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Reg Cap Recap

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

December 16, 2025

SEER CAPITAL

Reg Cap Fundamental Credit Trends

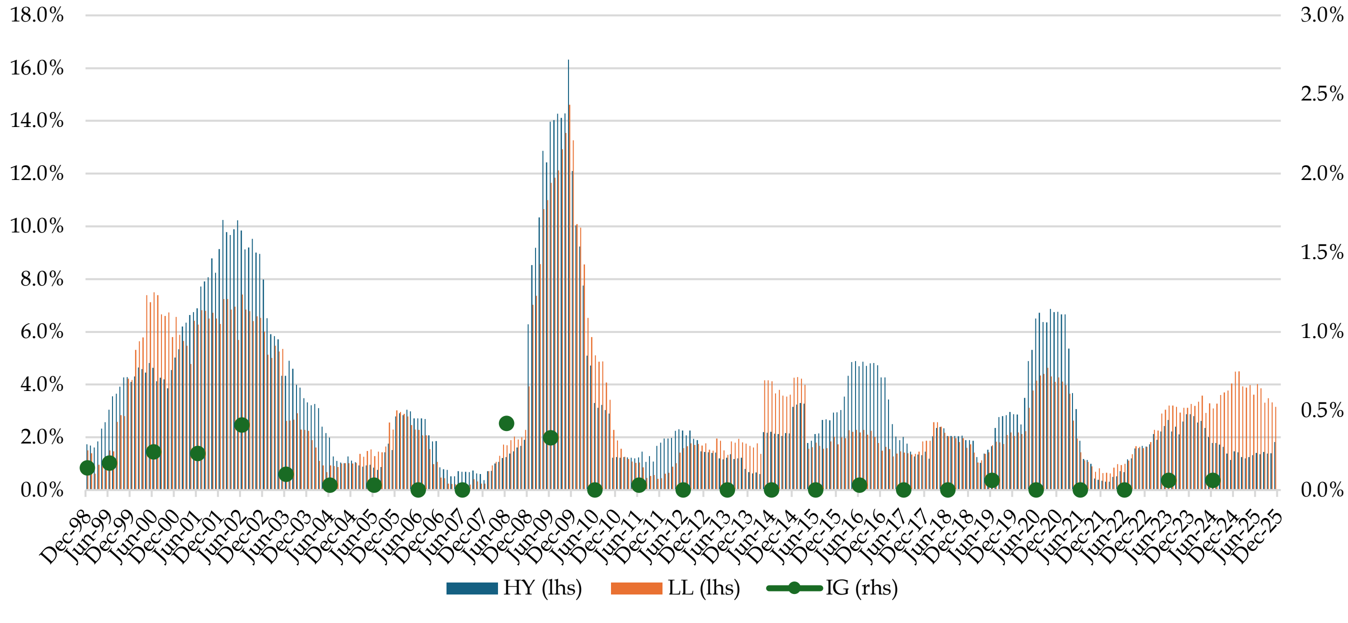
The Reg Cap sector spans a variety of reference assets and, of course, the performance of those assets varies among originators. Assets originated by banks to their clients for the banks' balance sheets have generally outperformed assets in generic credit indices. Further, investors impose selection 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 46 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.

By count, November activity in defaults and distressed exchange was unremarkable. However, the dollar volume was a YTD high, just shy of $10bn and almost double the monthly average in 2025 YTD. The breakdown was as follows: November had three payment defaults, totaling $6bn in bonds ($3.5bn of the total) and loans ($2.5bn of the total), and one distressed exchange/LME, affecting $4bn in bonds. Even with this latest uptick, however, the combined total of defaults/LMEs YTD is still down 17% vs. the same period in 2024, and down 30% vs. the same period in 2023. The trailing-twelve-month par-weighted US high-yield bond and loan default/LME rates increased and decreased 42bp and 17bp MOM to 1.82% and 3.16%, respectively. Given 25-year average default rates of 3.3% in HY and 3.1% in LL, bond credit performance remains particularly strong, and LL credit performance is on track with the historical average. Recent credit jitters have hit market prices, and the distressed universe grew in November. For example, the combined distressed universe of bonds and loans trading at distressed levels (i.e., a dollar price below $80 or a spread over 1000bp) was 6% at month end, up from 5.5% in October. While there have been some stressors, the market appears generally healthy, and today's level of distress is 18% lower than its peak just this past April.

