg Cap News

Issuance News:

BNP Paribas Increases SRT to Shift Risk on €10.5 Billion Loans (Bloomberg News aka "BN", 6/4/25)
BNP Paribas increased the size of an upcoming Reg Cap (aka "significant risk transfer" or "SRT") to a €10.5bn corporate loan portfolio. The SRT notes will total ~€500 million and are priced at 825 bps over Euribor. The SRT will be part of the bank's Resonance program. BNP Paribas is also finalizing two Reg Cap deals referencing another €7bn of loans and a third deal linked to about $2 billion of project finance loans. In Europe, Banco Santander, BNP Paribas, Intesa Sanpaolo and UniCredit are among lenders currently discussing or finalizing SRTs as issuance is on track to hit record volumes.

EJF Capital and Third Coast Bank push innovation with latest CRE securitization (9fin.com, 6/4/25)
Third Coast Bank closed a new $150mn securitization on a mixture of newly originated and existing commercial real estate (CRE) loans, following a similar transaction two months ago where they securitized $100mn of a $200mn revolving CRE loan. Both transactions were done for their capital benefits and as a means to reduce CRE balance sheet concentration.

The April transaction was the first public example of a securitization done on a single newly originated CRE loan of that size, helping the bank to reduce its risk-weighted assets, lower its construction loan concentration and diversify its balance sheet. This new Reg Cap deal incorporates existing CRE loans the bank had on its book. The transaction has an attachment point of 15%. It was done as a true sale securitization because the loans were sold into a special purpose vehicle (SPV), which then sold a participation interest.

UK's NatWest to Sell SRT Tied to £2.3 Billion of Corporate Loans (BN, 6/9/25)
NatWest is finalizing its third SRT of the year, with a new deal linked to a ~ £2.3bn portfolio of corporate loans. It is expected to price at a spread of ~800bps. NatWest just recently returned to full private ownership, nearly seventeen years after the UK government was forced to rescue it from failure at the height of the GFC.

Deutsche Bank Upsizes SRT Deal Tied to $6.9 Billion of Loans (BN, 6/11/25)
Deutsche Bank AG doubled its upcoming Reg Cap deal. The SRT issue will now be approximately $550mn, and reference $6.9 bn of loans with a pricing spread of 725bps over SOFR. The notes will be part of the bank's Craft program and comes on the heels of a March deal of similar size that priced at 750bps over SOFR. Deutsche's CEO Christian Sewing said on an April earnings call that SRTs will help the bank reduce its risk weighted assets by €25-30bn by year end.

JPMorgan Eyes SRT Tied to $5 Billion of High-Yield Loans (BN, 06/11/25)
JPMorgan is reportedly considering a Reg Cap deal linked to a $5bn portfolio of high-yield corporate loans. No further details are available at this time.

Aareal Bank Plans Debut SRT Tied to Commercial Real Estate Loans (BN, 6/12/25)
Germany's Aareal Bank is working on a Reg Cap deal linked to a ~€1.5bn blind portfolio of commercial real estate loans. This would be Aareal's debut issue. Aareal, which is owned by investors led by Advent International and Centerbridge Partners, was among German banks that came under pressure in early 2024, when rising interest rates led to surging borrowing costs at the same time that real estate values were falling.

Erste Courts SRT Investors as It Readies €7 Billion Polish M&A (BN, 6/13/25)
Austria's Erste Group Bank is exploring issuing a Reg Cap deal, as it seeks to free up regulatory capital ahead of a planned €7 billion acquisition of a 49% stake in Santander's operations in Poland. Ertse is contemplating a SRT tied to a portfolio of company loans in Austria, while also considering potential SRT deals tied to loans originated by its eastern European units. Erste said in a May investor presentation that it expects SRT deals and other balance-sheet hedging to boost its capital ratio by around 40bps , helping free up capital for their Polish acquisition.

ING Plans Potential SRT Tied to €5 Billion of Corporate Loans (BN, 6/16/25)
ING is said to be considering an SRT deal tied to a portfolio of ~€5 billion of corporate loans. "We have been somewhat later, maybe conservative, using SRT, but we do expect to do material trades at the second half of the year," ING's Chief Financial Officer told investors at a conference last week, adding that such deals "should have accretion in our core tier 1 of around 10 basis points."

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Reg Cap News (Cont.)

