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Reg Cap Recap

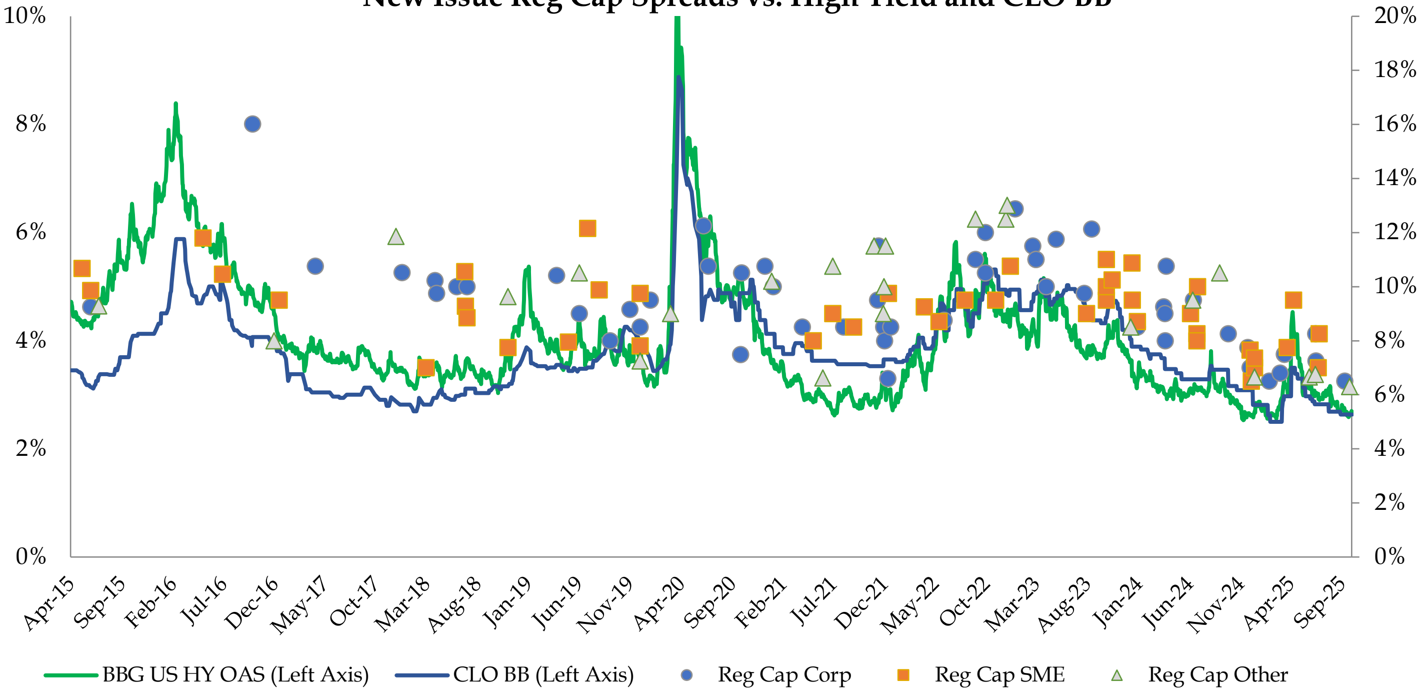
A bimonthly update on the Regulatory Capital Relief/Significant Risk Transfer sector

October 7, 2025

Reg Cap Spread Trends

September Reg Cap pricing ranged from 630 to 650bps, while HY spreads tightened by 5bps during the month of September.

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 October 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]
Sep-25	630	Auto	US	No	USD	5.0	No
Sep-25	650	Corporate	US	No	USD	5.0	Yes
Jun-25	825	SME	UK	No	GBP	1.5	No
Jun-25	700	SME	Spain	No	EUR	3.9	No
Jun-25	725	Corporate	Global	Yes	USD	6.9	Yes
Jun-25	825	Corporate	Global	No	EUR	9.3	Yes
Jun-25	675	Auto	US	No	USD	2.0	No
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

[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

Issuance volumes continue to grow in 2025, especially in Europe, after a 37% increase in European issuance in 2024 over 2023 according to the IACPM. One prominent investor put 1H25 issuance at 50% up from 1H24. The market remained busy throughout the summer, and now the fourth quarter rush is upon us, with more than 10 transactions representing a range of issuers, jurisdictions, and asset classes in our pipeline.

