

October 21, 2025

Reg Cap Fundamental Credit Trends

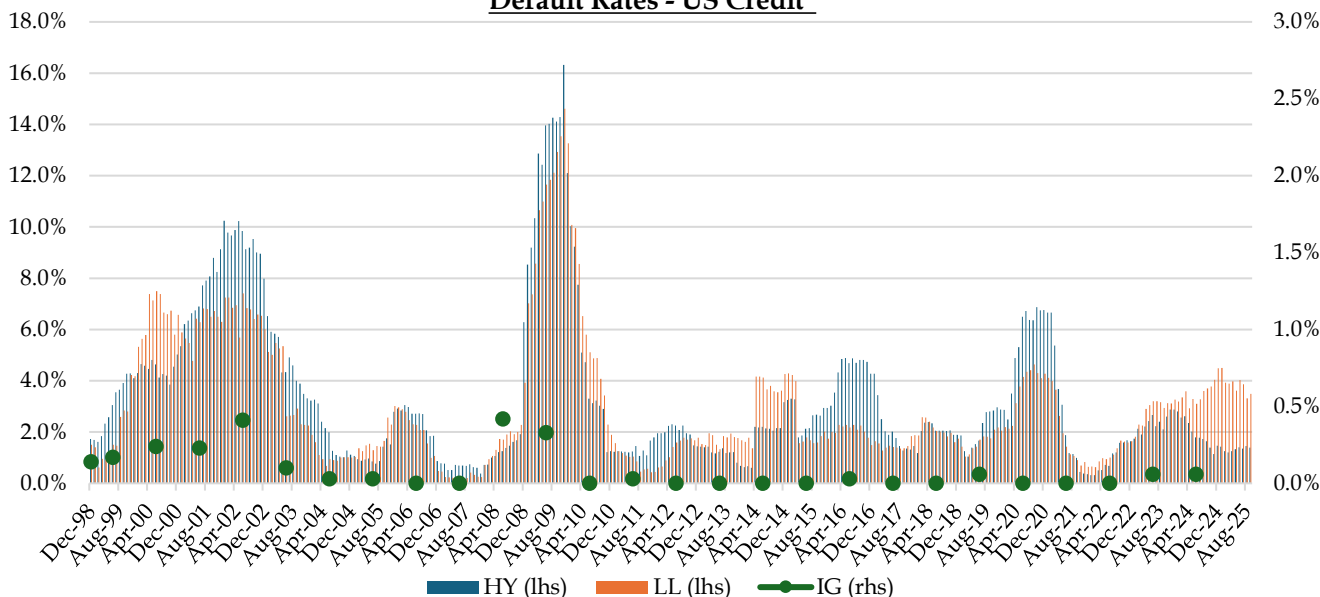
The Reg Cap sector spans a variety of reference assets and, of course, the performance of those assets varies among originators. Assets originated by banks to their clients for the banks' balance sheets have generally outperformed assets in generic credit indices. Further, investors impose selection 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 45 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 reference 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.

News of the largest default in over two years, \$4.4bn from automotive supplier First Brands, has dominated headlines in the world of credit. Concurrently with this sobering news, there was however some positive news- for the first time in over three years there were no distressed exchanges in September. (A distressed exchange occurs when a troubled company offers creditors new debt with reduced value to avoid default or bankruptcy.) Including both actual payment defaults and distressed exchanges, the trailing-twelve-month par-weighted US high yield bond and leveraged loan default rates decreased and increased 6bps and 17bps MOM, to 1.39% and 3.49%. Year-to-date through Q3 the US high yield and leveraged loan market has had \$42bn in defaults, down from \$56bn over the same YTD period in 2024, and down even further from \$67bn over the same YTD period in 2023. We also track the level of distress in credit markets, which we define as floating rate loans trading at spreads in excess of 1000bps, and fixed rate bonds trading below a dollar price of \$80. In September, the share of the combined distressed universe of bonds and loans fell to a 7-month low of 4.7%. This is less than half the level of distress (9.8%) at YE22, a local high. Falling levels of distressed credit suggests that defaults will continue to decline in subsequent months.