Default Rates - US Credit*



Source: Standard & Poor's, JPMorgan Research, as of November 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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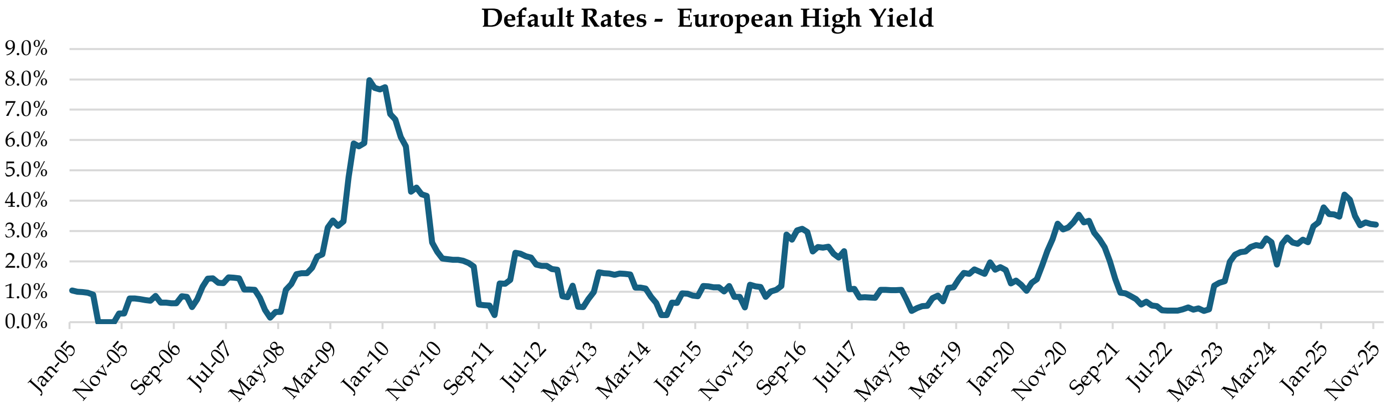
Reg Cap Fundamental Credit Trends (Cont.)

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.