Deals for 3Q and early 4Q have been aggressively bid, suggesting that spreads will test the tights reached in late 2024 / early 2025, after widening by about 50 bps in 2Q. It remains to be seen how long markets can ignore various geopolitical headwinds, but it will not be forever. We are mindful of being careful what we wish for, but given the level of demand for some Reg Cap deals, a bit of a shakeout, which would highlight differences in structural and portfolio quality across Reg Cap deals, may be healthy.

Reg Cap News

New Issue News

Nordea Said to Plan SRT Tied to €1.7 Billion of Loans (Bloomberg News, aka "BN", 9/30/25)
Helsinki-based Nordea Bank is considering a significant risk transfer ("SRT" aka "Reg Cap" or "Regulatory Capital") issue tied to about $2bn of corporate loans. The SRT would be equivalent to about 7% of the reference pool. Issuance of SRTs is expected to grow 11% annually on average in the next two years, according to a Bloomberg Intelligence survey earlier this year. Banco Santander, Banco BPM, Macquarie Capital, Deutsche Pfandbriefbank and UBS Group are among the banks discussing or finalizing SRT deals.

Santander Plans Fund to Tap into Significant Risk Transfer Boom (BN, 10/02/25)
Banco Santander is in the early stages of working on a fund that invests in significant risk transfers, including perhaps investing in its own SRTs. Santander is a leading issuer of SRT and expects to offload $47bn of risk-weighted assets through SRT (and other capital-relief tools) in 2026. Meanwhile the bank is currently in discussions with investors about at least eight SRT deals. The idea of a Santander fund investing in SRT deals issued by Santander, or even other banks, would seem to raise concerns from a regulatory perspective.

Reg Cap News

Banking Trends: Synthetic Risk Transfers (Federal Reserve Bank of Philadelphia, Q3 2025)
This article starts by explaining the mechanics of synthetic risk transfer (SRT) transactions, aka "Reg Cap." The article notes that, since the Federal Reserve's 2023 FAQ on SRTs clarified capital treatment, issuance has grown, with an estimated $170 bn outstanding in the US market as of late 2024.

The authors cite several reasons banks choose to issue SRT.

1. *Credit Hedging*:
   SRTs can insulate banks from the "first-loss" tranche of portfolio defaults
2. *Regulatory Capital Relief*:
   By transferring risk, banks lower the risk-weighted assets (RWA) against which capital must be held.
3. *Improved Return on Capital*:
   Because less capital backs the same income stream, returns rise sharply—one example in the article shows return on risk-adjusted capital (RoRAC) increasing from roughly 6% to 24%.
4. *Balance-Sheet Flexibility:*
   Lower capital requirements let banks extend more credit without raising new equity.
5. *Maintaining Custom Relationships*:
   Unlike traditional securitizations—where banks sell loans outright—SRTs maintain ownership of the underlying assets and thus preserve relationships.

Risks discussed include:

1. Counterparty risk in the case of unfunded SRT structures (used primarily outside the US)
2. Systemic Interconnectedness. The Fed argues that "SRTs can make the financial system more resilient (because) … SRTs can transfer credit risk from banks…to investors (who do not) typically rely on deposits (and hence,)... the risk of a run is lower for them." The authors add that "This means they are better positioned to absorb losses without jeopardizing financial stability." That said, financing of SRTs may increase bank interconnectedness. As we have discussed in previous issues and in our research (https://seercap.com/wp-content/uploads/2025/01/Reg-Cap-Leverage-Clearing-Misconceptions.pdf), we think this risk has been overstated given current market practices.
3. Regulatory Arbitrage and Complexity:
   Seemingly minor structural features can materially alter risk. We agree and for this reason we argue experience and expertise in SRT are rewarded.

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Reg Cap News (continued)

In conclusion, the Federal Reserve agrees that SRTs can enhance bank stability by dispersing credit risk to investors outside the core banking sector but caution that, as the US SRT market grows, "disclosure, documentation quality, and regulatory clarity will determine whether it in fact strengthens financial stability" or not. The authors of this report have been regular attendees at industry conferences and have clearly made an effort to understand the Reg Cap product and market. We are confident that over time, US regulators will continue to engage with the market to develop a constructive and coordinated approach to facilitate continued adoption of Reg Cap.