Default Rates - US Credit*



Source: Standard & Poor's, JPMorgan Research, as of September 30, 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 Recap

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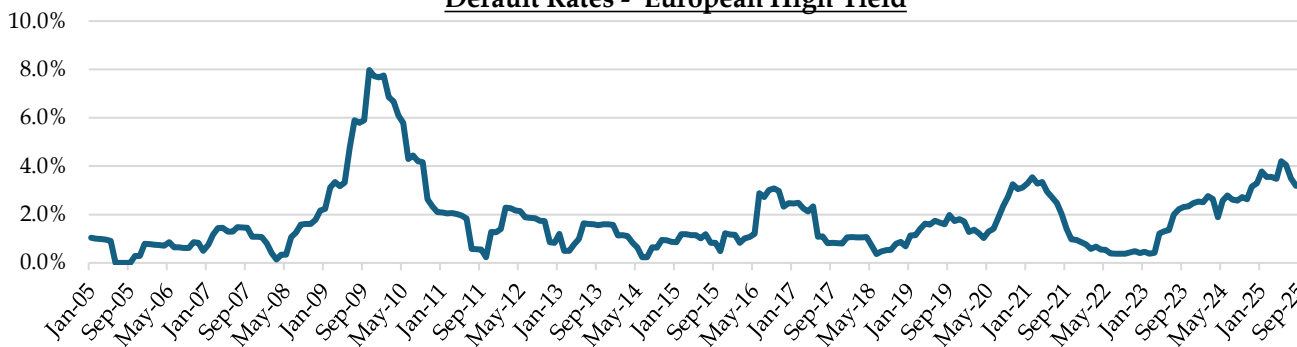
Reg Cap Fundamental Credit Trends (Cont.)

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.

As of the end of September, the trailing 12-mo default rate for European HY is 3.29%, down 10bps MOM for the second month in a row. Default rates are now unchanged YOY, but still high relative to a historical average, under 175bps. Meanwhile, the share of European HY bonds trading at a spread over 1000bps ("distressed") rose 1% in September to just under 5%, reversing some of the progress made since the Spring—when distressed levels were above 7%. Despite this, European high yield default rates are expected to moderate next year. Analysts cite slightly stronger macro data and improved manufacturing confidence in their forecasts of lower defaults in 2026.

Default Rates - European High Yield

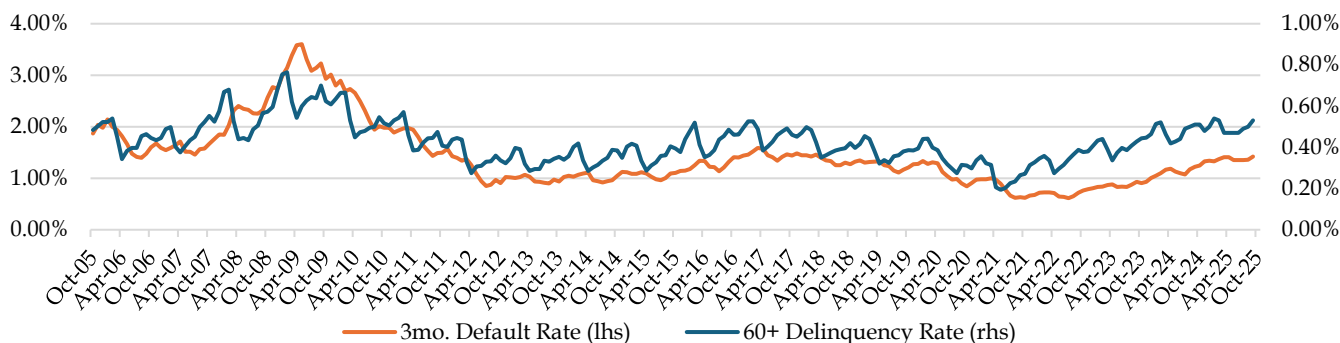


Source: JPMorgan Research, as of September 30, 2025. Trailing 12-month basis, dollar-weighted. Excludes Banks/Insurers.