Reg Cap News:

Investors take firmer line on SRT replenishment as macro uncertainty bites (9fin.com, 6/4/25)
Amid rising macroeconomic uncertainty, investors in Reg Cap deals are increasingly pushing back on terms, and many issuers are complying in order to keep their pricing spreads at or near the tights. With very few deals done in a wholly static form, investors and issuers negotiate replenishment of reference assets when loans prepay, amortize, etc. In addition to agreeing on the length of the replenishment period, there are three major areas to be negotiated: eligibility criteria, the replenishment selection process, and portfolio tests. Eligibility criteria for new loans going into the portfolio include credit quality, geography, and concentration limits. In re selection, there is usually a quasi-automatic process to rotate assets into the pool from a universe of eligible loans, preventing the issuer from cherry-picking loans. Testing is done regularly, to ensure that the portfolio of reference assets stays within the agreed upon range for the risk profile and composition, but there are also triggers for ad hoc re-testing. For now, there is a trend toward stricter rules regarding all aspects of replenishment.

Europe's biggest banks pump out cash risk transfer deals (9fin.com, 6/5/25) Two of Europe's largest banks, BNP Paribas and Santander, have been rapidly issuing cash SRT deals, with more than €3 billion priced in recent weeks. Santander alone has launched multiple deals across its consumer and auto lending arms in Spain, Portugal, and Italy, doing a deal a week in May. Like the (more common) synthetic SRT deal; the assets stay on balance sheet and the bank keeps the excess return above the coupon paid out on the SRT. Unlike most synthetic SRTs, investors in the junior tranches are protected by both a reserve fund and substantial excess spread. The reference assets are usually very high-quality consumer lending with high coupons. Often, junior tranches can earn investment grade ratings. Also, unlike synthetic SRT, rather than the issuing bank retaining all of the senior notes, some or all of the senior tranche is sold to an anchor account or accounts.

Liberation Day volatility drives SRT push for better disclosure (9fin.com, 6/5/25)
With rising macroeconomic uncertainty, Reg Cap investors are pushing for better deal transparency and tighter terms, particularly around disclosure, portfolio composition, credit event definitions, and replenishment criteria (see discussion above). For the last eighteen months, issuers had been pushing the envelope on terms, but investors now report they have been successful in pushing back over the last eight weeks and have been able to negotiate improved terms. While SRT has consistently shown far less MTM volatility than competing products, and headline pricing has remained relatively stable in recent months, investors are demanding better terms and more granular data, including single-name disclosures and breakdowns within industry sector codes, to better assess risk (especially tariff-related credit risk). Some banks have responded by improving transparency and deal structures and have been able to attract investors without widening spreads.

EU regulators looking to ease capital requirements for securitizations in Solvency II (9fin.com, 6/9/25)
EU regulators are exploring ways to reduce capital requirements for insurers investing in securitization under the Solvency II framework, aiming to boost the European securitization market and attract more insurance capital. The suggestions would make it easier for insurers to invest in securitizations from the asset side of their balance sheet by reducing capital requirements. The report notes that, while ~12% of US insurers' investment portfolios are invested in securitized products, European insurers have less than 1% of their assets invested in the sector. EU insurers can invest in securitizations from the asset side of their balance sheet or underwrite risk from the liability side by providing "unfunded" protection to an SRT. (US bank regulators do not currently allow unfunded SRTs, because of the counterparty risk it introduces.) If implemented, the EU reforms could significantly boost insurer participation in securitizations and improve funding access for banks.

Family feud — Diverging CLO and SRT pricing causes investors to rethink relative value (9fin.com, 6/9/25)
The article asserts that CLOs may currently look cheap versus SRTs. While SRT pricing can be somewhat opaque, our observations suggest that SRT spreads have been remarkably stable this year, whereas both CLO bonds and equity cheapened over April's turmoil and have since largely recovered. The relative value story then, is essentially unchanged this year.
CLOs, or collateralized loan obligations, are bonds backed by a pool of leveraged loans which are securitized, tranched and sold to investors. The CLO manager sources these loans in the open market and actively manages the portfolio; CLOs are an arbitrage product. As compared to SRT, the CLO market is far larger, has a more active secondary market, and offers rated bonds with credit enhancement and/or excess spread, as well as equity tranches. CLOs are also backed by riskier assets (leveraged loans), can have cash flows diverted when certain triggers are hit, have experienced more MTM volatility over several cycles and do not enjoy the same alignment of interests between Reg Cap investors and the issuing banks (who originate reference assets for their own balance sheet and retain exposure).
The two products can be difficult to compare, in part because CLO investment can be in equity form, or a rated bond. It is arguable whether SRT is most comparable to CLO equity, or to B-rated CLO or BB-rated CLO. In our opinion, SRT is most comparable to BB

Reg Cap News (Cont.)