Risk takers: Special report on SRTs (Alternative Credit Investor, 09/26/25)
The article outlines how synthetic risk transfers (SRTs) are becoming a favored tool for banks seeking to optimize capital efficiency. They allow banks to offload risk-weighted assets in a cost-effective way by partnering with private debt firms, who in turn gain exposure to high-quality assets. Though previously dominated by European banks, "US banks have been very focused on capital optimization" and are increasingly making use of SRT technology as well. SRT is rapidly becoming a "standard and useful tool" for banks. One market participant notes too, that "… the market demonstrated resilience during periods of stress, including the Covid-19 pandemic…thus giving both banks and investors greater comfort in the asset class."

However, with the market growing rapidly, concerns are emerging about possibly looser underwriting and weaker documentation in new deals. Industry participants stress that transparency, thorough due diligence, deep understanding of underlying assets, rigorous scenario-testing and deal structuring discipline are all vital. Some point out the benefits of European constructs like the STS (Simple, Transparent, Standardized) model. Meanwhile, as regulators intensify scrutiny, both banks and investors must carefully "balance innovation with risk controls."

ECB Official Frowns on Surge in Complex Risk Transfers (BN, 9/30/25)
An official at the European Central Bank's oversight arm argues that "banks should not rely excessively on securitizations for their capital planning," speaking at a recent conference. The volume of synthetic securitizations issued by big banks rose ~85% YOY for the first half of 2025, he said. The regulator also argues that securitization rules should promote simpler, more standardized transactions, noting that "While complex securitizations and opaque structures may maximize the short-term efficiency of individual transactions, their complexity strains the resources of originators, investors and supervisors." We struggle to understand why opponents of Reg Cap refer to the product as "opaque" and "complex". Structures have become increasingly standardized as the market has grown, European banks are required to submit each Reg Cap transaction they plan to issue for approval by the ECB three months prior to execution, and European banks report on their Reg Cap issuance in their Pillar 3 reports.

Recycling Risk: Synthetic Risk Transfers (International Monetary Fund, 10/03/25)
The IMF's working paper discusses banks' increasing use of synthetic risk transfers (SRTs) to free up capital (and hence support additional lending) and manage credit risk. Since 2016, an estimated $1 trillion of assets have been synthetically securitized, with growth accelerating in the US alongside Europe. The paper reviews market trends, common deal structures including their economics, and the regulatory landscape.

Although SRT markets have been active for almost two decades, particularly in Europe, issuance only picked up in 2014–2015 after improved guidance and streamlined approval processes in Europe. The market expanded significantly again when Canadian banks began to issue in 2022 and then when the U.S. received a substantial boost after guidance was issued by the Federal Reserve in 2023. The paper outlines the benefits of SRTs as follows below.

From a bank perspective:
- Manage capital requirements, reduce RWA, and obtain capital relief.
    - reported capital relief ranging from 15-28 bps of Common Equity Tier 1
- Reduce sector, single-name, and geographic concentrations
- Vs. loan sales, maintain customer relationships and avoid crystalizing potential mark-to-market losses
- Increase liquidity (when using CLN structures) since the bank keeps the cash proceeds

From an investor perspective:
- Access to loan categories not otherwise easily accessible
- Attractive relative value
- Shorter durations than underlying loans
- Ability to customize and negotiate risk exposure

For the broader economy, SRTs support more efficient risk allocation and "create conditions for additional bank lending, thereby supporting growth".

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Reg Cap News (continued)

The IMF also notes three areas of vulnerability: higher leverage in the financial system, rollover risk, and the potential for weaker lending standards. To wit:

1. SRTs can increase the overall leverage of the financial system by transferring banks' credit risk to less regulated financial institutions, such as hedge funds, which have more freedom to use leverage. "As a result, the operations of a diverse set of financial institutions become more intertwined, raising potential contagion risks …These risks are exacerbated by the private and opaque nature of the transactions, which challenges the evaluation of exposures." Additionally, banks often provide leverage to SRT investors (though not to investors in the bank's own SRT issues), and so some of the credit risk is retained within the banking system (again, see https://seercap.com/wp-content/uploads/2025/01/Reg-Cap-Leverage-Clearing-Misconceptions.pdf).
2. The SRT investor universe is relatively small, which may expose banks to rollover risk. The IMF estimates that the top 10 investors hold over 75% of banks' outstanding SRT exposure. In addition, there is often a maturity mismatch, with SRTs being shorter than the reference assets. Any withdrawal from the market could impact banks' ability to refinance SRTs. While this is true, the investor base is expanding, and SRT funding is a small part of most bank balance sheets.
3. Looking ahead, the IMF expressed consent that competition for SRT deals could erode due diligence and weaken underwriting standards. The IMF also claims that the sector has "attracted more risk-tolerant investors" which could "potentially lead to a deterioration in credit standards." The authors call for close supervisory monitoring and robust, standardized reporting. So while the IMF is concerned about the small SRT investor base creating refinancing risk, they are also concerned that a broadening investor base will lead to a deterioration in credit spreads. Taking this further, then, one could ask is it also a negative that a larger investor base puts pressure on issuance spreads and pressures banks to grant lower cost loans to their customers?

