

November 18, 2025

Reg Cap Fundamental Credit Trends

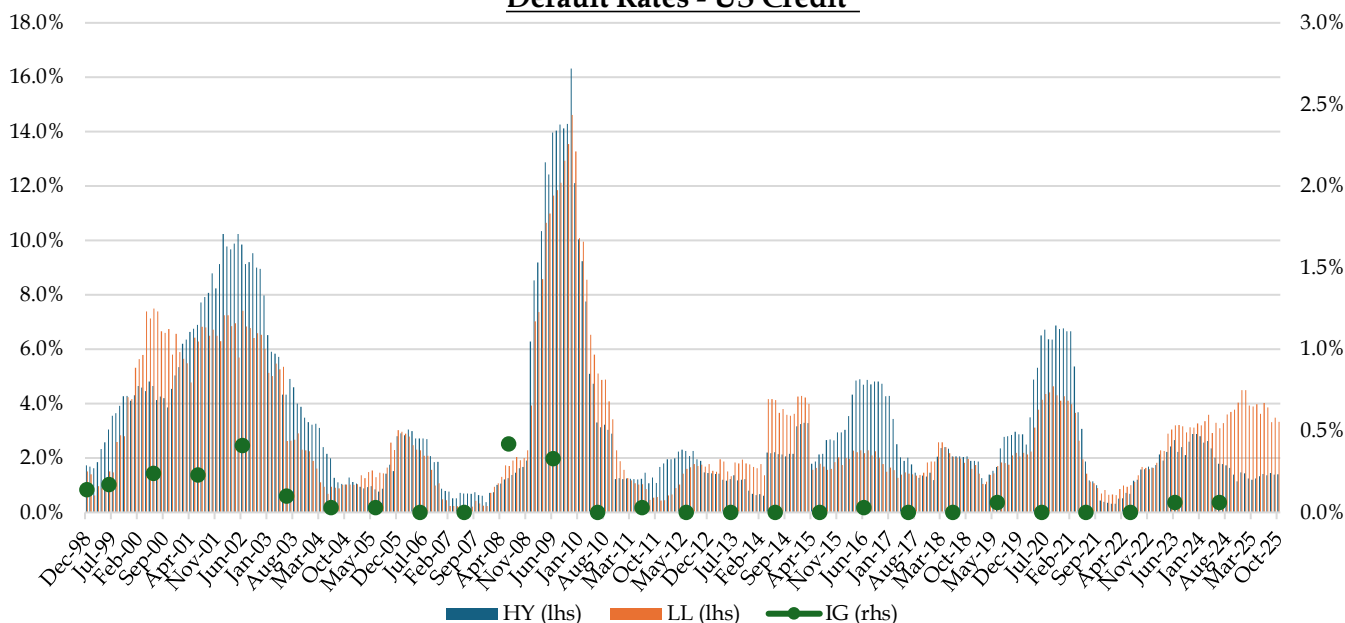
The Reg Cap sector spans a variety of reference assets and, of course, the performance of those assets varies among originators. Assets originated by banks to their clients for the banks' balance sheets have generally outperformed assets in generic credit indices. Further, investors impose selection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

After a brief lull in September, default and distressed exchange activity was up in October, hitting a YTD high. October saw three payment defaults, totaling \$3.1bn in bonds (\$2.1bn of the total) and loans (\$1.0bn of the total). There were also six distressed exchanges/LMEs for \$2.5bn over the month, almost entirely in loans. On a more positive note, the combined total of defaults/LMEs YTD is still down 24% vs. the same period in 2024, and down 37% vs. the same period in 2023. The trailing-twelve-month par-weighted US high-yield bond and loan default/LME rates increased and decreased 1bp and 15bp MOM to 1.40% and 3.33%, respectively. Given 25-year average default rates of 3.4% in HY and 3.0% in LL, bond credit performance has been particularly strong, and LL credit performance is on track with the historical average. Over October there was a modest uptick in bonds/loans trading at distressed levels (i.e., a dollar price below \$80 or a spread over 1000bp). The combined distressed universe of bonds/loans is at \$158bn, or 5.5%, up from 4.7% in September. While this is worth monitoring, the market overall appears healthy, and today's level of distress is 25% lower than its peak just this past April.