US Prime Auto Loans

As of the end of September, the 60+ delinquency rate for securitized US prime auto loans is 53bps (up 3bps MOM) and the 3-month default rate is 142bps (flat MOM). This leaves delinquencies slightly above their long run average (42bps), but with fewer delinquencies rolling into defaults. 3mo CDRs remain essentially at their long run average of 143bps. However, these levels suggest some consumer stress, albeit modest stress relative to subprime auto loans (which, to the best of our knowledge, have not been used as reference assets in Reg Cap transactions). The September bankruptcy filing of Tricolor, a US based subprime auto lender catering to undocumented car buyers, also made headlines this month. It is not clear how instructive Tricolor's experience may be even for subprime, given alleged fraud, but we do not believe that Tricolor's failure is at all relevant to bank auto lending to prime customers. Tricolor fraud allegedly included pledging vehicles to multiple financing facilities, so has triggered concerns about management and tracking of collateral. These concerns are less relevant for Reg Cap deals because i) Reg Cap issuers are typically mid-sized to large banks, which generally have meticulous processes in place and are heavily regulated, and ii) Credit Event definitions in Reg Cap deals would generally not allow banks to claim losses for fraud. It is also noteworthy that banks have been tightening consumer lending standards post-COVID, including their lending standards in auto loans. In fact, analyzing Prime Auto loan performance by vintage, 2024 and 2025 vintage delinquency trends are stronger than 2023 and 2022 at the same age. With slowing economic growth, we expect that subprime auto loan performance will continue to get worse, diverging even further from prime loan performance.

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



Source: Morgan Stanley, as of September 30, 2025

Reg Cap News

Issuance News:

Goldman Sachs Plans SRT Tied to \$5 Billion of Corporate Loans (Bloomberg News, aka “BN,” 10/8/25)

Goldman Sachs is marketing a significant risk-transfer (SRT), aka regulatory capital relief or “Reg Cap,” deal tied to ~\$5bn in corporate loans through its “Absolute” program. The SRT is expected to be sized at ~10%. Earlier this year, Goldman’s board approved a multi-year share repurchase program of up to \$40bn, and a 33% increase in dividends.

Erste Plans SRT on €10 Billion of Loans for Poland M&A Deal (BN, 10/9/25)

Austria’s Erste Bank is preparing a record-size SRT covering more than €10 billion in loans to small and midsize Austrian firms (aka “SME” loans) as it seeks to fund its acquisition of Santander Bank Polska. The bank may use an unfunded guarantee structure, making it more attractive to insurers. The deal is expected to boost Erste’s capital ratio by an estimated 40bp.

JPMorgan Eyes SRT Deal Tied to \$2 Billion of Private Jet Loans (BN, 10/9/25)

JPMorgan Chase is exploring an SRT referencing a \$2bn pool of private-jet financing, transferring roughly 12.5% of loan risk to outside investors with a \$250mn SRT issue. The deal reflects the bank’s growing use of SRTs beyond traditional corporate credit—extending into niche sectors such as aviation and even art lending.

Morgan Stanley Plans SRT Tied to \$6 Billion Private Market Loans (BN, 10/10/25)

Morgan Stanley is marketing an SRT tied to \$6bn of loans extended to private-market funds, potentially transferring about \$750mn (12.5%) in risk to institutional investors. The deal’s “subscription-line” loans—secured by fund investor commitments—are increasingly being securitized as banks manage exposures.