The IMF report also includes an Appendix linking SRT to an increase in hedge fund leverage. They note that "Hedge fund borrowing—a form of balance sheet leverage—has risen sharply, with the ratio of total borrowing to net asset value reaching record highs." However, the IMF provides no evidence that any of this borrowing by hedge funds has been used to fund SRTs. In fact, most SRT investors deploy capital from private credit funds, from which investors cannot withdraw their money until the end of the term.

In closing, the paper argues that regulators and market participants need to continue to "monitor transactions closely to: ensure that risks are transferred effectively, incentives for sound origination standards are preserved, and financial system leverage is contained." We agree with this conclusion and believe that much of the IMF report is informative and fair, even if they do highlight some concerns that we don't believe warranted.

SRT Market Is Riddled with Gaps in Disclosure, IMF Officials Say (Bloomberg, 10/06/25)
The article reports that IMF officials see the SRT market as hampered by significant disclosure gaps. In their view, investors and regulators don't get consistent data on who ultimately holds the risk, how much leverage is used, how losses would be shared, and whether deals truly transfer credit risk. The paper calls for tighter oversight and standardized reporting. Recommended fixes include harmonized templates for counterparty exposure, leverage and loss waterfalls; clearer evidence that there was in fact "significant risk transfer"; and monitoring of bank financing to SRT investors.

IMF vs SRT: Let's get systemic (FT.com, 10/06/25)
The authors describe the IMF's new paper on SRTs as cautiously balanced, with the IMF allowing that SRTs help banks shed credit risk and unlock capital for new lending, and that for now the market remains relatively small with effective regulatory guardrails. But the IMF flags three pressure points: risk migrating to less-regulated investors (which can boost system-wide leverage), a concentrated investor base that creates rollover risk given short maturities, and the possibility that more aggressive players erode standards. On balance the IMF concludes that SRT are a useful tool, but transparency and oversight need to keep pace with growth.

Significant Risk Transfer Conference 2025 (10/6/25)
The conference company Deal Catalyst hosted a conference in NYC. Below are some highlights from panel discussions.

Panel on market growth:
One investor indicated that issuance in 1H 2025 was 50% higher than the same period in 2024, up from 20-25% annual growth over the past 6-7 years. This trend has been driven by new issuers following their successful peers into the SRT market, with the number of issuers doubling over the past 3-4 years. One large bank issuer on the panel noted that his institution and other large issuers were also contributing significantly to market growth, looking to leverage their successful use of Reg Cap to other parts of the bank's balance sheet. A rating analyst expressed concerns about banks using Reg Cap to reference a large proportion of the asset on their balance sheet, or using the instrument to free up capital to return to shareholders. But others noted that Reg Cap should be a credit positive for the bank--even if the primary motivation is capital relief, it also offers a credit hedge protecting against downside scenarios. Other rarely noted benefits of Reg Cap include limiting provisioning and MTM volatility. Reg Cap deals are generally not marked to market by banks, while CDS hedges are, creating significant volatility as CDS values may not move in tandem with the loans they are protecting.

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Panel on transaction issuance and process:
One US regional bank issuer noted that he would generally have to syndicate $30mm deals, $10mm at a time, to share risk and increase his lending capacity. In a Reg Cap transaction, he effectively syndicated $1.1 billion, and while the transaction was challenging to execute, it was still easier than syndicating each deal separately, and provided a template for further Reg Cap deals.

Another theme was high current demand and tight spreads for Reg Cap transactions. A veteran lawyer described "investors lining up down the street and around the corner." However, a longstanding issuer and adviser in the market noted that in a time of high demand for Reg Cap transactions, issuers need to be careful in selecting investors. He advises issuers to target longstanding Reg Cap investors (such as ourselves) who will perform extensive due diligence, but then will participate in a series of Reg Cap transactions over time as a partner to the bank. He cautioned against relative value, "point in time" investors who may see better value elsewhere when it comes time for a bank to roll a transaction. Ironically, a participant on another panel noted that, while Reg Cap positions are floating rate, he holds Reg Cap in a total return portfolio, so if interest rates decline, he may have to reevaluate the product.