Default Rates - US Credit*



Source: Standard & Poor's, JPMorgan Research, as of October 31, 2025.

* HY and LL on a trailing 12-month basis, dollar-weighted. Includes distressed exchanges. IG on an annual basis.

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 October 2025, the trailing-twelve-month par-weighted default rate for European HY is 3.23%, down 6bp MOM but remaining significantly above the historical average of 1.71%. Meanwhile the share of distressed Euro HY bonds (trading at a dollar price below 80) was flat MOM, at 5.31%. This is down from a local high of 12% in October 2023. Lower levels of distress augur well for lower defaults going forward. A recent street research article on the European HY market noted that credit quality has been improving and leverage on new issues has dropped. As in the US, default performance in European HY is consistent with very low levels of IG default, if any.

Default Rates - European High Yield

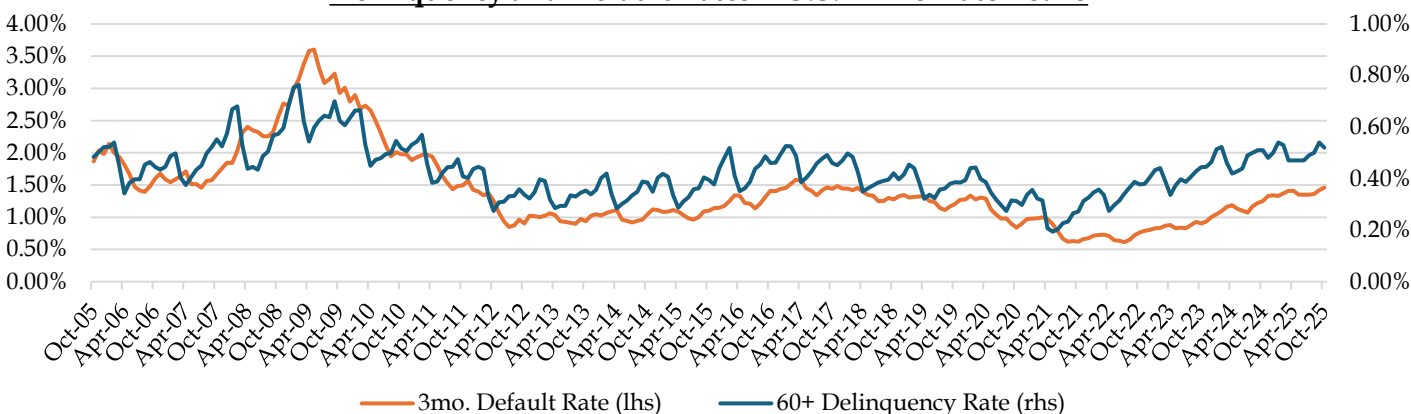


Source: JPMorgan Research, as of October 31, 2025. Trailing 12-month basis, dollar-weighted. Excludes Banks/Insurers.

US Prime Auto Loans

As of the end of October, the 60+ day delinquency rate for securitized U.S. prime auto loans is 52bps (down 2bps MOM), and the three-month default rate is 146bps (up 4bps MOM). While delinquencies are running above their long-run average (~42bps), fewer delinquent loans are rolling into defaults, leaving the three-month constant default rate essentially in line with its long-run average of 143bps. For context, across twenty years of data, the maximum default rate, recorded in May 2009, was 2.5x today's level. Current credit metrics in prime auto lending remain well within our assumptions and stress testing. The credit stress is largely confined to the subprime segment, a product that is neither included in our portfolio nor, to our knowledge, commonly referenced in SRTs generally. With consistently conservative underwriting standards in prime auto lending and continued strength in household balance sheets, we view it as more likely that delinquencies and defaults mean-revert rather than deteriorate further.