CLO from a credit standpoint and because, unlike CLO equity, SRT features a contractual coupon. We agree with the market participant quoted in the article, who says "SRTs appear very attractive as their target returns are materially higher than that of BB CLOs, although they are unrated and a bit less liquid."

Some time ago we published a research piece comparing Reg Cap vs. BB CLO. While markets have evolved, many of the considerations remain relevant, see here: https://seercap.com/wp-content/uploads/2021/10/Seer-Capital-Reg-Cap-vs.-CLO-BB-Rel-Val-Research-Piece.pdf

Conference notes from FT Live / AFME Global ABS 2025 (Barcelona, 6/10-12/25)

Conference reportedly attracted more than 5,000 participants, including a significant contingent over from the US. Many events hit capacity early, and a large number of people were even spotted attending panels. Key themes included:

- Many banks are increasing SRT issuance, both in existing programs and by establishing new programs. They are strengthening central functions tasked with identifying assets and executing SRT as they move toward a "capital light" model. From discussions on the ground, we estimate that at least eight deals will be kicking off shortly and aimed for 3Q and another fifteen deals are already visible for 4Q
- Banks are reviewing their balance sheets in search of Reg-Cap-suitable assets. These assets will generally be granular pools of particular lending products, rather than plain vanilla concentrated pools of large corporate loans. This suits our investing preferences and plays into our core expertise in actuarial credit analysis.
- Banks are getting fewer inquiries from new reg cap investors, as market turbulence and disappointing US new issue volume has put a dent in demand. There is not the same fight for allocations that there was in 4Q, as many investors closed new funds in 4Q, and appeared desperate to deploy quickly.
- Apples-to-apples, Reg Cap spreads may be 50bps wider versus the tights seen in 4Q 2024 / at the very beginning of 2025.

Excess Spread – Sun, sweat, sand and SecReg (9fin.com, 6/13/25)

This article was a mashup of feedback and observations from the industry's recent Barcelona conference (our thoughts discussed above).

One theme was that the Reg Cap market remains vibrant but more in balance. Pricing is relatively tight, but investors believe the frenzy has ebbed; deals are coming in oversubscribed 2x now, not 4x. "Banks feel they have a reliable base of investors, even in uncertain times ...a natural result of how the asset class has performed over the years," said long time issuer Deutsche Bank. The same issuer noted that success as an issuer takes a wide variety of distribution approaches, from widely syndicated to bilateral, and that the expertise of longtime solutions-driven SRT investors is useful for delving into more complex asset classes and structures. We would place Seer in that camp.

It was also noted that US regional banks, which some had touted as a possible source of synthetic SRT supply over the past couple of years, have focused on doing deconsolidation deals, a combination of true sale of assets and financing provided by the bank. Smaller UK banks have also tended to do cash de-recognition deals for capital relief, requiring an audit and accounting opinion rather than the regulatory sign-off needed for a synthetic SRT. One conference theme was more expansion of SRT into project finance, and more consumer assets.

On the regulatory front, there was discussion about the use of repo-based leverage in SRT, and possible reactions to UK regulators' recent letter on the subject. Broadly speaking, European Commission proposals have drawn mixed reactions. While new capital relief measures and adjustments to risk weight floors have been welcomed, concerns linger about overly burdensome disclosure requirements. Insurers' participation in SRTs is growing, with lower attachment points and increased interest in unfunded structures. Market participants remain hopeful that a clearer and more stable regulatory environment will enhance the long-term viability and attractiveness of the SRT market.

SRT marches on to world domination (LSEG.com, 6/13/25)

The significant risk transfer (SRT) market, which has seen rapid growth in Europe since the 2010s, is now expanding into new global regions including Asia, Africa, the Middle East, and Latin America. Panelists at the Global ABS conference in Barcelona noted increasing activity in Central and Eastern Europe, Scandinavia, and more recently in markets like Mexico, Brazil, South Africa, and Japan (where it is rumored that SMBC did a Reg Cap issue referencing U.S. business development company loans.)

Standing-room-only SRT panels drew crowds despite competing sessions. Some investors voiced frustration over tight spreads and limited allocations due to surging demand. Although precise issuance figures are difficult due to the market's private nature, estimates suggest nearly $7bn in deals were done in Q1 2025—twice the volume from a year earlier.