Bank of America Plans SRT on \$3 Billion of Private Markets Loans (BN, 10/13/25)

Bank of America is preparing an SRT tied to a \$3bn portfolio of subscription-line loans made to private-market funds. The transaction, similar to Morgan Stanley’s (see above) follows one last year from Bank of America that transferred the risk on \$1 bn of corporate loans through an SRT equivalent to about \$90mn. A particularly active 4th quarter is demonstrating that the US market is maturing. A significant share of US deals continue to reference very low risk assets such as subscription lines. The Collins amendment to the Dodd Frank Act effectively means that all assets are 100% risk weighted, regardless of risk profile, for many US banks. Paradoxically, this incentivizes banks to buy credit protection on the least risky assets in order to obtain capital relief at the lowest cost.

HSBC Plans Risk Transfer Linked to £3 Billion of Corporate Loans (BN, 10/15/25)

HSBC intends to sell an SRT linked to £3bn in investment-grade and high-yield corporate loans as it works to strengthen its balance sheet ahead of a \$14 bn buyout of Hang Seng Bank. The deal will help offset an expected 125bp capital-ratio hit from the acquisition.

Värde-Backed Spanish Bank Plans SRT Tied to Credit Card Loans (BN, 10/16/25)

Madrid-based WiZink Bank, owned by Värde Partners, is preparing an SRT backed by €550mn in credit-card loans. WiZink’s offered a similar asset-backed issue from its Portuguese unit earlier this month, including a junior tranche. Their new SRT initiative highlights growing adoption of regulatory capital relief transactions among mid-tier European lenders.

Santander Eyes Dollar SRTs Tied to Buyout Debt, Corporate Loans (BN, 10/16/25)

Banco Santander is in early talks to issue multiple SRTs, including over \$1bn each in U.S.-dollar-denominated leveraged buyout and corporate loan issues, €2.4 bn in Portuguese corporate loans and £500mn in UK auto loans. These potential new deals are on top of seven other previously reported SRT issuances now in various stages. The transactions support Santander’s expansion strategy and ongoing capital-optimization efforts, as it plans to shed €40-45bn in risk-weighted assets through SRTs and similar tools by 2026. Santander is among Europe’s most active users of capital-relief trades.

Unicredit Plans SRT on €1.2 Billion of Austrian Unit’s Loans (BN, 10/20/25)

Unicredit is planning an SRT referencing €1.2 Billion of loans to Austrian small and mid-size corporates. The bank’s stakes in Alpha Bank SA and Commerzbank would reduce the lender’s common equity tier 1 ratio by 210 basis points according to a Bloomberg research note citing the lender’s projections. Unicredit is expected to issue SRTs referencing as much as €20 billion this year, an increase of about 30% over last year.

Reg Cap News:

World Risk Sharing Week 2025 (10/13-10/15/2025)

SCI hosted a series of events on Reg Cap in London. Seer was excited to win SRT Team of the Year at the Risk Sharing Awards on October 14. We are grateful to SCI and the Advisory Panel for recognizing our contribution to market knowledge with our research publications and participation in industry events. We appreciate the continued support and constructive feedback from readers of the Reg Cap Recap and our other publications.

Reg Cap News (Cont.)

The World Risk Sharing Summit on 10/15 was the usual whirlwind of impromptu meetings and discussions with issuers, fellow investors, and other market participants, and we cannot claim to have sat in the front row furiously scrawling notes during all of the panel sessions. Key themes from the panels and discussions included market growth over the past 12-18 months which was justifiably characterized as “incredible”. A virtuous cycle, underpinned by the benefits that SRT provides to all parties, has developed and is bound to continue. Active issuers are seeking to extend the use of SRT to different areas of their balance sheets, and sporadic issuers are becoming programmatic. Constructive regulation, including tweaks to make the market more efficient, especially in Europe, are essential to this virtuous cycle. Insurers are becoming an increasingly important part of the investor base, identifying innovative ways to participate alongside traditional cash investors. And the market is expanding to new asset classes and new jurisdictions such as the Middle East and Latin America, while standardization is increasing in developed markets. As is natural in a rapidly growing market, some participants are seeking to push the envelope by referencing more “funky” assets and portfolios or adjusting documentation to increase the risk borne by investors. Experienced, longstanding investors in the market who have established partnerships with leading issuers will outperform by avoiding these transactions.