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



Source: Morgan Stanley, as of October 31, 2025

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Reg Cap News

Commerzbank CFO Plans €5 Billion Worth of SRTs Before Year-End (Bloomberg News aka "BN", 11/06/25)

Germany's Commerzbank plans to execute Reg Cap (aka "Significant Risk Transfer" or SRT) transactions worth €5 bn (\$5.8 bn) this quarter, freeing up capital by reducing risk-weighted assets by €2.5-€3 billion. While the bank has historically been active in SRTs, these latest transactions are now part of a broader strategy to improve returns and protect the bank's independence—fending off Italy's UniCredit, which has designs on the bank.

Deutsche Bank Nears SRT Deal with European Investment Fund (BN, 11/10/25)

Deutsche Bank is close to completing a significant risk transfer transaction with the European Investment Fund (EIF). The EIF is part of the EIB, which is owned by the 27 EU member states and supports internal economic development and EU policy priorities. The planned transaction will reference a portfolio of approximately €1 billion (\$1.16 billion) of Italian auto loans and follows a similar deal completed between Deutsche Bank and the EIF in 2023. According to a recent earnings presentation in July, Deutsche Bank freed up capital earlier this year through two securitizations, including a June SRT tied to a \$6.9 billion corporate loan portfolio. Deutsche has been a leader in using Reg Cap to manage its capital and balance sheet since the early 2000s, frequently tapping its flagship multi-national corporate Craft shelf and occasionally referencing leveraged loans, German SME loans, and trade finance assets. This transaction represents part of the bank's effort to expand the application of Reg Cap technology to other parts of its balance sheet.

KBC Completes Risk Transfer Deal on €4.2 Billion Portfolio (BN, 11/13/25)

KBC Group has completed its first significant risk transfer transaction, referencing a €4.2 bn corporate loan portfolio. The deal was executed using a credit-linked-note structure. KBC reports that the transaction is expected to reduce risk-weighted assets by approximately €2 bn and increase its CET1 ratio by roughly 23 basis points.

NatWest Plans SRT Linked to £3.5 Billion of Real Estate Loans (BN, 11/17/25)

NatWest plans to execute a significant risk transfer referencing £3.5 bn (\$4.6 bn) of commercial real estate (CRE) loans, following a similar recent transaction from Lloyds. The SRT is expected to be sized at 7% of the reference portfolio. NatWest has completed four SRT deals so far this year and, in addition to this CRE transaction, is exploring a regulatory capital deal referencing private market fund loans. Previous NatWest SRTs have been tied to corporate lending and subscription credit facilities.

Reg Cap News:

UBS Seeks Investors for SRT Fund That Can Contain Its Own Deals (BN, 11/6/25)

UBS Group AG's asset management unit is working on a new fund that will invest in SRTs as part of its investment strategy. Potentially, the fund could include deals issued by UBS itself. Banco Santander's asset management unit recently announced a similar initiative. In both cases, fund investors will be made aware of the possibility of conflicts of interest. Meanwhile, UBS has an SRT deal tied to a portfolio of \$1 bn of corporate loans in the works. This comes as the Swiss government is proposing reforms that could require as much as an additional \$26 bn to UBS's regulatory capital requirements. Seer's view is that bank asset management arm forays into Reg Cap investing represent at best a bad look, and at worst a conflict of interest that could harm issuers and investors. It attracts additional regulatory scrutiny to a space which already receives more than its share. Would an issuer be under pressure to allocate trades to its asset management arm, at the expense of other investors? Would the asset management arm of a bank be biased to invest in trades issued by that bank?

Synthetic, but How Much Risk Transfer? (ssrn.com, 11/11/25)

This paper is a joint effort from the Swiss Finance Institute and the European Central Bank. The report highlights what it calls three channels of potential risks to financial stability. First, they argue, "banks synthetically transfer loans that are capital-expensive relative to their riskiness" and thus SRTs exploit regulatory capital relief rather than purely transferring genuine credit risk. On this point, we would generally agree and it is partly why we find SRT to be such attractive investments. Essentially, markets tend to be more accurate, more granular and more timely at estimating credit risk than regulators. Banks often choose reference assets where investors' risk assessments are less onerous than regulators' risk assessments.