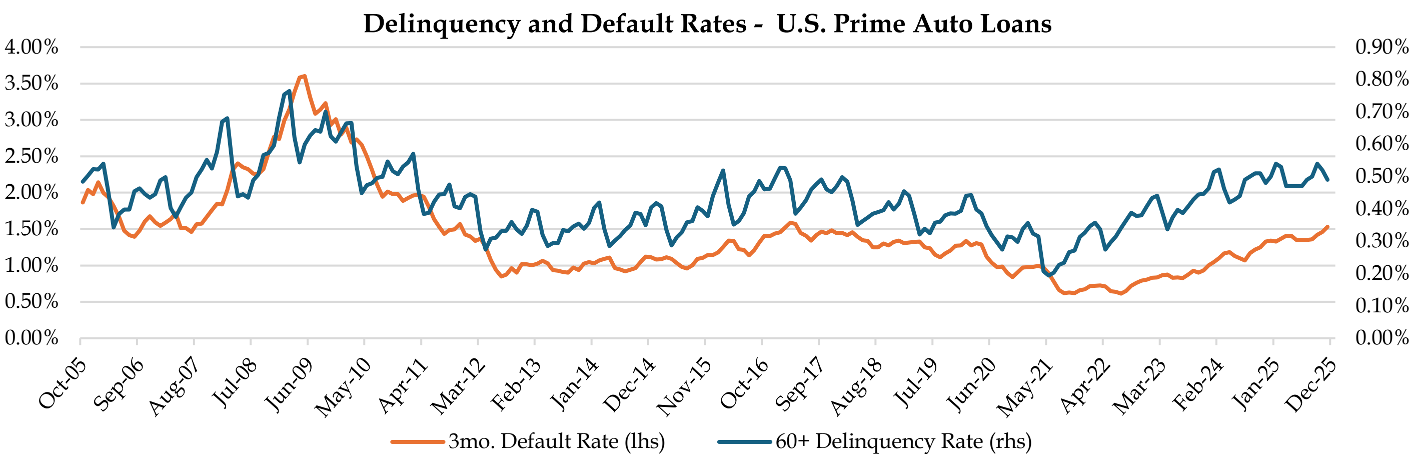
As of the end of November 2025, the trailing-twelve-month par-weighted default rate for European HY is 3.21%, down 2bp MOM but remaining above the historical average of 1.82%. Meanwhile the share of distressed Euro HY bonds (trading at a dollar price below 80) was down 39bp MOM, to 4.92%. This is also down from a local high of 12% in October 2023. Lower levels of distress generally translates into lower defaults going forward. A recent street research article on the European HY market noted that Euro Area growth is expected to pick up in 2026, thanks to German fiscal stimulus, solid consumer and corporate fundamentals, and the effects of monetary easing. Against this back drop, default rates are projected to remain stable, in the 3–4% range. As in the US, default performance in European HY is consistent with very low levels of IG default, if any.



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

US Prime Auto Loans

As of the end of November, the 60+ day delinquency rate for securitized U.S. prime auto loans is 49bps (down 3bps MOM), and the three-month default rate is 153bps (up 7bps MOM). These credit metrics are a bit higher than the long run averages, which are ~32bps of delinquency and a 42bp CDR. 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.



Source: Morgan Stanley, as of November 30, 2025

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Reg Cap News

Morgan Stanley Sounds Out Investors for SRT Tied to Data Centers (Bloomberg News, aka "BN," 12/03/25)
Morgan Stanley is in early discussions with investors about a potential SRT linked to loans financing AI infrastructure. The bank is also considering other ways to hedge or syndicate its data-center exposure, so there's no certainty these preliminary talks will lead to a transaction. Morgan Stanley has been a leading player in financing the construction of new data-center facilities. Its strategists estimate that major cloud computing firms could spend around $3 trillion, half of which would likely need to be funded through debt markets. Given the need, banks could become overly concentrated in a small group of borrowers, hence the interest in SRT. Earlier this year, Morgan Stanley also marketed an SRT tied to loans made to private market funds.

Santander Leads Latest Batch of Bank Risk Transfers: SRT Watch (BN, 12/10/25)
This news article included a helpful table of recent new issue activity, as included below. In total the list includes 37 deals referencing $100 billion in assets between July and December:

Date	SRT ($mm)	Portfolio ($bn)	Issuer	Loan Type
12/02	164	2.5	Santander	Spanish loans
12/01	n/a	0.3	Avida Finans	Consumer loans
11/28	~240	2.4	Lloyds Banking	Farmland loans
11/27	n/a	2.3	UniCredit Austria	Corporate, SME
11/17	~329	4.6	NatWest	CRE
11/10	n/a	1.2	Deutsche Bank	Italian auto loans
11/06	95	2.0	Credit Agricole	Emerging market
11/03	n/a	1.2	Rabobank	Netherlands CRE
10/29	139	1.9	Bank of Ireland	Corporate loans
10/28	n/a	2.3	Aereal Bank	European CRE
10/22	n/a	1.0	MBank	Renewable energy
10/21	n/a	2.7	NatWest	Priv. market funds
10/16	n/a	0.7	Santander	UK auto loans
10/16	n/a	2.8	Santander	Portugal corp.
10/16	n/a	1.0	Santander	Corporate loans
10/16	n/a	1.2	Santander	LBO debt
10/16	n/a	0.6	WiZink Bank	Credit card loans
10/13	n/a	3.0	BofA	Subscription lines
10/10	750	6.0	Morgan Stanley	Private fund loans
10/09	250	2.0	JPM Chase	Private jet loans
10/09	n/a	11.6	Erste Group	Austrian SME loans
10/08	500	5.0	Goldman Sachs	Corporate loans
10/07	125	1.0	UBS Group	Corporate loans
9/30	140	2.0	Nordea Bank	Corporate loans
9/18	n/a	0.7	Lloyds Banking	CRE
9/15	n/a	2.9	Banco BPM	Corporate loans
9/10	n/a	6.9	Bawag Group	Mortgage/home
8/18	n/a	2.0	Deutsche Pfand.	US CRE
8/13	n/a	2.3	AIB Group	Mortgages
8/11	n/a	1.4	Alpha Bank	Corporate loans
8/05	250	2.5	JPM Chase	Artwork loans
8/05	n/a	1.5	StanChart	Trade finance
7/31	110	1.1	Natixis	Leveraged loans
7/28	1	8.0	SMBC	Private fund loans
7/18	n/a	2.3	CaixaBank	Corporate loans
7/04	140	2.4	Commerzbank	Corporate loans
7/03	n/a	4.7	BBVA	Corporate loans

n/a = not available at time of publication

ABN Amro in SRT Deal With Blackstone Over €2B Loan Portfolio (BN, 12/11/25)
ABN Amro announced a significant risk transfer transaction that will provide first loss protection on a €2 billion portfolio of large corporate loans. The bank expects that the transaction will reduce their risk-weighted assets by €1.6 billion.

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BNP Paribas Completes SRT Tied to €3.2B of LBO, High Yield Loans (BN, 12/12/25)
BNP Paribas completed a synthetic securitization linked to a pool of French mid-cap leveraged buyouts. The exposures include both acquisition facilities and below investment-grade loans. The reference portfolio is €3.2bn, in a blind portfolio format. The SRT allows a 1-year replenishment period. The SRT structure includes multiple tranches, two unfunded and one with funded protection through a credit-linked note structure. BNP Paribas will retain both the first loss and senior tranches and obtain protection on the middle ~€400mn.

Greece's Eurobank Plans Two SRTs Tied to Corporate Loans (BN, 12/15/25)
Athens-based Eurobank is said to be planning two significant risk transfer transactions. One transaction would reference ~€2bn ($2.3bn) of corporate loans. A second deal is linked specifically to shipping loans, reportedly.

SMBC Asia Inks Debut $3.2 Billion SRT With Blackstone, Stonepeak (BN, 12/15/25)
Sumitomo Mitsui Banking Corp.'s Asia Pacific arm has completed its first $3.2 billion synthetic risk transfer deal the Japanese lender said in a recent statement. The reference assets include Australian and Asian project finance loans. SMBC noted that this transaction will free up regulatory capital. SMBC's Americas division did an inaugural SRT trade this past April. The Asia-Pacific region, which has seen limited SRT activity to date, is an area of growth for the market.

Sabadell Hires UniCredit For €1.4 Billion SRT in Project Finance (BN, 12/16/25)
Spain's Banco Sabadell is about to close a significant risk transfer linked to a portfolio of about €1.4bn ($1.65bn) in project finance and corporate loans. The SRT is sized at €115mn. Sabadell expects the deal to lift its CET1 ratio, by ~8bps. The total amount achieved through SRT this year to is now 20bp.
Sabadell shareholders rejected a $19bn takeover bid by BBVA SA in October. The lender has pledged to pay out €6.3 billion via dividends and buybacks in the three years through 2027. Sabadell has also been working on sales of non-performing loans portfolios in the last few months, worth a combined €435mn.