So much of credit securitisation still relies on magical thinking (Financial Times, 10/21/25)

The author cites the recent IMF report (which we summarize here: <https://seercap.com/wp-content/uploads/2025/10/Reg-Cap-Recap-100725.pdf>) describing structured credit products such as Reg Cap and CLOs as a source of “vulnerabilities.” “Claimed to mitigate risk, they may not do what it [SIC] says on the label.” Apparently lacking familiarity with the basic principle of securitization that different pockets of capital with different risk appetites and objectives represent more efficient holders of different slices of risk, the author argues that when hedging credit risk, the entire exposure should be assumed by an unrelated party. He laments that “the primary motivation [of Reg Cap] is capital arbitrage not hedging”, but then concedes that “the capital released allows new lending...” What would be the cost of a loan to a consumer or small business in the absence of a well-functioning securitization market? The author erroneously states that the overall capital available against default is lower although the basic risk remains, ignoring the many Reg Cap transactions that involve placement of the first loss, and the value of second loss trades in protecting against downside unexpected losses. He makes the increasingly tired argument about banks providing leverage for SRT creating linkages that will “spread shocks rapidly” – we have refuted that argument here: [Reg-Cap-Leverage-Clearing-Misconceptions.pdf](#)

Banking Industry News:

EU Banking Review Ready in ‘About a Year,’ Albuquerque Says (BN, 10/07/25)

The European Union’s financial services commissioner, Maria Albuquerque, expects the ongoing review of the EU banking rule-book to be completed in a year, noting that some changes will require updates to EU laws. Albuquerque also emphasized that the EU prefers legislation over “quick fixes.” A recent review led by top European central bankers is set to propose a simpler bank capital framework, which may require amendments to primary EU law – a process that could take years. She pointed out the need to keep Europe competitive in the face of US deregulation while dealing with the complexity of aligning capital-and-supervisory rules across member states.

UBS Shelves Risk Transfer Deal Tied to \$2.5 Billion of Loans (BN, 10/07/25)

Bloomberg News reported that UBS has indefinitely paused a planned risk-transfer transaction linked to CHF2 billion (roughly \$2.5 billion) in loans. The decision comes as UBS faces daunting regulatory capital pressures. The Swiss government has proposed reforms that could add as much as \$26 bn to UBS’ existing capital requirements. This reform is apparently aimed at preventing another crisis like the collapse of Credit Suisse.

Barr Sees Big Bank Deregulation as Threat to Community Banks (BN, 10/08/25)

Michael Barr, a Governor of the Federal Reserve Board, speaking at a community banking conference, cautioned against the recent move to roll back capital and oversight standards for large banks. Barr argues that lighter regulation for large banks jeopardizes safeguards that indirectly protect community banks. Barr went on to say that the 2008 crisis was driven by large banks and that any weakening of supervisory frameworks for the big players would leave smaller regional banks exposed to the fallout. It strikes us that regulation should generally be aimed at incentivizing all players in markets to behave in constructive fashion. Trying to deploy regulation to tilt the playing field in favor of or against certain players in markets can be difficult to justify and risks unintended consequences.

Dimon’s ‘Cockroach’ Fear Revives Threat of Cracks in Credit (Bloomberg, 10/15/25)

Jamie Dimon, CEO of JPMorgan Chase, told analysts on an earnings call – “when you see one cockroach, there are probably more” – signaling concern about credit risk in the wake of high-profile bankruptcies at Tricolor Holdings and First Brands Group. Dimon suggested that the recent defaults may not, in fact, be isolated incidents, and warned that underwriting in parts of the \$1.7 trillion private-credit market may be weaker than assumed. While many large banks reported strong earnings, Dimon emphasized that a long benign credit environment might mask hidden vulnerabilities and cited potential for “higher than normal” losses in certain (unnamed) categories. He urged investors to scrutinize public vehicles tied to private debt and singled out business development companies (BDCs). The article also notes that even as major banks “...kicked off the third-quarter earnings season by posting revenue that beat analysts’ estimates, some of their leaders took turns offering warnings about potential troubles with lending or signs of economic weakness, including in the labor market.”