The author's second argument is that after entering an SRT, banks reduce their monitoring efforts. The authors estimate this admittedly hard-to-track behavior by analyzing how frequently lenders update probability-of-default estimates. This is not something we have seen in practice, and is not borne out by relative performance (in fact, referenced assets have outperformed bank portfolios overall). Banks are required to maintain a share of each asset unhedged, and to service the assets as if they were not referenced in the Reg Cap deal. Moreover, SRT investors themselves add a layer of monitoring for these portfolios.

Their last point is that banks and non-bank investors are interconnected, partly via leverage extended to SRT investors, which creates a partial "round-trip" of risk rather than full transfer. This is a well-worn argument that we have pushed back on many times (see our research report: <https://seercap.com/wp-content/uploads/2025/01/Reg-Cap-Leverage-Clearing-Misconceptions.pdf>). The paper estimates that 26% of SRT investment is levered. The authors at least agree that investors' leverage is "modest."

Reg Cap News (Cont.)

ECB Warns on Synthetic SRT Surge as Europe Boosts Securitization (BN, 11/12/25)

The European Central Bank is urging caution as Europe embraces synthetic significant risk transfers (SRTs), warning regulators not to unintentionally fuel an already booming market. In a recent opinion on proposed EU securitization reforms, the ECB said policymakers should consider whether the changes could accelerate issuance and create financial-stability risks. The ECB argues that relying on Reg Cap deals rather than outright loan sales means banks still carry the assets and may face rollover risks during periods of market stress. SRT may amplify procyclical pressure which traditional securitizations do not, they argue. However, the maturity of most Reg Cap deals we have seen matches the longest asset in the reference portfolio, and, in any case, banks are subject to significantly diminished capital relief on assets maturing after the Reg Cap deal. If the ECB's concern relates to reduction in lending by banks unable to roll SRT trades, this concern is clearly also relevant to traditional securitization—if a bank relies on true sale securitization to fund asset originations, and the securitization market experiences stress, lending will be curtailed. Any reliance by banks on market sources for funding loan originations is procyclical, but what is the alternative?

'Flood of Money' Chases US Banks' Hot New Trade Despite Risks (BN, 11/14/25)

This news story appears to be almost a “copy and paste” of a story from a year ago, reflective of a healthy, rapidly growing market. The article describes the SRT sector and its mechanics, its slow adoption in the US, growth of the investor base, concerns over investor leverage, as well as issuer motivations in a shifting regulatory environment. As at year end 2024, 50 banks surveyed by Bloomberg reported \$674 bn of exposure to SRT securitizations, up 18% YOY, according to regulatory filings. The top 10 SRT issuers (Banco Santander, Barclays, JP Morgan, BNP Paribas, Bank of Montreal, Deutsche, Intesa Sanpaolo, Citigroup, UniCredit and Nordea) accounted for 61% of the total. All of those issuers increased their exposure during 2024, save Bank of Montreal, which remained essentially flat, while the leader, Santander, increased exposure 45% between 2023 and 2024.

US Insight: SRTs flourish as private credit extends its reach for new sources of yield (LevFin Insights, 11/17/25)

The article notes that interest in significant risk transfers (SRTs) is growing quickly in the US as private credit investors look for new sources of yield and banks look for efficient capital management tools (particularly after regulatory guidance in 2023). The authors estimate that annual volume has climbed from roughly \$20 billion in 2022 to \$70 billion in 2024. Part of the appeal of Reg Cap lies in accessing seasoned bank-originated assets without directly competing with banks in lending markets. As our own Terry Lanson noted, “As an investor, SRTs are very attractive. It's not direct lending, it's putting your money alongside banks' lending to their core clients.” Recent capital raises underscore how quickly institutional demand is scaling and the investor base is evolving. Hedge funds like Seer have been active for years, but now pensions and large asset managers have also become active. New entrants can face relationship barriers, since banks prefer to transact with seasoned investors who are known quantities. As Lanson explained, “It's hard to get trades done... the portfolios are typically private and data can't be made available to a wide range of investors.” Arguably, that exclusivity is part of the value proposition. We have written more on the topic here: <https://seercap.com/wp-content/uploads/2024/12/Reg-Cap-Inexperienced-Players-Need-Not-Apply.pdf>

Banking Industry News:

Wall Street Intensifies Scrutiny of Fraud After Spate of Loan Losses (wsj.com, 11/3/25)

A series of alleged frauds at small and mid-sized corporate borrowers is leading lenders and investors to redouble due diligence efforts. Recent cases, most notably from auto-supplier First Brands and subprime auto lender Tricolor Holding have led many to question whether they may be a signal. Banks and private credit lenders are tightening due diligence, asking for more data, and adding covenants that allow more frequent collateral checks. The Structured Finance Association has even launched a “Fraud Mitigation Task Force” bringing together banks, asset managers, and the Big Four accounting firms to define what kinds of fraud to watch for and how best to detect it, reflecting a desire to avoid any repeat of pre-2008 complacency.

For now, the broader corporate credit market remains resilient: defaults aren't spiking, the economy looks relatively stable, and demand for bonds and loans is still strong. The current mood is cautious but still constructive. Fraud is viewed as a serious risk to manage, and not a reason to change the outlook for corporate credit.

Bob Diamond Sees M&A Taking Out 3,000 US Banks in Trump Era (BN, 11/4/25)

Former Barclays CEO Bob Diamond expects a major wave of consolidation among US regional banks, predicting the number of lenders could shrink from roughly 4,500 today to between 1,000 and 1,500 within the next two to three years. Diamond's firm, Atlas Merchant Capital, recently raised a fund dedicated to acquiring stakes in regional banks. He notes that regulatory agencies are increasingly supportive of mergers, and cited recent deals, including Fifth Third/Comerica, Huntington/Cadence Bank and PNC/First Bank, as evidence of momentum. Diamond expects consolidation will center on banks with \$10-50bn in assets, which he argues is inefficient scale. The broader M&A market is also regaining strength, with volumes up and investor appetite returning. Goldman Sachs notes that M&A volumes are up 40% this year and “of course, a rate cut will be ...further supportive of that.” M&A among smaller US banks will create more banks with the scale, balance sheet, and internal resources needed to issue Reg Cap.

Reg Cap News (Cont.)

ECB tears European securitisation proposal apart (9fin.com, 11/13/25)

The European Central Bank has raised concerns over the European Commission's proposed amendments to EU securitisation regulation, particularly around Reg Cap. While the ECB supports simplifying disclosure requirements and introducing a new category of "resilient" securitizations, it also favors traditional true-sale structures. The central bank warned that SRT may introduce rollover risk, allow banks to increase effective leverage, and offer limited real capital relief. It also objected to expanding eligibility for unfunded insurance-based guarantees, citing concerns over concentration and increased counterparty risk during market stress.

The ECB recommended tightening several elements of the proposed framework, including excluding certain complex derivative exposures from SRT eligibility, maintaining stricter homogeneity standards for SME securitisations, and preserving minimum risk-weight floors to avoid excessively low capital requirements.

The proposed amendments to the EU securitisation regulation regime were submitted by the European Commission in June and the package is being reviewed by the Council of the European Union and the European Parliament. The Council is aiming to reach an agreement among EU finance ministers by year-end. The reform package is then subject to so-called "trilogue negotiations" between the Council, the Commission and the Parliament for the final version. The report signals that policymakers may face more legislative pushback than perhaps initially thought.

Gundlach Slams 'Garbage Lending' to Private Debt, Touts 20% Cash (BN, 11/17/25)

Jeffrey Gundlach, founder and CEO of bond shop DoubleLine Capital, is taking a cautious stance in today's markets, and argues that valuations across equities and private credit have become dangerously stretched. In a recent podcast, he warned that speculative behavior is creating conditions similar to the 2008 financial crisis. Gundlach sees the private credit market as the most likely source of the next major disruption, citing recent headlines as early warning signs. Gundlach argues that the \$1.7 trillion private credit market is engaging in "garbage lending." This would seem apt given the cockroach warning from JPMorgan's Jamie Dimon last month. Gundlach has turned defensive, with a 20% cash allocation, noting "the trouble always comes when people buy something they think is safe — but it's not." We are cautious and careful in all markets, day in and day out, and much prefer taking our credit risk alongside banks in their core businesses.

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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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