SRTs to Mobilize €10 Billion-Plus in Banks' Capital (Bloomberg Intelligence, 6/13/25)

European banks are increasingly availing themselves of the Reg Cap market to free up capital—over €10 billion annually by one

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estimate—enabling both new lending and share buybacks. The global Reg Cap market is expected to exceed €1.5 tn by the end of 2025. A European Systemic Risk Board paper calculated that among the largest banks, the use of synthetic securitizations accounts for 70-90% of their total capital relief. Institutions like Santander are planning €10–15 bn in annual RWA relief through SRTs, with securitizations backed largely by corporate, SME, and consumer loans. Barclays alone has transferred £57 bn in assets via SRTs.
While SRTs are an effective tool for optimizing risk-weighted assets (RWAs) and enhancing capital efficiency, the authors argue that this comes at a cost and raise concerns both about transparency and about interconnected risk. Regulators, including the ECB, are working on streamlined approval processes, but observers warn of potential negative feedback loops and systemic risk if SRT structures obscure where risk actually resides. There's also rising caution around overreliance on SRTs and "excessive" capital return.

<u>Banking Industry News:</u>

Private Credit Growth Fueled by Banks May Pose Risks (wsj.com, 5/21/25)
Private credit has exploded to roughly $1tn in the U.S. by 2023, largely fueled by nonbank lenders such as private-credit firms and business development companies (BDCs) stepping into gaps left by traditional banks. Economists at the Boston Fed warn that banks are increasingly providing loans and credit lines to these nonbanks, indirectly exposing themselves to riskier borrowers they would otherwise avoid.
Private credit funds do typically employ lower leverage and, being supported by long-term institutional capital, are far less susceptible to runs than banks that rely on depositors. However, the paper argues, by extending credit to highly leveraged borrowers, they may amplify financial instability during economic downturns. The Boston Fed notes that although current bank exposures to nonbanks are modest, the growing interconnectedness between banks and private credit firms merits continued scrutiny.

RBC Capital Advisory Update: Moody's Proposes Significant Changes to Banks Methodology (RBC Capital Markets, 5/22/25)
Moody's recently released a Request for Comment (RFC) on significant changes to their rating methodology for banks globally. The changes primarily impact the methodology used to determine a bank's "Financial Profile," a key sub-component of the Baseline Credit Assessment (BCA), which underpins various ratings such as deposit, issuer, and security ratings. These adjustments are designed to "enhance the transparency and consistency of Moody's rating framework."
According to the summary from RBC, the proposed changes—if implemented—would directly affect the BCAs of about fifteen North American banks, with varying outcomes, and an even broader impact expected across European institutions. Banks will need to proactively manage business factors that may affect future ratings. The report also notes that certain methodological elements are based on existing regulatory standards for capital and liquidity, and any revision to those rules would probably prompt Moody's to further adjust its methodology.

Private Credit's Edge Over Banks Here to Stay, Bill Winters Says (BN, 6/3/25)
Bill Winters, CEO of Standard Chartered, argued that private credit firms have a lasting capital advantage over traditional banks due to post-GFC regulatory reforms that increased banks' capital requirements. This structural disparity has been behind private credit's dramatic expansion—now a $1.7tn market— as these lenders rush to fill in gaps left by banks that have pulled back from riskier lending. While not directly criticizing Basel reforms, Winters pointed to excessive regulation as a problem, calling regulators overly intrusive and costly. Winters singled out the Prudential Regulation Authority and Financial Conduct Authority for stifling innovation and fostering a compliance-first mindset among bankers.

Trump's Pick for Top Bank Cop at Fed Has Industry on Her Side (BN, 6/4/25)
Federal Reserve governor Michelle Bowman is poised to become the Fed's vice chair for supervision, overseeing banking regulation. A vocal critic of stringent regulations, her nomination has drawn support from banking groups but sparked concern among critics who fear she will prioritize industry interests over systemic safety. Bowman opposed the tighter capital rules that her predecessor proposed after the collapse of Silicon Valley Bank and called for more transparency and accountability in supervisory practices. She represents a deregulatory shift at the Fed.

RBC Regulatory Update: FRB Vice Chair Bowman Signals Regulatory Reform (RBC Capital Markets, 6/6/25)
In this analysis of the state of US banking regulation, RBC points out that leadership is still not in place across the various bank regulatory agencies, i.e. the Fed Board, FDIC, OCC and CFPB. In particular, two of five seats at the FDIC are currently vacant and, they state "the status of these vacancies is unclear as there doesn't appear to be a requirement to fill them or any known timeframe to do so if required.' Of the remaining three, two are "likely to be replaced soon." The report lays out which entities have discretion to make various types of changes and under what authority. In the meantime, it is expected that, at the July Capital Framework Conference we will see a "watered down re-proposal" for Basel III endgame and an adjustment to G-SIB surcharges.

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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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