<u>Reg Cap News:</u>
SRT Market May Double Over Next Five Years, Man Group Says (BN, 12/04/25)
The significant risk transfer (SRT) market could double in size over the next five years as banks in Europe and the US increasingly adopt these structures, according to Man Group. In Europe, the proposed regulatory framework is expected to broaden participation, including among smaller banks. Growth has already accelerated, as more than €1.3 trillion of loan risk has been transferred via SRTs in the last decade, with roughly a third of that total occurring in the past two years. Both issuance and investor interest continue to rise sharply, with 2025 on track for another record year supported by growing US market activity.

When Banks Need Capital, Synthetic Isn't Good Enough: Editorial (BN, 12/9/25)
In this opinion piece, the authors begin by stating that capital is what allows banks to take risk "without endangering their solvency or the financial system." They go on to say that equity is the highest-quality form of capital and that synthetic risk transfer (SRT) is a "poor substitute." We disagree with this conclusion and address the key criticisms point by point.
First, the claim that SRT protection often expires before assets mature is generally not accurate. Most SRTs are structured to align fairly closely to the expected life of the underlying exposures and are designed to provide protection through the peak of the default curve for that asset. Indeed, there is a significant haircut in capital relief allowed for assets maturing later than the maturity of the SRT.
Second, the authors characterize SRTs as opaque and suggests regulators struggle to understand what is insured and who ultimately bears the risk. This does not reflect market practice. SRTs are subject to regulatory approval before execution, and supervisors receive detailed information. While deals are private and sometimes bespoke, and investors may underwrite risk at a business-line level ("blind pools" rather than loan by loan), there is no evidence that regulators lack visibility into or understanding of these structures. There is never any doubt as to which assets are included in reference portfolios by the bank. In order to receive credit protection payments on losses, banks must demonstrate to independent auditors that the loan was appropriately included in the reference portfolio.
The authors also argue that risk is not fully transferred out of the banking system, noting that some investors fund SRT positions using bank leverage. While this critique is commonly raised (it has been mentioned in our discussion of headlines in nearly every issue of *Reg Cap Recap*), we believe it is misguided. Banks provide leverage for a wide range of risks which are not thought suitable for them to own directly, including shares in other banks. We address investor leverage in more detail in our prior research piece, linked: https://seercap.com/wp-content/uploads/2025/01/Reg-Cap-Leverage-Clearing-Misconceptions.pdf
The authors highlight the growth of unfunded, insurance-style SRTs and the associated counterparty risk. We agree that, all else equal, funded structures provide stronger protection for banks. The authors note that unfunded deals are increasing and rose to

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Reg Cap News (Cont.)

7.5% of issuance in 2025. True, but it is also true that 92.5% of transactions were fully funded. This, we would argue, is not common enough to be a systemic concern. Banks have large trading relationships with various insurance counterparties, for which they hold additional capital and manage exposure.

Finally, the authors suggest that traditional "true sale" securitizations are a superior alternative. This overlooks important trade-offs. True sales can force banks to recognize losses—particularly in periods of rising rates—and may disrupt client relationships. Many assets are complicated to transfer so unsuitable for true sale securitizations. If banks have sufficient funding and only seek capital and risk management, there is no benefit to them issuing senior tranches.

In our view, banks should not rely excessively on SRTs—or on any single capital management tool. SRTs, true sale securitizations, and old-fashioned equity are all legitimate approaches for managing capital. If banks are restricted from using SRT, they will need to issue more equity, which will be dilutive to existing shareholders and ultimately self-limiting, and or curtain lending. It behooves bank management to be nimble enough to use an array of tools, allowing the bank to choose the best tool for their strategy, the nature of the asset, and market conditions at a point in time. That, to us, is prudent capital management.