Reg Cap News (Cont.)

Dimon Cockroach Barb Bursts Uneasy Truce With Private Credit (BN, 10/16/25)

Dimon's "pest control" advice caused some cracks in the tacit alliance between large banks and private-credit firms. As stated in the article, the two sides have had a "...delicate detente over the past few years, as rapidly growing private credit firms have taken some business from banks' leveraged loan desks, but have also become some of their biggest clients as well as occasional partners." Dimon's remark and suggestions that private credit has been undisciplined triggered rebuttals from private-credit executives. One leader in the space countered that perhaps poor underwriting by banks—not nonbanks—is the root of the problem, given that the two latest credit blowups were bank-led. While private-credit funds have grown rapidly and gained influence, Dimon warned that not all players maintain rigorous underwriting standards—and when the cycle turns, banks may not be the only ones hurt. At Seer we have long been cautious about the "cat and mouse" game being played between banks and private credit. At times private credit competes with banks for lending at the lower end of the credit spectrum. Some banks have established direct lending partnerships with funds, however it can be difficult to align incentives in these arrangements. We believe that Reg Cap is a better way for private credit investors to partner with banks—investors gain exposure to a share of banks' core lending product, originated with the intention to hold, and provide capital to support further lending by the banks. See our further research: [Reg-Cap-A-Better-Way-for-Private-Credit-to-Partner-With-Banks.pdf](#)

Dimon's Cockroaches Keep Appearing (Bloomberg Opinion, 10/17/25)

The increasingly infamous "cockroach" remark has legs as new cases of fraud and losses surface among regional banks and non-bank lenders. Two U.S. regional banks, Zions Bancorp, and Western Alliance Bancorp, disclosed smallish losses tied to fraud related to the same investment fund involved in buying distressed commercial mortgage loans. The author does allow that the exposures from direct lending to non-banks remain relatively small; loans to private credit fund managers (and their listed peers known as Business Development Companies) amount to less than \$100bn of exposure out of more than \$1trn of total funding for non-banks at the end of 2024. However, the rapid growth of non-bank credit and limited transparency in those structures increase the risk of surprise losses. The author acknowledges that multiple anecdotes do not rise to the level of "data," yet warns that what looks like idiosyncratic breakdowns may turn out to be early signals of systemic cracks.

Regional Banks Try to Calm Investors After Jittery Stock Plunge (BN, 10/17/25)

Executives at U.S. regional banks rushed to reassure investors after a sharp slide in bank stocks. The sell-off was triggered by recent disclosures of loan charge-offs tied to fraud, prompting concerns over the broader health of bank credit portfolios. Meanwhile, several banks reported better-than-expected third-quarter results, citing lower-than-forecast provisions for loan losses and maintaining confidence in their core credit quality. For example, Truist Financial Corp. emphasized that the missteps were "idiosyncratic and uncorrelated" rather than systemic and noted that the bank was being "hyper vigilant" about risk.

BDCs, Private Credit's Most Popular Funds, Are Drawing Scrutiny (Bloomberg, 10/18/25)

This article reports that publicly-traded business development companies (BDCs)—a core vehicle in the roughly \$1.7 trillion private-credit market—are under increasing pressure. Publicly traded business development companies, which bundle private credit loans into funds that can be traded like stocks, are getting hit in the wake of the bankruptcies of Tricolor Holdings and First Brands Group as some market participants now view BDCs as a proxy for broader credit stress. Along with this increased scrutiny, BDCs are also declining in popularity due to potential dividend cuts.

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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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