Panelists compared Reg Cap to CLOs. One noted that CLOs draw from a $1 trillion leveraged loan market, and 70-80% already go into CLOs, so there is limited room for growth. By contrast, the volume of unhedged corporate, infrastructure, and consumer assets on bank balance sheets that could go into Reg Cap is in the hundreds of billions. This also means that there is less asset overlap, and less correlation, across Reg Cap deals. One panelist noted that a French leveraged credit that defaulted appeared in 52% of European CLOs. Reg Cap offers exposure to unique assets on the balance sheets of banks that are not otherwise readily accessible.

In a panel on synthetic structures vs. cash, participants discussed why issuers might choose synthetic transactions vs. cash structures, vs. what the moderator termed "derecognition transactions." In a derecognition transaction, there is a true sale but the bank takes back a senior note in a securitization of the underlying assets. This allows accounting derecognition of the assets and transfers most of the credit risk. The choice of tools depends on several factors. Does the bank need funding, or just risk transfer? What are the bank's constraints and need for control of the assets? What is the asset; is it a viable candidate for SRT? One panelist stated that investors much prefer assets that are granular and homogeneous.

With CLNs, CDS, and SPVs, there is lots of heterogeneity in the US market compared to Europe. Banks wish it were more simplified and standardized. The "strategy of second movers" will eventually get smaller US banks active.

Panelists also discussed the regulatory landscape. In the US, small banks still hesitate to do synthetics, due to cost but also due to concerns about engaging with regulators - derecognition is a more "American" solution. It has a simpler internal logic to it. Demand is greatest from small banks to do SRT linked to CRE. Innovation comes from necessity; this is the area where their exposure is highest.US banks are not as capital-constrained or earnings-constrained as Europe and so have not adopted the product as broadly. Moreover, the European commission has been very focused on growing the securitization market including SRT. A generally favorable report from the Philadelphia Federal Reserve may help in the US. Meanwhile the US does not allow insurers to be eligible providers on unfunded SRT protection - after insurance debacles during the GFC. There is also no "STS" style regime in the US; it was not even mentioned in US Basel proposals, to the surprise of many. The STS rules - simple, transparent and standardized – make it easier to do SRT in Europe. The US's delay in implementing Basel 3 (the original date was January 2023) has spread abroad. Now both the EU and UK are delaying implementation of new regulations, too, waiting to see how the competitive landscape shakes out.

The panel concluded with a wide-ranging discussion of the SRT market. Investors need to prioritize due diligence on the servicer and be sure they have the capability to service. Ratings on SRT will broaden the universe of people who can participate. Small banks don't have a lot of auto loans, and they don't have many subscription lines. The assets where SRT makes sense for them are Jumbo resi mortgages, which have a low coupon and where freeing up capital for more lucrative business would make sense, and CRE, where many need to reduce concentrations.

Banking Industry News

US Banks Expect Victory in Capital Requirements as Trump Regulators Revamp Rules (Reuters, 10/02/25)
US banks are gearing up for what could be "the most sweeping overhaul of US capital rules since the global financial crisis of 2008." That expected outcome would be "a dramatic turnaround" versus the 19% hike in capital requirements first proposed by the Biden administration in 2023, in the wake of the Silicon Valley Bank banking crisis. The new approach—driven by the Fed's regulatory team and supported by the industry—aims to be "capital-neutral," meaning overall capital requirement won't rise but could be distributed differently. It might include easing leverage constraints, lowering surcharges on globally significant banks ("GSIBs"), and streamlining stress tests to improve transparency and reduce burdens on banks.

The banking industry, which lobbied heavily for these changes, sees the revisions as a major win that would maintain or even reduce their required capital and free up funds for lending, dividends, and buybacks. Critics, however, caution that loosening standards might reintroduce financial stability risks, especially concerning if the economy weakens.

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Fifth Third Move Signals Bank Mergers Are Back: Bloomberg Deals (Bloomberg News, aka "BN", 10/6/25)
Fifth Third's $10.9bn acquisition of Comerica offers clear strategic benefits, e.g. expanding Fifth Third's footprint in high-growth markets and delivering expected cost savings of around 35%. Bank mergers of this size largely vanished after the 2008 financial crisis, when political and regulatory backlash froze large-scale consolidation. With the Trump administration signaling greater openness to bank combinations, Fifth Third's move could mark the start of a renewed wave of major regional bank deals, especially among institutions nearing the $100bn asset mark that will face tougher compliance burdens.

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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