Banking Industry News:

Citi Is Worth the Sum of Its Parts for First Time in Seven Years (BN, 12/4/25)

The price-to-book ratio is a closely-watched metric for banks. Now, for the first time since 2018, Citigroup's market value matches its book value. "This is a significant milestone because it reflects a company transitioning from value destruction to value creation," said Wells Fargo analyst Mike Mayo. Citi's stock is up 55% this year, while the KBW Bank Index is up about 25%. That said, the stock still trades at a discount to banks like JPMorgan and Goldman Sachs, both of whom have price-to-book ratios well above 2x as Citi continues to struggle with both operational issues and oversight.

Sens. Warren and Reed Call for Tighter Credit Rules (Wall Street Journal, 12/5/25)

Senators Elizabeth Warren and Jack Reed, both senior members of the Senate Banking Committee, urged US regulators to tighten oversight of banks' involvement in private credit markets, calling for new stress tests, targeted supervisory reviews, and higher capital buffers to counter rising credit risks. "Fast and dramatic write-downs to zero raise serious questions about the discretion of fund managers to value private credit assets, the valuation methodologies that they use, and whether transparency in private markets is sufficient to allow investors to make informed decisions in order to avoid losses," the senators said in a letter to the FDIC, the Federal Reserve and the OCC. They cited recent write-downs in private credit as evidence of new risks. The lawmakers noted growing interconnectedness between banks and nonbank lenders, with loans to nonbank financial institutions now comprising about 10% of total bank lending, up from 3% a decade ago.

The senators also proposed a countercyclical capital buffer that would require banks to hold more capital during periods of high credit growth to protect against future economic downturns. Ironically many cite an increase in capital requirements following the GFC as the impetus for the growth of nonbank lenders, who rushed to "fill the void" after many banks retreated from midmarket lending in the wake of more onerous capital charges. Ultimately, politicians and regulators should recognize that they face a balance between (i) supporting lending to consumers and businesses by banks, (ii) supporting lending to consumers and businesses by nonbanks, or (iii) curtailing lending to consumers and businesses.

US Bank Regulators Ease Post-Crisis Curbs on Leveraged Loans (BN, 12/5/25)

US regulators rolled back Obama-era leveraged loan guidance, arguing that the rules are overly restrictive and pushed lending activity toward less-regulated private markets. The OCC and FDIC said banks should still manage risk prudently, but with greater flexibility. Supporters argue the change may bring more activity back into regulated banking, while critics warn it could encourage riskier lending. Regulators emphasized that banks remain subject to oversight, even as they regain some ability to compete with private credit firms.

The Trump administration vowed to loosen or strip away banking rules put in place in 2008, post-GFC. This has included easing some capital requirements, and changes to the Federal Reserve's annual stress tests. The administration wants to remove the "regulatory arbitrage" in lending that has led to risk migrating away from banks to private lenders, who are far more lightly regulated. The unintentional result is that much more lending is now "outside the purview of federal overseers." As Citizens Financial CEO Van Saun noted "...we may have a super-safe banking system, but if a lot of that exposure now is outside the banking system, are we creating new systemic risks?"

Wall Street Races to Cut Its Risk From AI's Borrowing Binge (BN, 12/5/25)

Banks are financing massive AI-related infrastructure investments while actively working to hedge their exposure. Tech firms are issuing record amounts of debt to fund data centers, raising concerns about over-concentration risk. To manage this exposure, banks are using credit derivatives, structured bonds and tools like significant risk transfers (see *Morgan Stanley*, above). Rising default-swap costs for companies such as Oracle and Microsoft reflect investor caution, even as banks and investors continue to see opportunity in the sector.

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Reg Cap News (Cont.)

How Banks Got Hooked on SRTs and Why Regulators Worry: QuickTake (BN, 12/8/25)
Banks increasingly use significant risk transfers to free up capital by shifting loan risk to investors without having to sell the underlying assets. Since 2016, more than $1 trillion in assets have been insured through SRTs, with Europe accounting for the majority (~70%) of issuance. Regulators worry that SRTs may obscure risk rather than eliminate it, particularly when investors rely on leverage or when protection expires during market stress. While SRTs remain a relatively small market, their rapid growth has drawn increased scrutiny from global regulators.
As the European Banking Authority Chair described it in June, “Potentially you get a vicious circle by which a bank sells protection to somebody that’s been financed by another bank.” This interconnectedness means that it's possible for “dozens of interconnected financial firms to all have problems at once … and bring each other to the brink of ruin.” As we have often argued, eliminating interconnectedness entirely is not truly possible and therefore the failure to do so is not a valid criticism of SRTs as a tool. What SRTs do, and do well, is transform the nature of the risk, add market discipline to bank lending processes, and move much of the risk out of the banking system. Those are all worthwhile and additive to the soundness of the banking system. Indeed, the reason the SRT market has grown rapidly, and the reason the growth trajectory is set to continue, is that regulators and the market recognize the product as an effective vehicle to support lending to businesses and consumers.

ECB’s Surprise AT1 Proposal, Short on Detail, Sows Confusion (BN, 12/10/25)
The European Central Bank unsettled investors after suggesting changes to AT1 bonds without fully explaining how those changes would work. Additional Tier 1 (AT1) bonds have grown into a ~ $275bn market in Europe because they let banks raise regulatory capital more cheaply than issuing common equity. AT1 investors rank above shareholders in a failure, which limits downside compared with true equity. Created after the GFC to shift losses from taxpayers to investors, AT1s have drawn scrutiny—especially after more than $17bn of AT1 bonds were wiped out in the collapse of Credit Suisse.
Analysts said the ECB's proposal lacked clarity, raising questions about funding costs, market access and banks’ capital strategies. Despite the uncertainty, AT1 prices were largely unchanged, and ECB officials emphasized that any changes would be gradual. Investors and analysts generally expect limited near-term impact and expect that AT1s will remain a key part of bank capital structures.

Nine Large US Banks Engaged in Debanking Practices, OCC Says (BN, 12/10/25)
The OCC reports that nine major US banks maintain policies that restrict or escalate reviews for certain customers and industries, or what the administration refers to as “debanking.” The report noted impacted industries such as “oil and gas exploration, coal mining, firearms, private prisons, payday lending, tobacco and e-cigarette manufacturers, adult entertainment, political action committees, and digital assets.” The findings align with the Trump administration’s push to curb debanking. Regulators are continuing to review complaints and may pursue enforcement actions.

Warren Requests UBS Chairman Give Details of Bessent Talks (BN, 12/10/25)
Senator Warren asked UBS Chairman Kelleher to disclose any discussions with Treasury Secretary Bessent about UBS potentially relocating to the U.S. Warren raised concerns that UBS could be seeking regulatory concessions in such a move. These talks come in the wake of Switzerland’s proposed higher capital requirements, to the tune of an additional $26bn. “Have you asked for or has Secretary Bessent or any other senior Trump Administration official promised, favorable regulatory or supervisory treatment upon UBS’s move to the United States?” Warren wrote in her letter to the UBS Chair. “If so, please describe the nature of such commitments.”
UBS has said it intends to remain headquartered in Switzerland, though it has explored options. Warren warned against allowing “regulatory arbitrage,” and cited potential risks to US taxpayers given UBS’s size and complexity.

Prospect of UBS Capital Compromise Sends Stock to 17-Year High (BN, 12/12/25)
UBS shares jumped to their highest level since 2008 after Swiss lawmakers proposed easing planned capital requirements. The recommendations would also allow greater use of AT1 bonds and certain intangible assets. The proposal suggests a possible political compromise after months of uncertainty that had weighed on UBS’s stock. While any reforms remain years away from implementation, investors welcomed signs that the Swiss government may be taking a more constructive tact on balancing financial stability with market competitiveness. When UBS rescued Credit Suisse in 2023, they created a bank with a balance sheet “over twice the size of Switzerland’s annual economic output” which led to widespread discussion about the systemic risk this implies.

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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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